



ABN 72 008 095 207

Annual Report

30 June 2018

Chairman's Letter

On behalf of the Board of AusCann Group Holdings Ltd, I am pleased to present the 2018 Annual Report to shareholders.

In the fiscal year ended June 30 2018, AusCann continued to make strong progress in solidifying its position as a leader in the development of cannabinoid medicines.

From day one, AusCann has had the aim of providing Australia and select international markets with high-quality, cost-effective and clinically-validated cannabinoid medicines and I am proud to say our achievements this year have brought us closer to this goal.

In the first half of the fiscal year, AusCann became one of the first companies to obtain the necessary licences to both cultivate medicinal cannabis and manufacture cannabinoid medicines in Australia.

Acquiring the licences completed AusCann's objective of becoming fully integrated across the medical cannabis supply chain and progressed our strategy of becoming a leading supplier of high-quality cannabinoid medicines to Australia and the world.

On the topic of export, we welcomed the Federal Government's decision in January to allow manufactured cannabinoid medicines to be exported from Australia, a regulatory change from which AusCann is well positioned to benefit.

That same month, we signed a Heads of Agreement with Australian Pharmaceutical Industries Limited (API), Australia's leading wholesaler of pharmaceutical products. Collaboration with API provides AusCann with immediate logistics support, and future distribution model for our planned suite of registered cannabinoid medicines.

To drive awareness and knowledge of the therapeutic benefits of medicinal cannabis, AusCann also expanded its medical outreach programme throughout the year with the appointment of three Medical Liaison Managers and the development of online educational courses. This program ensures practitioners have access to the necessary information to confidently prescribe cannabinoid medicines.

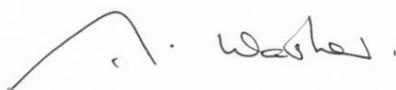
During the year, AusCann made significant progress with its partner Fundación Daya in Chile. AusCann and Fundación Daya have formed a joint venture called DayaCann which successfully harvested its second cannabis crop in June 2018. We were pleased to see a major increase in yield on the first crop and note that resulting medicines may now be provided to Chilean patients under a new special access scheme.

We ended the fiscal year with the appointment of a Master Grower for oversight of our medicinal cannabis cultivation operations in Australia with a cultivation research agreement with Canadian group Jade Cannabis. Through these initiatives, we will be able to maximise the yields in our cultivation operations.

We have hit the ground running in the 2019 fiscal year, having raised over A\$35m and completed a successful pilot study for innovative final dose cannabinoid capsules in the first quarter. We are well-funded and targeting production of our first cannabinoid pharmaceuticals in 2019. We hope you will continue with us on our journey.

I thank my fellow Board members, our Managing Director Elaine Darby and the AusCann team for their commitment and hard work over the past year. I would also like to thank our shareholders for your continued support.

Yours sincerely



Dr Mal Washer MBBS, DHLthSci
Chairman

Letter from the Managing Director

In the first half of the 2018 fiscal year we obtained all of the necessary licensing to enable us to both cultivate medicinal cannabis and manufacture cannabinoid medicines in Australia.

It has then been a matter of essentially getting on with the job. AusCann assembled a team of experts from the pharmaceutical sector to develop its manufacturing operations. We recognised that one of the key barriers in doctors being able to prescribe cannabinoid medicines are the dose forms that are currently available.

Currently, worldwide, medicinal cannabis is typically administered via oral liquids, liquid sprays, hard or soft-shell gelatin capsules containing oils, or inhalation of dried material or extracts. The main drawback to all of these formulations is the stability of the active cannabinoids. This instability results in variability in the cannabinoid composition and the efficacy of the formulations.

The successful completion of our pilot study of our unique solid dose form capsules firmly establishes AusCann has a leader in the development of a true cannabinoid medicines. This new dose form will be a game changer for doctors and patients as it is easy to administer and will provide consistent dosing.

AusCann's manufacturing capabilities are a key point of difference from other potential Australian producers and it will continue to develop these further with ongoing development of new pharmaceutical dose forms.

AusCann is also continuing to develop its cultivation expertise with its research and development agreement with Canadian group Jade Cannabis and the appointment of experienced Canadian grower Luke Pigeau as its new Master Grower.

Our focus from the beginning has been to provide patients with access to high quality, economical and clinically-validated cannabinoid medicines. We are looking forward to delivering on this commitment with the release of our capsules in the 2019 year.

Yours sincerely



Elaine Darby BSc(Hon) BLaw
Managing Director

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COMPANY INFORMATION

DIRECTORS

Dr Malcolm Washer
Elaine Darby
Harry Karelis (resigned 15 December 2017)
Hon. Cheryl Edwardes AM
Bruce Linton
Bruce McHarrie
David Pryce (alternate for Bruce Linton)

COMPANY SECRETARY

Ms Susan Hunter

REGISTERED OFFICE

Suite 8, Level 2, 57 Shenton Avenue
JOONDALUP WA 6027

WEBSITE

www.auscann.com.au

CORPORATE GOVERNANCE

The Company's corporate governance policies can be accessed at <http://www.auscann.com.au/investor-centre/corporate-governance.html>.

AUDITORS

PKF Mack
Level 4
35 Havelock Street
West Perth WA 6005

SHARE REGISTRY

Computershare Investor Services Pty Ltd
Level 11
172 St Georges Terrace
Perth WA 6000

STOCK EXCHANGE

Australian Securities Exchange Ltd

ASX CODE

AC8

AUSCANN GROUP HOLDINGS LTD

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

The Directors present their report together with the financial statements of AusCann Group Holdings Ltd ("the Company" or "AusCann") and its controlled entity (collectively "the consolidated entity") for the year ended 30 June 2018.

Directors

The following persons were directors of the Company during the financial year and up to the date of this report, unless otherwise stated:

Dr Malcolm Washer	Appointed 19 January 2017
Elaine Darby	Appointed 19 January 2017
Harry Karelis	Resigned 15 December 2017
Hon. Cheryl Edwardes AM	Appointed 19 January 2017
Bruce Linton	Appointed 19 January 2017
Bruce McHarrie	Appointed 19 January 2017
David Pryce	Appointed 15 June 2017 (alternate for Mr Linton)

Information on directors

Name:	Dr Malcolm Washer
Title:	Non-executive Chairman
Qualifications:	MBBS
Experience and expertise:	Dr Washer was a Liberal member of the Australian House of Representatives from 1998 to 2013. He was educated at the University of Western Australia, graduating in 1970 with degrees in medicine and surgery. He was a general practitioner before entering politics, and established prominent medical centres in Western Australia. He was also past chair of the Alcohol and Other Drugs Council of Australia. He has extensive experience in agricultural and horticultural activities and currently operates a commercial avocado plantation in Western Australia, bringing highly relevant medical and horticultural expertise and experience to AusCann.
Interests in shares and options	Ordinary shares: 12,707,786

Name:	Elaine Darby
Title:	Managing Director
Qualifications:	BSc(Hons) LLB(Hons)
Experience and expertise:	Ms Darby holds a Bachelor of Science in Biochemistry & Microbiology, with Honours in Molecular Biology, and a Bachelor of Laws. Previous roles have included project manager and investment director with Biologica Ventures, an advisory firm in the bio-medical sector, as a lawyer with top tier corporate law firm Clayton Utz, Media and Communications Officer for an Australian Federal Member of Parliament, and Managing Director and Senior Winemaker of Aquila Estate Winery where she was an award winning wine-maker and also involved in international business development and marketing in territories including Singapore, Japan, Canada, the United Kingdom, and the United States.
Interests in shares and options	Ordinary shares: 11,606,445

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

Name: Harry Karelis (Resigned 15 December 2017)
Title: Executive Director
Qualifications: B.Sc(Hons) MBA Grad.Dip Applied Finance & Investment CFA FFin FAICD
Experience and expertise: Mr Karelis is the founder of Titan Capital Partners, a privately held investment group involved in a range of projects. He has over 24 years of diversified experience in the financial services sector including fundamental analysis, funds management and private equity investing, and has acted as a director of public and private companies in Australia, Singapore and the United Kingdom.

He graduated from The University of Western Australia with Bachelor of Science (Honours) majoring in Biochemistry and Microbiology, and an MBA. He is a Fellow of the Financial Services Institute of Australia, a Fellow of the Australian Institute of Company Directors and has qualified as a Chartered Financial Analyst (CFA) from the CFA Institute in the United States.

Directorships held in other listed entities Velpic Ltd (17 October 2014 – current)
Wangle Technologies Limited (14 August 2014 – 19 February 2017)
Zelda Therapeutics Limited (17 November 2017 – current)

Name: Hon. Cheryl Edwardes AM
Title: Independent Non-executive
Qualifications: LL.M, BA, GAICD
Experience and expertise: Mrs Edwardes is a Commissioner on the WA Football Commission and recently appointed as a member of the Foreign Investment Review Board. She is also a Company Director on a number of ASX Boards, private companies and not-for-profit associations. A solicitor by profession, Mrs Edwardes is a former Minister in the Court Government with extensive experience and knowledge of WA's legal and regulatory framework relating to mining projects, environmental, native title, heritage and land access.

During her political career, Mrs Edwardes held positions as the first female Attorney General for Western Australia, Minister for Environment and Labour Relations, and was the Member for Kingsley for nearly 17 years.

Mrs Edwardes chaired Atlas Iron through its near death experience and remains a Director on the Board. She also chairs Vimy Resources, a development company in uranium; the Port Hedland International Airport, a joint venture company between AMP Capital and Infrastructure Capital Group; Chair of CropLogic a small NZ agronomy technology listed company on the ASX and is a director of AusCann, a listed medicinal Cannabis company. Cheryl Edwardes is a Senior Advisor in the Public and Government Affairs team at FTI Consulting, assisting clients with a range of complex statutory approvals required for resources and infrastructure projects.

Mrs Edwardes was awarded an Order of Australia in the Queen's Birthday Honours 2016 for "significant service to the people and Parliament of Western Australia, to the law and to the environment, and through executive roles with business, education and community organisations." Cheryl was also named in the 100 Women of Influence 2016, inducted into Western Australian Women's Hall of Fame 2016 and was a finalist in the Women In Resources Award 2015.

Directorships held in other listed entities Atlas Iron Limited (6 May 2015 – current)
CropLogic Limited (1 March 2018 – current)
Vimy Resources Limited (26 May 2014 – current)

Interests in shares and options Ordinary shares: 50,000

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

Name: Bruce Linton
Title: Non-executive
Qualifications: BPA
Experience and expertise: Mr Linton is the founder, Chairman and CEO of Canopy Growth Corporation, one of the world's leading medical cannabis companies. Canopy Growth, through its subsidiaries Tweed and Bedrocan Canada, is the world's largest producer of legal cannabis, and recently entered into a strategic partnership with AusCann.

He has more than 10 years of senior executive experience in the high-tech sector as a founder, executive and board member. He has a proven track record of international success, working extensively with the World Bank and the Asia Development Bank. He enjoys a high profile in the global medicinal cannabis sector and has a demonstrable track record of raising the capital required to build large scale cannabis business.

Interests in shares and options
Ordinary shares: 34,410,000 indirectly via Canopy Growth Corporation
Options: 9,950,139 indirectly via Canopy Growth Corporation

Name: Bruce McHarrie
Title: Independent Non-executive
Qualifications: BCom FCA GAICD
Experience and expertise: Mr McHarrie is a highly experienced senior executive and independent company director with a background in the life sciences industry focussed on finance, operations, governance, business and investment management, and strategic planning.

He previously served as the Chief Financial Officer, Director of Operations and Director of Strategic Projects with the Telethon Kids Institute in Western Australia. Prior to joining the Institute, Bruce was based in London as an Assistant Director at Rothschild Asset Management in the Bioscience Unit, a life sciences private equity group investing in early stage biotechnology, healthcare and agribusiness companies. He co-founded two Institute spin-outs including publicly listed drug discovery company, Phylogica Limited, and has held a number of other non-executive director positions in biotechnology and not-for-profit healthcare organisations.

He is a Fellow of the Institute of Chartered Accountants Australia and New Zealand, holds a Bachelor of Commerce degree from the University of Western Australia, and is a graduate member of the Australian Institute of Company Directors.

Directorships held in other listed entities
Adherium Limited (20 July 2015 – present)
Phylogica Limited (9 Aug 2002 – 8 April 2017)

Interests in shares and options
Ordinary shares: 114,286

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

Name: David Pryce
Title: Alternate for Bruce Linton
Qualifications: BA MBA
Experience and expertise: David is currently Vice President of International Market Expansion and Global Government Relations at Canopy Growth Corp., the largest cannabinoid medicine producer in North America. In this capacity, he is responsible for taking the company into new markets, growing footprint and driving its global expansion.

He previously held senior positions at BlackBerry and D2L, and founded the Dewhurst Group, a global affairs advisory consultancy. David has also been a senior advisor to the Premier of Ontario, Ontario Minister of Finance and the Canadian Minister of Industry.

David holds a specialised honours Bachelor of Arts degree in Political Studies from the University of Guelph and a Masters of Business Administration from Wilfrid Laurier University, where he also taught in the School of Business & Economics.

David has no direct interests in the shares and options of the Company.

Company Secretary

Susan Hunter (BCom, ACA, F Fin, GAICD, AGIA) – appointed 18 October 2016

Ms. Hunter has 20 years' experience in the corporate finance industry and is founder and Managing Director of consulting firm Hunter Corporate Pty Ltd, which specialises in the provision of corporate governance and company secretarial advice to ASX listed companies. Ms. Hunter holds a Bachelor of Commerce degree from the University of Western Australia majoring in accounting and finance, is a Member of the Australian Institute of Chartered Accountants, a Fellow of the Financial Services Institute of Australasia, a Member of the Governance Institute of Australia and a Member of the Australian Institute of Company Directors.

Board and committee meetings

Director	Directors' Meetings		Audit and Risk Committee Meetings		Remuneration and Nomination Committee Meetings	
	Meetings held whilst in office	Attended	Meetings held whilst in office	Attended	Meetings held whilst in office	Attended
Dr Malcolm Washer	10	10	2	2	4	3
Elaine Darby	10	9	-	-	-	-
Harry Karelis ¹	6	5	-	-	-	-
Hon. Cheryl Edwardes AM	10	10	2	2	4	4
Bruce Linton	10	1	-	-	-	-
Bruce McHarrie	10	10	2	2	4	4
David Pryce	10	5	-	-	-	-

¹ Director resigned on 15 December 2017

² The Audit and Risk Committee and the Remuneration and Nomination Committee were established by the Board on 2 February 2017. The members of the Audit and Risk Committee are B. McHarrie (Chair), Dr M. Washer (member) and C. Edwardes (member). The members of the Remuneration and Nomination Committee are C. Edwardes (Chair), Dr M. Washer (member) and B. McHarrie (member).

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

State of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year, other than those discussed already in the financial report and elsewhere in this Directors' Report.

Principal activities

The Board and Management of AusCann Group Holdings Ltd maintain the belief that patients have a right to high quality, economical and clinically-validated cannabis medicines. Towards this, AusCann's principal activities during the financial year were its ongoing production in Chile under the DayaCann joint venture; obtaining and maintaining licences to cultivate and manufacture in Australia; and developing the relevant expertise and IP to manufacture a stable, reliable dose form cannabinoid pharmaceutical.

Operating results and financial position

The loss of the consolidated entity for the financial year was \$7,668,308 (2017: \$14,137,177). The loss included \$2,712,500 (2017: \$3,677,998) of non-cash share-based payments.

The net assets of the consolidated entity decreased to \$14,112,032 at 30 June 2018 from \$15,014,533 as at 30 June 2017 as a result of continued operational expenditure.

**DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2018**

Review of operations

In the 2017 fiscal year, the regulatory framework for licensing of cultivation, production and manufacture of cannabis for medicinal and scientific purposes was implemented in Australia. AusCann applied and was granted all of these licences. The last being its manufacture licence which was granted in early 2018 fiscal year.

Since that time AusCann has been working on establishing cultivation and manufacturing operations in Australia, in addition to its cultivation operation in Chile. This has involved the further development of AusCann's expertise and capabilities in cultivation, manufacture, and distribution of cannabinoid medicines.

It is expected that raw materials such as dried flower bud and extracted resin will become an international traded commodity at some point in time. Countries around the world are legalising the cultivation of cannabis, and these jurisdictions are currently looking for potential markets to take raw material. The ability to be able to source cost effective high quality raw material is a positive for AusCann.

AusCann recognises that its key points of difference from other cannabis producers is its pharmaceutical development and manufacturing capabilities; and its medical education and distribution capabilities.

The ability to be able to cultivate initially, and the development of genetics and growing techniques that enable cost effective medicines is important however. With this in mind, AusCann entered into a cultivation research agreement with Canadian group Jade Cannabis. AusCann's cannabis genetics will be supported by cannabis cultivation systems piloted and implemented by Jade Cannabis under this agreement. The aim of the research is to obtain greater yield per square metre of grow room in a given period, resulting in more cost-effective cannabinoid pharmaceuticals for patients. The output of this research will include the development and optimisation of the AusCann cultivation system. AusCann is also working with Jade Cannabis on the design and construction of prototype scale cultivation equipment. Pilot scale experiments have demonstrated substantial increases in yield when compared with current indoor cultivation approaches. AusCann also appointed experienced Canadian grower, Luke Pigeau, as its new Master Grower to oversee AusCann's cultivation activities in Australia.

In respect to manufacturing, AusCann assembled an expert team out of the Australian pharmaceutical sector. They were tasked with the development of efficient, cost effective extraction techniques, and importantly, the development of a cannabinoid pharmaceutical that met the needs of patients and doctors as well as the strict requirements of the Therapeutic Goods Administration (TGA) manufacturing standards.

During the year AusCann undertook a comprehensive pharmaceutical development project to create an optimal dosage form cannabinoid medicine. Currently medicinal cannabis is typically administered via oral liquids, liquid sprays, hard or soft-shell gelatin capsules containing cannabinoids dissolved in oils, or inhalation of dried material or extracts. The main drawback to these formulations is the stability of the active cannabinoids which results in variability in the composition of the key cannabinoids and the efficacy of the formulations.

Through its research, AusCann piloted a unique effective oral dose form which addresses stability and consistency of dose. AusCann has lodged a patent in respect to the intellectual property it has developed and will be using these techniques in the production of its first stage cannabinoid pharmaceuticals being released in first half of 2019.

During the year AusCann entered into a Heads of Agreement with ASX listed Australian Pharmaceutical Industries Limited (API) for logistics support around AusCann's cannabinoid medicines.

AusCann's initial therapeutic target area is chronic neuropathic pain. It is estimated that 1.9 million Australians suffer from chronic neuropathic pain. Current treatment options, which include anticonvulsants like pregabalin, antidepressants, benzodiazepines, and opiates are lacking in efficacy and can have significant side effects. Between 2011 and 2015 over 2,000 Australians died from prescription opioids.

**DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2018**

Review of operations (continued)

Although there is a significant market, a key challenge for the Australian sector is the willingness and ability of doctors to prescribe cannabinoid medicines. The TGA has taken steps to assist in this area. The Commonwealth Department of Health, in conjunction with state and territory governments, coordinated the development of new clinical guidance documents for prescribers of medicinal cannabis products for treating chemotherapy-induced nausea and vomiting, epilepsy, multiple sclerosis, chronic non-cancer pain and palliative care.

The guidance documents were based on the work of a team from the universities of New South Wales, Sydney and Queensland, under the co-ordination of the National Drug and Alcohol Research Centre, who reviewed the clinical evidence for the use of medicinal cannabis that had been published in refereed medical journals since 1980.

The guidance document on the treatment of chronic non-cancer pain provided the following:

'A meta-analysis of all randomised studies in CNCP [chronic non-cancer pain] averaging across all medicinal cannabis products indicated that medicinal cannabis was more likely than placebo to produce 30% and 50% reductions in pain scores and more likely than placebo to produce a significantly greater reduction in pain intensity ratings'

'Similarly, patients who used medicinal cannabis for non-MS related neuropathic pain were more likely to experience a 50% reduction in pain and a reduction in pain scores compared with patients taking a placebo.'

Last month the TGA introduced an online system for doctors to lodge applications to prescribe cannabinoid medicines. The online system enables a doctor's application to be submitted simultaneously to both Commonwealth and the relevant State/Territory Health Department. Prior to the introduction of this system, prescribers of unapproved medicinal cannabis products were required to complete and separately submit paper forms to the TGA and relevant State Health Department.

During the year AusCann expanded its medical outreach program with the appointment of three medical liaison managers (MLMs) to provide guidance and information to key medical practitioners. The new MLMs combined have nearly 50 years of experience in the health sector and have worked in senior liaison roles with some of the world's leading pharmaceutical companies including MundiPharma, Phebra, Sanofi, Astra Zeneca and Novartis. They have represented some of the most prevalent pain medicines including the leading opiate pain medicines and have worked with some of the country's leading pain specialists. They are each passionate about improving patient access to high quality pain medicines and excited by the potential of cannabinoid medicines in the sector. The MLMs work closely alongside the AusCann's Chief Medical Advisor, Dr Danial Schechter, and draw on his expertise gained from decades of working in the Canadian medical cannabis market and running his own cannabinoid medical clinics.

Half way through the fiscal year, AusCann welcomed the announcement by the Federal Government's that Australia would allow the export of cannabinoid medicines. At the time Australia's Health Minister Greg Hunt stated:

'We would like to be the world's number one medicinal cannabis supplier'.

Australia is well positioned to achieve this as we are a respected supplier of plant derived pharmaceutical products; a large number of countries now allow use but have not established legal frameworks for producing; current medicines are generally dried flower-bud or extracted oils; and many producers do not operate under international GMP standards required for pharmaceuticals in most countries.

With its expertise in the manufacture of a final dose form capsule that is compliant with these international quality standards, AusCann is well positioned to take advantage of this opportunity. The announcement was also a win for Australian patients as it allows AusCann to produce cost effective medicines at scale.

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

Review of operations (continued)

During the year AusCann completed its second harvest with DayaCann joint venture partner Fundación Daya in Chile. The second crop yielded 620kg of dried cannabis product, an increase of over 50 per cent on the 400kg yielded from the first crop. This equated to an approximate yield of 1.2 tonnes per Hectare. DayaCann has a total 30-hectare facility in the south of Santiago which features an open greenhouse to grow various strains for particular cannabinoid profiles. DayaCann planted the second crop at the end of 2017 using the superior strains selected from the first crop. Fundación Daya has worked with the Chilean National Institute of Public Health to establish a special access scheme (SAS) similar to the one in Australia which enables patients in Chile access to local medicinal cannabis product. The medicinal cannabis product in Chile's SAS is being locally manufactured at Knop Laboratories from cannabis supplied by DayaCann. AusCann sees the South American market as internationally significant following legislative changes during the year in Argentina, which has joined Chile, Colombia and Uruguay in legalising medicinal cannabis for therapeutic purposes.

AusCann is currently on track to release its Australian produced unique capsule cannabinoid medicines in the new year.

Future developments, prospects and business strategies

The focus of AusCann remains the provision of high quality, economical and clinically validated cannabis medicines, with emphasis in the near term on progressing existing strategic partnerships and a program of engagement with the Australian medical community.

Environmental regulation

The consolidated entity's operations are not subject to significant environmental regulations under either Commonwealth or State legislation.

Dividends

No dividends were paid or declared during the year (2017: nil).

Events subsequent to reporting date

On 5 July 2018 the Company successfully completed a capital raising of \$33,412,500 via a share placement. The placement was to sophisticated and professional investors from North America and Australia, including AusCann's major shareholder, Canopy Growth Corporation, Inc.

On 13 July 2018 the Company granted 15,187,503 unlisted options exercisable at \$1.465 per share with an expiry date of 13 January 2021.

On 9 August 2018 the Company announced the results of its Share Purchase Plan (SPP) which raised approximately \$1,952,601.

On 12 September 2018 the Company commenced trading on the US OTCQX Market under the stock symbol ACNNF.

Proceeds from the capital raising and SPP will be used to fund clinical studies, R&D, the expansion of Australian and Chilean operations, the medical outreach program and for working capital.

Other than as identified above, no events occurring subsequent to the end of financial year have significantly affected, or may significantly affect, the operations of the consolidated entity in subsequent financial years.

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

Indemnification and insurance of officers and auditors

The consolidated entity has indemnified the directors and executives of the consolidated entity for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the consolidated entity paid a premium in respect of a contract to insure the directors and executives of the consolidated entity against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The consolidated entity has not indemnified the auditor nor paid a premium to insure the auditor against any such liability.

Share options

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Grant Date	Expiry Date	Exercise Price	Number
19 January 2017	19 January 2020	\$0.20	7,677,639
19 January 2017	19 January 2020	\$0.21	150,000
10 August 2017	31 December 2020	\$0.70	1,000,000
10 August 2017	31 December 2020	\$0.80	2,500,000
13 July 2018	13 January 2021	\$1.465	15,187,503

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

5,500,000 (2017: Nil) shares were issued on exercise of options at various times during the year ended 30 June 2018. Nil (2017: 31,024,576) ordinary shares were issued on the conversion of performance shares and rights during the year ended 30 June 2018.

Corporate governance

The Board has adopted the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, to the extent they are applicable to the consolidated entity.

The consolidated entity's corporate governance policies are outlined on its website at <http://www.auscann.com.au/investor-centre/corporate-governance.html>.

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

Remuneration Report (audited)

This report, which forms part of the Directors' Report, outlines the remuneration arrangements in place for the key management personnel of the consolidated entity for the financial year ended 30 June 2018. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity.

Key Management Personnel

Directors

Dr Malcolm Washer	Non-executive Chairman	Appointed 19 January 2017
Elaine Darby	Managing Director	Appointed 19 January 2017
Harry Karelis	Executive Director	Resigned 15 December 2017
Hon. Cheryl Edwardes AM	Independent Non-Executive Director	Appointed 19 January 2017
Bruce Linton	Non-Executive Director	Appointed 19 January 2017
Bruce McHarrie	Independent Non-Executive Director	Appointed 19 January 2017
David Pryce	Non-Executive Director	Appointed 19 January 2017

Remuneration Philosophy

The objective of the consolidated entity's reward framework is to set aggregate remuneration at a level which provides the consolidated entity with the ability to attract and retain directors and executives of the highest calibre whilst maintaining a cost which is acceptable to shareholders.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed by the board. The chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to determination of his own remuneration.

Directors' fees

Directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum for all non-executive directors currently stands at \$300,000 in aggregate. This amount is separate from any specific tasks the directors may take on for the consolidated entity in the normal course of business and at normal commercial rates.

Fees for directors are not linked to the performance of the consolidated entity, however to align all directors' interests with shareholders' interests, directors are encouraged to hold shares in the Company and may receive options. This effectively links directors' performance to the share price performance and therefore to the interests of shareholders. There have been no performance conditions imposed prior to the grant of options which act as an incentive to increase the value for all shareholders.

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

Executive remuneration

The consolidated entity aims to reward executives (both directors and executives) with a level and mix of remuneration commensurate with their position and responsibilities within the consolidated entity and to:

- Reward executives for consolidated entity performance;
- Align the interest of executives with those of shareholders; and
- Ensure total remuneration is competitive by market standards.

Fixed remuneration is reviewed annually or upon renewal of fixed term contracts by the board and the process consists of a review of consolidated entity and individual performance, relevant comparative remuneration in the market and internal policies and practices. Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the consolidated entity.

The objective of variable remuneration provided is to reward executives in a manner which aligns this element of remuneration with the creation of shareholder wealth. Variable remuneration may be delivered in the form of share options granted with or without vesting conditions.

Remuneration for certain individuals is directly linked to individual performance milestones.

Employment Contracts

Name	Base Salary	Incentives	Termination conditions
Elaine Darby Managing Director	\$310,000 pa plus 9.5% superannuation guarantee	<ul style="list-style-type: none">• Short-term incentive of up to 25% of base salary based on the achievement of certain KPIs, payable in cash at the end of FY2018• Determination of long-term incentive is currently in progress	<ul style="list-style-type: none">• 3 months' written notice by either party, or immediate termination if serious misconduct• Severance payment equal to 6 months base salary if terminated involuntarily

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

Details of remuneration

REMUNERATION FOR THE YEAR ENDED 30 JUNE 2018

	Short-Term Benefits: Director Fees and Salaries \$	Short-Term Benefits: Cash Bonuses ⁶ \$	Short-Term Benefits: Advisor Fees \$	Post-Employment Benefits \$	Share-based Payments \$	Total \$	Value of Share-based Payments as a Proportion of Remuneration %
Directors							
Dr Malcolm Washer	80,000	-	-	7,600	-	87,600	-
Elaine Darby	310,000	-	-	25,000	-	335,000	-
Harry Karelis ¹	90,000	-	-	-	-	90,000	-
Hon. Cheryl Edwardes AM	60,000	-	-	5,700	-	65,700	-
Bruce Linton	54,750	-	-	-	-	54,750	-
Bruce McHarrie	60,000	-	-	5,700	-	65,700	-
David Pryce	-	-	-	-	-	-	-
Total	654,750	-	-	44,000	-	698,750	-

1. Resigned 15 December 2017.

REMUNERATION FOR THE YEAR ENDED 30 JUNE 2017

	Short-Term Benefits: Director Fees and Salaries \$	Short-Term Benefits: Cash Bonuses ⁶ \$	Short-Term Benefits: Advisor Fees \$	Post-Employment Benefits \$	Share-based Payments \$	Total \$	Value of Share-based Payments as a Proportion of Remuneration %
Directors							
Dr Malcolm Washer ¹	33,333	-	-	4,592	-	37,925	-
Elaine Darby ^{1, 6}	109,231	50,000	-	15,127	-	174,358	-
Harry Karelis ^{1, 2}	50,000	-	161,900	-	776,540	988,440	78.6
Hon. Cheryl Edwardes AM ¹	23,333	-	-	2,217	-	25,550	-
Bruce Linton ¹	21,606	-	-	-	-	21,606	-
Bruce McHarrie ¹	23,333	-	-	2,217	-	25,550	-
David Pryce ³	-	-	-	-	-	-	-
David Wheeler ⁴	22,043	-	-	-	5,665	27,708	20.4
Nicholas Calder ^{4, 5}	39,839	-	-	-	5,665	45,504	12.4
Simon Taylor ⁴	19,839	-	-	-	5,665	25,504	22.2
Total	342,557	50,000	161,900	24,153	793,535	1,372,145	

1. Appointed 19 January 2017.

2. Mr. Karelis' advisor fees and share-based payments relate to his role in the acquisition.

3. Appointed 15 June 2017.

4. Resigned 19 January 2017.

5. Includes fees for company secretarial services to 18 October 2016.

6. 28.7% of Ms Darby's remuneration was performance-based. Cash bonuses are dependent on meeting defined performance measures.

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

Key management personnel equity holdings

Fully paid ordinary shares of the Company held either directly or indirectly:

	Opening Balance 1 July 2017	Received as part of Remuneration	Additions	Disposals	Closing Balance 30 June 2018
	No.	No.			No.
2018					
Dr Malcolm Washer	12,707,786	-	-	-	12,707,786
Elaine Darby	11,606,445	-	-	-	11,606,445
Harry Karelis	15,771,393	-	-	(15,771,393) ²	-
Hon. Cheryl Edwardes AM	50,000	-	-	-	50,000
Bruce Linton ¹	-	-	-	-	-
Bruce McHarrie	100,000	-	-	-	100,000
David Pryce	-	-	-	-	-

- 29,865,000 shares held by Canopy Growth Corporation, of which Bruce Linton is Chairman and CEO. 27,465,000 shares are held in escrow until 3 February 2019. It was been determined that Bruce Linton does not have a relevant interest in these shares.
- Disposals represent 15,771,393 shares held at resignation date 15 December 2017.

Options of the Company held either directly or indirectly:

	Opening Balance 1 July 2017	Granted	Exercised	Expired/Forefeited/Other	Closing Balance at 30 June 2018
	No.	No.	No.	No.	No.
2018					
Dr Malcolm Washer	-	-	-	-	-
Elaine Darby	-	-	-	-	-
Harry Karelis	-	-	-	-	-
Hon. Cheryl Edwardes AM	-	-	-	-	-
Bruce Linton ¹	-	-	-	-	-
Bruce McHarrie	-	-	-	-	-
David Pryce	-	-	-	-	-
D Wheeler	-	-	-	-	-
N Calder	-	-	-	-	-
S Taylor	-	-	-	-	-

- 7,677,639 options are held by Canopy Growth Corporation, of which Bruce Linton is Chairman and CEO. It has been determined that Bruce Linton does not have a relevant interest in these options.

Other Transactions with Key Management Personnel and their Related Parties

During the year, payment for consulting services were made to Biologica Ventures Pty Ltd of \$316,921. Payment for rental of premises to Mal Washer Nominees Pty Ltd of \$15,366 was also made.

This concludes the Remuneration Report, which has been Audited.

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2018

Auditor's Independence Declaration

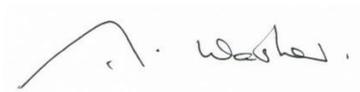
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

PKF Mack continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'M. Washer', is written over a light grey rectangular background.

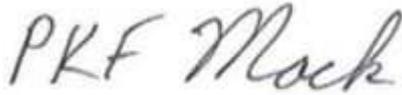
Dr Malcolm Washer
Chairman

21 September 2018

AUDITOR'S INDEPENDENCE DECLARATION

TO THE DIRECTORS OF AUSCANN GROUP HOLDINGS LTD

In relation to our audit of the financial report of AusCann Group Holdings Ltd for the year ended 30 June 2018, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



PKF MACK



SHANE CROSS
PARTNER

21 SEPTEMBER 2018
WEST PERTH
WESTERN AUSTRALIA

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018**

	Note	2018	2017
		\$	\$
Interest revenue		235,064	98,584
Other income	2	53,814	260,396
Employee benefits expense		(1,627,245)	(780,898)
Listing fee (excess deemed consideration for acquisition)	14	-	(7,159,307)
Share-based payments expense	15	(2,712,500)	(3,677,998)
Joint venture expenses		-	(75,121)
Consulting fees – directors		(90,000)	(161,900)
Consulting fees – other		(1,832,109)	(992,538)
Legal expenses		(205,807)	(317,543)
Travel and accommodation		(366,806)	(265,112)
Share of profit/(loss) of DayaCann	8	38,857	(504,118)
Depreciation expense		(30,774)	(121)
Other expenses		(1,130,802)	(561,501)
Total expenses	2	(7,957,186)	(14,496,157)
Loss before income tax expense		(7,668,308)	(14,137,177)
Income tax expense	3	-	-
Net loss for the year		(7,668,308)	(14,137,177)
Other comprehensive income, net of tax			
<i>Items that may reclassified subsequently to profit or loss:</i>			
Foreign currency translation		99,307	(69,940)
Total comprehensive loss for the year		(7,569,001)	(14,207,117)
Earnings per share			
Basic loss per share (cents per share)	4	(2.81)	(6.34)
Diluted loss per share (cents per share)	4	(2.81)	(6.34)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018**

	Note	2018 \$	2017 \$
CURRENT ASSETS			
Cash and cash equivalents	6	12,878,252	15,076,882
Other current assets	7	1,027,646	141,160
Total Current Assets		13,905,898	15,218,042
NON-CURRENT ASSETS			
Investment in DayaCann	8	696,467	580,625
Property, plant and equipment	9	109,806	242
Total Non-Current Assets		806,273	580,867
Total Assets		14,712,171	15,798,909
CURRENT LIABILITIES			
Trade and other payables	10	534,322	732,694
Employee entitlements	11	65,817	51,682
Total Current Liabilities		600,139	784,376
Total Liabilities		600,139	784,376
NET ASSETS		14,112,032	15,014,533
EQUITY			
Issued capital	12	39,328,101	33,519,536
Reserves	13	2,155,938	1,198,696
Accumulated losses		(27,372,007)	(19,703,699)
TOTAL EQUITY		14,112,032	15,014,533

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018**

	Issued capital \$	Share- based payment reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2016	8,191,528	601,827	-	(6,168,349)	2,625,006
Loss after income tax for the period	-	-	-	(14,137,177)	(14,137,177)
Other comprehensive income for the period, net of tax					
Foreign currency translation	-	-	(69,940)	-	(69,940)
	-	-	(69,940)	(14,137,177)	(14,207,117)
<i>Transactions with owners in their capacity as owners</i>					
Deemed value of shares issued in acquisition (refer to Note 14)	6,023,624	-	-	-	6,023,624
Issue of shares, net of costs (refer to Note 12)	16,008,946	-	-	-	16,008,946
Issue of shares to advisors (refer to Note 12)	2,904,246	-	-	-	2,904,246
Issue of performance rights (refer to Note 13)	-	391,192	-	-	391,192
Issue of options (refer to Note 13)	-	1,268,636	-	-	1,268,636
Conversion of performance rights to ordinary shares (refer to Note 12)	391,192	(391,192)	-	-	-
Transfer of option reserve to accumulated losses	-	(601,827)	-	601,827	-
Balance at 30 June 2017	33,519,536	1,268,636	(69,940)	(19,703,699)	15,014,533
Balance at 1 July 2017	33,519,536	1,268,636	(69,940)	(19,703,699)	15,014,533
Loss after income tax for the period	-	-	-	(7,668,308)	(7,668,308)
Other comprehensive income for the period, net of tax	-	-	-	-	-
Foreign currency translation	-	-	99,307	-	99,307
	-	-	99,307	(7,668,308)	(7,569,001)
<i>Transactions with owners in their capacity as owners</i>					
Issue of options (refer to Note 13)	-	2,712,500	-	-	2,712,500
Conversion of options to ordinary shares (refer Note 12)	3,954,000	-	-	-	3,954,000
Exercised options	1,854,565	(1,854,565)	-	-	-
Balance at 30 June 2018	39,328,101	2,126,571	29,367	(27,372,007)	14,112,032

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

AUSCANN GROUP HOLDINGS LTD
ABN 72 008 095 207

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 \$	2017 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Interest received		213,287	87,148
Government grants and incentives		53,814	10,396
Payments to suppliers and employees		(5,052,102)	(3,045,919)
Net cash used in operating activities	18	(4,785,001)	(2,948,375)
CASH FLOW FROM INVESTING ACTIVITIES			
Payments for investment in DayaCann		(338,324)	(816,359)
Pre-acquisition loan to TWH		-	(164,910)
Payments for loan to DayaCann		(766,287)	-
Cash in TWH on acquisition		-	36,690
Payments for term deposits		(122,679)	-
Payments for property, plant and equipment		(140,339)	-
Net cash used in investing activities		(1,367,629)	(944,579)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares and exercise of options		3,954,000	17,000,000
Payments for capital raising costs		-	(991,054)
Net cash from financing activities		3,954,000	16,008,946
Net increase in cash and cash equivalents		(2,198,630)	12,115,992
Cash and cash equivalents at the beginning of the financial year		15,076,882	2,960,890
Cash and cash equivalents at the end of the financial year	6	12,878,252	15,076,882

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

These financial statements and notes represent those of AusCann Group Holdings Ltd (“the Company”) and its controlled entity (collectively “the consolidated entity”) for the year ended 30 June 2018.

AusCann Group Holdings Ltd is a company limited by shares incorporated and domiciled in Australia.

The financial statements were authorised for issue in accordance with a resolution of directors on 21 September 2018.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001, as appropriate for “for-profit” oriented entities. The consolidated financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial report is presented in Australian dollars, which is the consolidated entity’s functional and presentation currency. The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 1(q).

Reverse acquisition during prior period

On 19 January 2017, AusCann Group Holdings Ltd (formerly TW Holdings Limited), the legal parent, completed the acquisition of AusCann Operations Pty Ltd (formerly AusCann Group Holdings Ltd). The legal subsidiary AusCann Operations Pty Ltd was deemed to be the acquirer for accounting purposes as it obtained control of the legal parent. The transaction was not deemed to be a business combination, as TW Holdings Ltd was not considered to be a business under AASB 3: *Business Combinations*.

Accordingly, the consolidated financial statements of the Group have been prepared as a continuation of the financial statements of the legal subsidiary AusCann Operations Pty Ltd with no fair value adjustments.

AusCann Operations Pty Ltd was deemed to have issued shares in exchange for the net assets of AusCann Group Holdings Ltd, together with AusCann Group Holdings Ltd’s listing status. The listing status does not qualify for recognition as an intangible asset and therefore the excess of deemed consideration paid over the net tangible assets acquired has been expensed in profit or loss as a listing fee.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

New, revised or amending Accounting Standards and Interpretations

The consolidated entity has adopted the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. There has been no significant impact from the adoption of these Standards and/or Interpretations.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the consolidated entity for the year ended 30 June 2018. Those that may be relevant to the consolidated entity are outlined the following table.

AASB No.	Title	Application date of standard *	Issue date
AASB 9	Financial Instruments	1 January 2018	December 2014
AASB 2010-7	Amendments arising from Accounting Standards arising from AASB 9 (December 2010)	1 January 2018	September 2012
AASB 2014-1	Amendments to Australian Accounting Standards Part E - Financial Instruments	Part E - 1 January 2018	June 2014
AASB 2014-5	Amendments to Australian Accounting Standard Arising From AASB 15	1 January 2018	December 2014
AASB 2014-7	Amendments to Australian Accounting Standard Arising From AASB 9 (December 2014)	1 January 2018	December 2014
AASB 2014-10	Amendments to Australian Accounting Standard – Sale of Contribution of Assets Between Investors and its Associates or Joint Venture	1 January 2018	December 2014
AASB 2015-8	Amendments to Australian Accounting Standards – Effective Date of AASB 15	1 January 2018	October 2015
AASB 2015-10	Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128.	1 January 2018	December 2015
AASB 2016-5	Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions [AASB 2]	1 January 2018	July 2016
AASB 2017-3	Amendments to Australian Accounting Standards – Clarifications to AASB 4	1 January 2018	July 2017
AASB 2017-4	Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments	1 January 2019	July 2017
AASB 2017-5	Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections	1 January 2018	December 2017
AASB 2017-6	Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation	1 January 2019	October 2017
AASB 2017-7	Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures	1 January 2019	December 2017
AASB 2018-1	Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle	1 January 2019	February 2018

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

New, revised or amending Accounting Standards and Interpretations (continued)

AASB No.	Title	Application date of standard *	Issue date
AASB 2018-2	Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement	1 January 2019	March 2018
AASB 15	Revenues from Contracts with Customers	1 January 2018	October 2015
AASB 16	Leases	1 January 2019	February 2016
AASB 1059	Service Concession Arrangements: Grantors	1 January 2019	July 2017
AASB Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	February 2017
AASB Interpretation 23	Uncertainty over Income Tax Treatments	1 January 2019	June 2017
Not yet issued by the AASB	Conceptual Framework for Financial Reporting [#]	1 January 2020	March 2018

* Annual reporting periods beginning after

[#] The IASB issued the revised conceptual framework in March 2018. The AASB are yet to issue the equivalent pronouncement

Management believes that the adoption of both AASB 15 and AASB 16 will have an immaterial impact on the financial statements of the consolidated entity.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Policies

(a) Revenue

Interest

Interest revenue is recognised on an accruals basis.

Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

(b) Income tax

The income tax expense or benefit for the year is the tax payable on that year's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Policies (continued)

(c) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

(d) Cash and cash equivalents

For the purposes of the statements of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months, net of bank overdrafts.

(e) Other receivables

Other receivables are recognised at amortised cost, less any provision for impairment.

(f) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over their expected useful lives as follows:

Computer equipment	3 years
Furniture and fittings	3-5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

(g) Interests in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The consolidated entity's investment in its joint venture, DayaCann, is accounted for using the equity method. Under the equity method, the investment in the joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the consolidated entity's share of net assets of the joint venture since the acquisition date.

The consolidated entity's share of the joint venture's results is reported in profit or loss.

(h) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed, and are stated at cost.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Policies (continued)

(i) Employee benefits

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at each reporting date, including related on-costs.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements. Consideration is given to expected future increases in wage and salary rates, including related on-costs and expected settlement dates based on turnover history.

Contributions are made by the consolidated entity to superannuation funds of each employee's choosing and are charged as expenses when incurred.

(j) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(k) Impairment

The carrying amounts of the consolidated entity's assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment, and if so, the asset's recoverable amount is estimated.

An impairment loss is recognised in profit or loss unless an asset has been previously revalued, in which case the impairment loss is recognised as a reversal to the extent of the previous revaluation with the balance remaining through the profit and loss.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Policies (continued)

(l) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

(m) Share-based payments

Equity settled share-based compensation benefits are provided to employees or other suppliers.

Equity settled transactions are awards of shares, or options over shares, that are provided to employees or other suppliers in exchange for the rendering of services or provision of goods.

The cost of equity settled transactions are measured at fair value on grant date. Fair value is independently determined the binomial options pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity received the services or goods that entitle the employees or other suppliers to receive payment. No account is taken of any other vesting conditions.

The cost of equity settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Policies (continued)

(n) Comparatives

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(o) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

(p) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of AusCann Group Holdings Ltd ("the Company" or "parent entity") as at 30 June 2018 and the results of its controlled entity for the year then ended. AusCann Group Holdings Ltd and its controlled entity together are referred to in these financial statements as the "consolidated entity".

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Critical accounting estimates and judgements

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the consolidated entity.

Share-based payments

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a binomial model, taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amount of assets and liabilities with the next annual reporting period, but may impact on profit or loss and equity.

Impairment of non-financial assets

The consolidated entity assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value-in-use calculations, which incorporate key estimates and assumptions.

Income taxes

Judgement is required in assessing whether deferred tax assets are recognised in the statement of financial position. Deferred tax assets are recognised only when it is considered probable that they will be recovered via the generation of sufficient future taxable profits.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its plant and equipment. The useful lives could change significantly due to technical innovation or some other unforeseen event.

Employee benefits provision

The liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Valuation of joint venture assets

The consolidated entity has a 50% interest in DayaCann, which is a for-profit joint venture established to grow medicinal cannabis in Chile. An independent valuation as at 30 June 2018 has been undertaken of the biological assets, being inventory and mother plants. These valuations have been conducted in accordance with applicable accounting standards, in particular AASB13 *Fair Value Measurement* and AASB141 *Agriculture*. The significant assumptions used in determining the fair value of medicinal cannabis plants in the valuation have been outlined in Note 8 of this report: 'Interest in Joint Venture'.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

	2018 \$	2017 \$
NOTE 2: OTHER INCOME AND EXPENSES		
Other income		
Exclusivity fee	-	250,000
R&D income	53,814	10,396
	<u>53,814</u>	<u>260,396</u>
Other expenses		
Total expenses include the following specific expenses:		
Net foreign exchange gain/(loss)	-	12,097
Occupancy expenses	58,421	38,354
Superannuation	103,140	46,203

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	2018 \$	2017 \$
NOTE 3: INCOME TAX EXPENSE		
Reconciliation between tax expense and pre-tax profit		
Loss before tax	(7,668,308)	(14,137,177)
Income tax benefit calculated at 27.5% (2017: 27.5%)	(2,108,785)	(3,887,724)
Adjusted for:		
Listing fee (excess deemed consideration on acquisition)	-	1,968,809
Share-based payments	745,938	1,011,449
Share of DayaCann (profit)/loss	(10,686)	138,632
Other non-deductible expenses	57,627	119,404
Tax losses not recognised	1,315,906	649,430
Income tax expense	-	-

Deferred tax assets and liabilities have not been recognised in respect of the following:

Deferred tax assets

Business-related costs	361,914	405,150
Accrued expenses and payables	19,577	6,994
Provisions	18,100	14,213
Carry-forward revenue tax losses	2,275,497	891,355
Deferred tax assets not recognised	(2,675,086)	(1,317,712)
	-	-

Deferred tax liabilities

Accrued interest	5,922	4,814
Unrealised foreign exchange gains	144	-
Prepayments	20,354	-
	26,420	4,814

The tax benefits of the above deferred tax assets will only be obtained if:

- a) The consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;
- b) The consolidated entity continues to comply with the conditions for deductibility imposed by law; and
- c) No changes in income tax legislation adversely affect the consolidated entity in utilising the benefits.

The consolidated entity has tax losses arising in Australia of \$8,274,533 (2017: \$3,241,290) that are available indefinitely for offset against future taxable profits, subject to meeting eligibility criteria within the Income Tax Assessment Act. Net deferred tax assets have not been brought to account as it is not probable within the immediate future that taxable profits will be available against which the deferred tax assets could be recognised.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

	2018	2017
	\$	\$
NOTE 4: EARNINGS PER SHARE		
The earnings and weighted average number of ordinary shares used in the calculation of the basic and diluted earnings per share are as follows:		
Basic loss attributable to ordinary equity holders of the parent	7,668,308	14,137,177
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	272,430,580	223,105,499

No securities are currently classified as dilutive potential ordinary shares. The options on issue are anti-dilutive, since their inclusion would reduce the loss per share.

NOTE 5: SEGMENT DISCLOSURES

At this stage of its development, the consolidated entity operates in one business segment, being the research and development of medicinal cannabis.

The consolidated entity has established activities in more than one geographical area, however those activities support the research and development conducted by the consolidated entity and are currently not considered material for the purposes of segment reporting.

The internal management reports that are reviewed by the Board of Directors, who are identified as the chief operating decision makers, are those of the consolidated entity as a whole.

NOTE 6: CASH AND CASH EQUIVALENTS

	\$	\$
Cash at bank and in hand	12,878,252	15,076,882
	12,878,252	15,076,882

NOTE 7: OTHER CURRENT ASSETS

GST receivable	90,504	121,428
Accrued interest	21,534	17,504
Prepayments	74,014	2,228
Loan to DayaCann*	707,415	-
Short Term Deposits	134,179	-
	1,027,646	141,160

*The loan agreement between the Company and DayaCann includes the following key terms and provisions:

- Principal amount of USD750,000
- 4% interest per annum
- Company has preferential right to DayaCann product
- Principal currency is USD
- Valid for 1 year and can be extended through written agreement
- Signed and executed on 2 July 2018

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 8: INTEREST IN JOINT VENTURE

The consolidated entity has a 50% interest in DayaCann which is a for-profit joint venture established to grow medicinal cannabis in Chile. As the entity is a jointly controlled entity it has been treated as a joint venture under AASB11 *Joint Arrangements*, with the consolidated entity's investment in DayaCann accounted for using the equity method in the consolidated financial statements. An independent valuation as at 30 June 2018 has been undertaken of the biological assets, being inventory and mother plants, and plant and equipment.

The significant management estimates and assumptions used in determining the value for financial reporting purposes of medicinal cannabis inventory are as follows:

- 1,064 kg of dried flower were owned by DayaCann at valuation date;
- costs to sell were estimated by management to be 2% of the selling price;
- selling price per gram of inventory at valuation date is estimated by management to be \$2.02 (US\$1.50) per gram in consideration of Cannabis Benchmarks US price per gram of medicinal cannabis. Management consequently expects the retail price for the product will be \$4.05 (US\$3) per gram approximately based on discussions held with potential customers. Management has applied a 50% discount to the expected retail price of \$4.05 (US\$3) per gram to reflect the wholesale price of \$2.02 (US\$1.50) per gram;
- there is a risk of spoilage and wastage in the pre-harvest stage of 4%, which has been determined based on management's experience with growing and harvesting produce;
- estimate of percentage of costs incurred compared to the total costs incurred at the point of harvest;
- estimate of percentage of costs incurred for each stage of plant growth; and
- estimate of total costs incurred post-harvest.

The significant management estimates and assumptions used in determining the value for financial reporting purposes of mother plants are as follows:

- estimated total costs incurred to grow the plants;
- estimate of useful life and age of plants; and
- estimate of plant salvage value.

On average, the grow cycle is 13 weeks. All plants were harvested as agricultural produce (i.e. medicinal cannabis). Management estimates the harvest yields for the plants at various stages of growth. These estimates are, by their nature, subject to change. From November 2016 to June 2018, DayaCann produced 1,064 kg of dried flowers (buds). At the valuation date, there were no plants in the growing phase that are expected to produce a harvest. A total of 114 mother plants, each five months old, were owned by DayaCann at valuation date with an average useful life of 18 months, with minimal salvage value. Mother plants can produce multiple harvests. The time frame from when mother plants are unpacked up to the time clones have been harvested is approximately five months. For this valuation, the amortisation period was assessed as 18 months for the existing plants.

As at 30 June 2018, included in the net realisable carrying value of inventories was \$1,300,000 (2017: \$739,495) in dried flower and \$25,900 (2017: \$15,515) in mother plants.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018****NOTE 8: INTEREST IN JOINT VENTURE (continued)**

Summarised statement of financial position of DayaCann:

	2018 \$	2017 \$
Cash and cash equivalents	6,639	57,028
Trade and other receivables	226,455	545,095
Inventories	1,737,569	755,010
Other current assets	-	21,243
Plant and equipment	128,580	103,509
Deferred tax assets	-	70,201
Trade and other payables	(702,296)	(282,279)
Provisions for employee benefits	(4,013)	(4,225)
Deferred tax liabilities	-	(104,332)
Net assets / equity	<u>1,392,934</u>	<u>1,161,250</u>
AusCann's 50% share of DayaCann's net assets	<u>696,467</u>	<u>580,625</u>
AusCann's carrying amount of the investment in DayaCann	<u>696,467</u>	<u>580,625</u>

Summarised statement of profit or loss of DayaCann:

Other income	505,830	417,426
Administration costs	(428,117)	(267,764)
Amortisation of intangibles	-	(1,118,630)
Tax expense	-	(39,268)
Profit/(Loss) for the period	<u>77,713</u>	<u>(1,008,236)</u>
AusCann's 50% share of DayaCann's profit/(loss) for the period	<u>38,857</u>	<u>(504,118)</u>

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives are comprised of acquired product rights and brand names, which are carried at cost less accumulated impairment losses.

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

Computer Equipment – at cost	49,395	700
Less: Accumulated depreciation	(10,920)	(458)
	<u>38,475</u>	<u>242</u>
Furniture and Fittings – at cost	91,642	-
Less: Accumulated depreciation	(20,311)	-
	<u>71,331</u>	<u>-</u>
	<u>109,806</u>	<u>242</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018****NOTE 9: PROPERTY, PLANT AND EQUIPMENT (continued)***Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Computer Equipment	Furniture and Fittings	Total
Balance at 1 July 2016	363	-	363
Additions	-	-	-
Disposals	-	-	-
Depreciation expense	(121)	-	(121)
Balance at 30 June 2017	242	-	242
Additions	48,696	91,642	140,338
Disposals	-	-	-
Depreciation expense	(10,463)	(20,311)	(30,774)
Balance at 30 June 2018	38,475	71,331	109,806

NOTE 10: TRADE AND OTHER PAYABLES

	2018 \$	2017 \$
Trade payables and accrued expenses	471,780	652,939
PAYG and superannuation payable	62,542	79,755
	<u>534,322</u>	<u>732,694</u>

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

NOTE 11: EMPLOYEE ENTITLEMENTS

<i>Current</i>		
Provision for annual leave	<u>65,817</u>	<u>51,682</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 12: ISSUED CAPITAL

	2018	2017	2018	2017
	\$	\$	Number of Shares	Number of Shares*
(a) Ordinary shares – fully paid, net of costs	39,328,101	33,519,536	276,872,772	271,372,772
(b) Convertible notes, net of costs	-	-		
	39,328,101	33,519,536		

(a) Ordinary shares – fully paid

Movements in ordinary share capital

Details	Date	Number	\$
Opening balance	30 June 2016	1,497	5,219,448
Conversion of number of shares	31 Aug 2016	2,127,156,611	-
Conversion of convertible notes	28 Sep 2016	805,332,528	2,972,080
Issue of shares to Canopy	28 Sep 2016	1,692,360	-
Acquisition of former AusCann Group Holdings Ltd	19 Jan 2017	146,709,182	6,023,624
Elimination of former AusCann Group Holdings Ltd shares upon reverse acquisition	19 Jan 2017	(2,934,182,996)	-
Shares on issue in former TWH Holdings Ltd at acquisition date	19 Jan 2017	30,117,785	-
Public offer	19 Jan 2017	25,000,000	5,000,000
Share-based payments to advisors	19 Jan 2017	14,521,229	2,904,246
Conversion of performance shares and rights	10 May 2017	31,024,576	391,192
Placement	24 & 25 May 2017	24,000,000	12,000,000
Share issue costs	Jan & May 2017	-	(991,054)
		271,372,772	33,519,536
Exercise of 100,000 share options at \$0.9360	08 Jan 2018	100,000	93,600
Transfer of value from options reserve	08 Jan 2018	-	24,375
Exercise of 100,000 share options at \$0.9360	08 Feb 2018	100,000	93,600
Transfer of value from options reserve	08 Feb 2018	-	24,375
Exercise of 1,300,000 share options at \$0.9360	15 Mar 2018	1,300,000	1,216,800
Transfer of value from options reserve	15 Mar 2018	-	316,815
Exercise of 1,250,000 share options at \$0.6000	02 May 2018	1,250,000	750,000
Transfer of value from options reserve	02 May 2018	-	473,750
Exercise of 1,250,000 share options at \$0.6000	04 May 2018	1,250,000	750,000
Transfer of value from options reserve	04 May 2018	-	473,750
Exercise of 1,500,000 share options at \$0.7000	14 May 2018	1,500,000	1,050,000
Transfer of value from options reserve	14 May 2018	-	541,500
Closing balance	30 June 2018	276,872,772	39,328,101

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 12: ISSUED CAPITAL (continued)

(b) Convertible notes

No convertible notes were issued during the financial year.

(c) Performance Shares

28,230,345 performance shares were issued on acquisition. These shares converted to ordinary shares upon satisfaction of the performance conditions on 10 May 2017, when the consolidated entity was granted a license to cultivate medical cannabis under the *Narcotic Drugs Act 1967*. There were no further performance shares issued during the 2018 financial year.

NOTE 13: RESERVES

Share-based payments reserve

The share-based payments reserve is used to recognise the value of share-based payments provided to directors or suppliers for services provided.

Movements in share-based payments reserve:

	2018	2017
	\$	\$
Opening balance	1,268,636	601,827
Expired share-based payments (refer to Note 15)	-	(601,827)
Performance rights issued to advisors (refer to Note 15)	-	391,192
Options issued to former directors (refer to Note 15)	-	16,995
Options issued to advisors (refer to Note 15)	2,712,500	365,565
Options issued to Canopy shareholders (refer to Note 15)	-	886,076
Exercised options	(1,854,565)	-
Performance rights converted to ordinary shares	-	(391,192)
	2,126,571	1,268,636

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences on translation of the consolidated entity's investment in DayaCann.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 14: ACQUISITION OF AUSCANN OPERATIONS PTY LTD

There was no further acquisition activity during the financial year ended 30 June 2018.

2017

AusCann Group Holdings Ltd (formerly TW Holdings Limited) acquired 100% of the shares of AusCann Operations Pty Ltd (formerly AusCann Group Holdings Ltd) on 19 January 2017 by issuing 146,709,182 ordinary shares and 28,230,345 performance shares to AusCann and Canopy shareholders and convertible note holders, and 7,677,639 options expiring 19 January 2020 to Canopy shareholders. Refer to Note 15 for further details of the options issued.

As described in the accounting policy in Note 1, the legal subsidiary AusCann Operations Pty Ltd was deemed to be the acquirer for accounting purposes as it obtained control of the legal parent. The transaction was not deemed to be a business combination, as TW Holdings Ltd was not considered to be a business under AASB 3: *Business Combinations*.

The transaction was therefore accounted for under AASB2: *Share-based Payments*, whereby AusCann Operations Pty Ltd was deemed to have issued shares in exchange for the net assets of AusCann Group Holdings Ltd, together with AusCann Group Holdings Ltd's listing status.

The value of deemed shares issued has been determined as the notional number of equity instruments that the shareholders of AusCann Operations Pty Ltd would have had to issue to AusCann Group Holdings Ltd to give the owners of AusCann Group Holdings Ltd the same percentage ownership in the combined entity. This has been determined to be \$6,909,700.

The listing status does not qualify for recognition as an intangible asset and has therefore been expensed in profit or loss as a listing fee, calculated as follows:

	\$
Deemed consideration	6,909,700
Negative net fair value of assets and liabilities acquired	249,607
Listing fee (deemed excess consideration)	<u>7,159,307</u>

The pre-acquisition equity balances of AusCann Group Holdings Ltd were eliminated against this increase in share capital of \$7,159,307 on consolidation.

The fair values of the identifiable assets and liabilities of AusCann Group Holdings Ltd as at the date of acquisition were:

	\$
Assets	
Cash	36,690
GST receivable	31,922
Prepayments	24,662
Liabilities	
Trade and other payables	(177,971)
Loan from AusCann Operations Pty Ltd	(164,910)
Total identifiable net deficiency at fair value	<u><u>(249,607)</u></u>

Costs related to the acquisition

Costs related to the acquisition of \$283,315 were incurred by AusCann Group Holdings Ltd (formerly TW Holdings Limited) prior to acquisition date. Further acquisition-related costs of \$408,193 in cash and \$3,295,438 in share-based payments were incurred by the consolidated entity post-acquisition. Refer to Note 15 for details of the share-based payments.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 15: SHARE-BASED PAYMENTS

Share-based payments during the year ended 30 June 2018

(a) Options issued to advisors

7,500,000 options were issued to advisors in 3 tranches in consideration of investor relations services on 10 August 2017. The fair value of each option was calculated as shown below using a Black-Scholes model and the following assumptions:

	Tranche 1	Tranche 2	Tranche 3
Fair value (per option)	\$0.379	\$0.361	\$0.345
Number of options	2,500,000	2,500,000	2,500,000
Exercise price	\$0.60	\$0.70	\$0.80
Expiry date	31 Dec 2020	31 Dec 2020	31 Dec 2020
Spot price	\$0.60	\$0.60	\$0.60
Expected volatility	95%	95%	95%
Dividend yield	-	-	-
Risk-free rate	1.94%	1.94%	1.94%

The expense arising from share-based payments was \$2,712,500.

Share-based payments during the year ended 30 June 2017

(b) Ordinary shares issued to advisors

14,521,229 ordinary shares were issued to advisors on 19 January 2017. The fair value of each share was deemed to be 20.00 cents, the price at which the Company raised capital at the same time as the reverse acquisition.

(c) Performance rights issued to advisors

2,794,231 performance rights were issued to advisors on 19 January 2017. The fair value of each right was deemed to be 14.00 cents per right, taking into account the following assumptions:

Expiry date	19 July 2018
Exercise price	Nil
Deemed spot price	\$0.20
Expected volatility	90%
Dividend yield	Nil
Risk-free rate	1.61%
Likelihood of achieving performance conditions	70%

(d) Director options

150,000 options were issued to former directors on 19 January 2017. The fair value of each option was calculated at 11.33 cents per option using a binomial model and the following assumptions:

Expiry date	19 January 2020
Exercise price	\$0.21
Deemed spot price	\$0.20
Expected volatility	90%
Dividend yield	Nil
Risk-free rate	2.01%

(e) Options issued to Canopy shareholders

7,677,639 options were issued to Canopy shareholders on 19 January 2017. The fair value of each option was calculated at 11.54 cents per option using a binomial model and the following assumptions:

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 15: SHARE-BASED PAYMENTS (continued)

Expiry date	19 January 2020
Exercise price	\$0.20
Deemed spot price	\$0.20
Expected volatility	90%
Dividend yield	Nil
Risk-free rate	2.01%

(f) Options issued to advisors

1,500,000 options were issued to advisors in consideration of investor relations services on 11 April 2017. The fair value of each option was calculated at 24.37 cents per option using a binomial model and the following assumptions:

Expiry date	11 April 2018
Exercise price	\$0.936
Spot price	\$0.803
Expected volatility	90%
Dividend yield	Nil
Risk-free rate	1.67%

The expense arising from share-based payments was \$3,677,998, relating to ordinary shares, performance rights and options issued to advisors and former directors.

	\$
<i>Share-based payments expensed:</i>	
Ordinary shares issued to advisors (refer to Note 12(a))	2,904,246
Performance rights issued to advisors (refer to Note 13)	391,192
Options issued to former directors (refer to Note 13)	16,995
Options issued to advisors (refer to Note 13)	365,565
	3,677,998

The options issued to Canopy shareholders (refer to Note 13) formed part of the consideration for the acquisition and the \$886,076 value of those options formed part of the listing fee (excess deemed consideration on acquisition).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 16: COMMITMENTS

The Company entered into a 5-year lease for office premises on 11 September 2017, with an option to renew for 5 years.

Future minimum lease commitments are as follows:

	2018	2017
	\$	\$
Within 1 year	40,208	-
1-5 years	128,666	-
	<u>168,874</u>	<u>-</u>

On 2 July 2018 the Company signed a loan agreement with DayaCann for a period of 1 year, with an option to extend through written agreement.

Future minimum loan commitments are as follows:

	2018	2017
	\$	\$
Within 1 year*	304,635	-
1-5 years	-	-
	<u>304,168</u>	<u>-</u>

*expressed in AUD, actual commitment is USD225,756.

NOTE 17: RELATED PARTY TRANSACTIONS

Key management personnel

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	2018	2017
	\$	\$
Short-term benefits ¹	654,750	726,224
Post-employment benefits	44,000	38,733
Share-based payments ¹	-	793,535
	<u>698,750</u>	<u>1,558,492</u>

1 Prior period (2017) short-term benefits and share-based payments include amounts paid to directors for consulting services in relation to the 2017 acquisition.

Transactions with related parties

	Amounts recognised for services	Amounts owed at 30 June
	\$	\$
Year ended 30 June 2018		
Biologica Ventures Pty Ltd ¹	316,921	38,419
Mal Washer Nominees Pty Ltd ²	15,366	-
Year ended 30 June 2017		
Biologica Ventures Pty Ltd ¹	1,228,576	47,667
Mal Washer Nominees Pty Ltd ²	38,354	2,781

1 Biologica Ventures Pty Ltd provides consulting services to the consolidated entity. The director of Biologica Ventures Pty Ltd is Dr Stewart Washer, who is the son of chairman Dr Mal Washer and brother of managing director Elaine Darby. Both Dr Stewart Washer and his wife Dr Patty Washer provide consulting services to the consolidated entity. Dr Patty Washer is also a Director of Biologica Ventures Pty Ltd.

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 17: RELATED PARTY TRANSACTIONS (continued)

- 2 Mal Washer Nominees Pty Ltd provided office space to the consolidated entity on a monthly tenancy basis for the whole of the prior reporting period and up to 11 September 2017. The directors of Mal Washer Nominees Pty Ltd are chairman Dr Mal Washer and managing director Elaine Darby. The consolidated entity now leases commercial property from an unrelated third party.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market prices.

NOTE 18: NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and deposits at call, net of outstanding bank overdrafts.

Reconciliation of operating loss after tax to net cash used in operating activities

	2018 \$	2017 \$
Operating loss after income tax	(7,668,308)	(14,137,177)
Adjusted for:		
Depreciation	30,774	121
Listing fee (excess deemed consideration on acquisition)	-	7,159,307
Share-based payments	2,712,500	3,677,998
Share of DayaCann (profit)/loss	(38,857)	504,118
Unrealised FX gain/(loss)	81,194	-
<i>Changes in operating assets and liabilities</i>		
(Increase) / decrease in receivables	26,895	(99,861)
(Increase) / decrease in prepayments and deposits	(83,286)	-
Increase / (decrease) in trade and other payables	139,952	157,602
Increase / (decrease) in other current liabilities	-	(250,000)
Increase / (decrease) in provisions	14,135	39,517
	<u>(4,785,001)</u>	<u>(2,948,375)</u>

Non-cash investing and financing activities

There were no non-cash investing and financing activities undertaken in financial year ended 30 June 2018. In financial year ended 30 June 2017, AusCann Group Holdings Ltd acquired 100% of the shares of AusCann Operations Pty Ltd on 19 January 2017 by issuing 146,709,182 ordinary shares and 28,230,345 performance shares to AusCann and Canopy shareholders and convertible note holders, and 7,677,639 options expiring 19 January 2020 to Canopy shareholders. Refer to Notes 14 and 15 for further details.

AUSCANN GROUP HOLDINGS LTD

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 19: FINANCIAL INSTRUMENTS

Capital risk management

The consolidated entity manages its capital to ensure that the consolidated entity will be able to continue as a going concern while maximising the return to stakeholders through optimising the debt and equity balance.

Financial risk management

The consolidated entity's management team coordinates access to domestic financial markets, monitors and manages the financial risks relating to the operations of the consolidated entity and identifies any exposures by degree and magnitude of risks. These risks include credit risk, liquidity and cash flow interest rate risk and currency risk. The consolidated entity actively pursues avenues to minimise the effect of these risks.

Categories of financial instruments

	2018	2017
	\$	\$
<i>Financial Assets</i>		
Cash and cash equivalents	12,878,252	15,076,882
Other current assets (excluding prepayments)	953,632	138,932
<i>Financial Liabilities</i>		
Trade and other payables	534,322	732,694

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in United States dollars and Canadian dollars and is exposed to foreign currency risk through foreign exchange rate fluctuations.

The consolidated entity's exposure to foreign currency risk at 30 June 2018 is shown in the following table.

	2018	2017
	\$	\$
<i>Financial Liabilities</i>		
Trade and other payables denominated in US Dollars	-	404,235
Trade and other payables denominated in Canadian Dollars	30,706	68,269

Foreign currency risk sensitivity analysis

The following sensitivity analysis is calculated using the foreign currency risk exposures in existence at the reporting date. The 5% (2017: 5%) sensitivity is based on reasonably possible changes over a financial year, using an observed range of actual historical rates, for the AUD/USD and AUD/CAD exchange rates.

At 30 June 2018, if the exchange rates had moved as illustrated in the table below, with all other variables held constant, post-tax profit and equity would have been affected as follows:

	2018	2017
	\$	\$
AUD/USD + 5 %	-	(19,249)
AUD/USD - 5 %	-	21,276
AUD/CAD + 5 %	(1,535)	(3,251)
AUD/CAD - 5 %	1,535	3,593

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 19: FINANCIAL INSTRUMENTS (continued)

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate. The consolidated entity's exposure and the credit ratings of its counterparties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed periodically.

The consolidated entity does not have a significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and borrowings is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Fair value of financial instruments

The fair value of short-term financial assets and financial liabilities approximate their carrying values because of their short term to maturity.

The consolidated entity currently has no long-term financial assets or borrowings.

Interest rate risk management

The consolidated entity is exposed to interest rate risk as it holds cash deposits at floating interest rates. Exposure to interest rate risk arises on the consolidated entity's cash and cash equivalents.

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the year. The directors have determined that a 50 basis point increase or decrease represents management's assessment of the possible changes in interest rates.

At reporting date, if the interest rates had been 50 basis points higher or lower and all other variables were held constant, the consolidated entity's net profit would have been increased by \$68,599 (2017: \$75,384) and decreased by \$68,599 (2017: \$75,384) respectively. This is attributable to the consolidated entity's exposure to interest rates on its variable rate deposits.

The consolidated entity's exposure to interest rate risk at 30 June 2018 is shown in the following table.

	2018	2017
	\$	\$
<i>Financial Assets</i>		
Cash at Bank	12,878,252	15,076,882
Short term deposits	134,179	-
Loan to DayaCann*	707,415	-
	<u>13,719,846</u>	<u>15,076,882</u>

*expressed in AUD, loan is for USD524,244

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors. The consolidated entity manages liquidity by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

AUSCANN GROUP HOLDINGS LTD

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018****NOTE 19: FINANCIAL INSTRUMENTS (continued)****Maturity profile of financial instruments**

The following tables detail the consolidated entity's remaining contractual maturity for its non-derivative financial liabilities. The financial liabilities represent undiscounted cash flows based on the earliest date on which the consolidated entity can be required to pay.

	Less than 1 year \$	1 to 5 years \$	5+ years \$	Total \$
2018				
<i>Financial Liabilities</i>				
Trade and other payables	534,322	-	-	534,322
2017				
<i>Financial Liabilities</i>				
Trade and other payables	732,694	-	-	732,694

NOTE 20: CONTINGENT ASSETS AND LIABILITIES

During the year ended 30 June 2017, the consolidated entity had entered into a non-binding heads of agreement with privately-owned, California-based company, Caziwell Inc. / Aunt Zelda's Group ("Aunt Zelda's") for exclusive access to the Aunt Zelda's brand and product range in the Australian and New Zealand markets. Under the key terms of this agreement, the consolidated entity must pay an ongoing royalty to Aunt Zelda's of 5% of sales revenue generated through the sale of Aunt Zelda's branded products.

This non-binding agreement did not proceed and there is no longer a contingency in relation to it.

There were no other contingent assets or liabilities as at 30 June 2018.

NOTE 21: AUDITOR REMUNERATION

The auditor of the consolidated entity is PKF Mack.

a) Auditor remuneration – accounting parent entity (AusCann Operations Pty Ltd)

	2018 \$	2017 \$
<i>Fees paid or payable to PKF Mack:</i>		
Audit or review of the financial report	-	-
Taxation services	3,000	5,150
Due diligence	-	-
Other services	-	-
	<u>3,000</u>	<u>5,150</u>

b) Auditor remuneration – legal parent entity (AusCann Group Holdings Ltd)

<i>Fees paid or payable to PKF Mack:</i>		
Audit or review of the financial report	103,140	38,450
Independent Accountant's Report	-	21,700
Taxation services	2,500	10,000
Other services	6,850	7,250
<i>Fees paid or payable to other audit firms:</i>		
Audit or review of the financial report	20,706	12,240
	<u>133,196</u>	<u>89,640</u>

AUSCANN GROUP HOLDINGS LTD

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 22: PARENT ENTITY DISCLOSURES

AusCann Group Holdings Ltd is the legal parent entity.

	2018	2017
	\$	\$
Current assets	14,292,232	15,145,056
Total assets	14,401,088	15,145,056
Current liabilities	(114,166)	(130,523)
Total liabilities	(114,116)	(130,523)
Issued capital	139,506,095	133,697,530
Share-based payment reserve	2,126,571	1,268,636
Accumulated losses	(127,345,744)	(119,951,633)
Total equity	<u>14,286,922</u>	<u>15,014,533</u>
Loss of the parent entity	(7,394,111)	(39,172,520)
Total comprehensive loss of the parent entity	(7,394,111)	(39,172,520)

Legal subsidiaries

	Country of Incorporation	Percentage interest		Principal activities
		2018 %	2017 %	
AusCann Operations Pty Ltd (formerly AusCann Group Holdings Ltd)	Australia	100%	100%	Medicinal cannabis research, development and cultivation

AusCann Group Holdings Ltd (formerly TW Holdings Limited) acquired AusCann Operations Pty Ltd in a reverse acquisition on 19 January 2017.

NOTE 23: EVENTS SUBSEQUENT TO REPORTING DATE

On 5 July 2018 the Company successfully completed a capital raising of \$33,412,500 via a share placement. The placement was to sophisticated and professional investors from North America and Australia, including AusCann's major shareholder, Canopy Growth Corporation, Inc.

On 13 July 2018 the Company granted 15,187,503 unlisted options exercisable at \$1.465 per share with an expiry date on 13 January 2021.

On 9 August 2018 the Company announced the results of its Share Purchase Plan (SPP) which raised approximately \$1,952,601.

On 12 September 2018 the Company commenced trading on the US OTCQX Market under the stock symbol ACNNF.

Proceeds from the capital raising and SPP will be used to fund clinical studies, R&D, the expansion of Australian and Chilean operations, the medical outreach program and for working capital.

Other than as identified above, no events occurring subsequent to the end of financial year have significantly affected, or may significantly affect, the operations of the consolidated entity in subsequent financial years.

DIRECTORS' DECLARATION

The Directors of the consolidated entity declare that:

1. The financial statements and notes are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2018 and of its performance, for the year ended on that date; and
 - (b) complying with Australian Accounting Standards, and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (c) complying with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial report.
2. There are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.
3. The directors have been given the declarations required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors:



Malcolm James Washer
Chairman

21 September 2018

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AUSCANN GROUP HOLDINGS LTD

Report on the Financial Report

Opinion

We have audited the accompanying financial report of AusCann Group Holdings Ltd (the company), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion the financial report of AusCann Group Holdings Ltd is in accordance with the Corporations Act 2001, including:

- i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
- ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the consolidated entity in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

1. Valuation of Investment in DayaCann Joint Venture

Why significant

The consolidated entity has a 50% interest in DayaCann which is a for-profit joint venture established to grow medicinal cannabis in Chile. The value of the investment in the consolidated entity as at 30 June 2018 is \$696,427 (2017: \$580,625).

The consolidated entity's accounting policy in respect of Interest in Joint Ventures is outlined in Note 1(g).

The consolidated entity's accounting judgement and estimates involved in DayaCann, in particular in relation to the valuation of the inventory and biological assets (mother plants) within DayaCann are outlined in notes 1(q) and 8 to the financial report of the consolidated entity.

The estimates and judgements in relation to these items has a significant impact on DayaCann's position and performance, which effects the consolidated entity's investment in DayaCann and its share of the profit recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income totalling \$38,857 (2017: loss - \$504,118).

How our audit addressed the key audit matter

Our work included, but was not limited to, the following procedures:

- We considered the control relationship to confirm that equity accounting remains appropriate;
- We assessed the reasonableness of the methodologies, inputs and assumptions of the independent expert valuation report obtained relating to the inventories, mother plants and fixed assets;
- Ensured the above independent expert valuation report was in accordance with Australian Accounting Standards AASB 102 Inventories, AASB 141 Agriculture, AASB 116 Property, Plant and Equipment and AASB 13 Fair Value Measurement;
- We ensured the existence of the underlying assets by physical inspection and or third party confirmation;
- We considered whether the remaining carrying value of the investment in DayaCann is impaired; and
- Assessed the appropriateness of the related disclosures in notes 1(g), 1(q) and 8.

2. Value of Share Based Payments

Why significant

For the year ended 30 June 2018 the value of share based payments issued and recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income totalled \$2,712,500, as disclosed in Note 15 (a).

The consolidated entity's accounting judgement and estimates in respect of share based payments is outlined in Note 1(m) and 1(q). Significant judgement is required in relation to:

- The valuation method used in the model; and
- The assumptions and inputs used within the model.

How our audit addressed the key audit matter

Our work included, but was not limited to, the following procedures:

- We assessed the reasonableness of the assumptions used in the valuation of the share based payments expense as well as testing the accuracy of the calculations themselves;
- We also agreed the terms of the share based payments to agreements to ensure that the valuations were based on the terms of those agreements; and
- Assessed the appropriateness of the related disclosures in notes 1(m) and 1(q) and 15 (a).

Other Information

Other information is financial and non-financial information in the annual report of the consolidated entity which is provided in addition to the Financial Report and the Auditor's Report. The directors are responsible for Other Information in the annual report.

The Other Information we obtained prior to the date of this Auditor's Report was the Chairman's Letter, Letter from the Managing Director, Director's Report, and Additional ASX Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, the auditor does not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information in the Financial Report and based on the work we have performed on the Other Information that we obtained prior the date of this Auditor's Report we have nothing to report.

Directors' Responsibilities for the Financial Report

The Directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the Directors are responsible for assessing the consolidated entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using a going concern basis of accounting unless the Directors either intend to liquidate the consolidated entity or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgement, including assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the consolidated entity to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

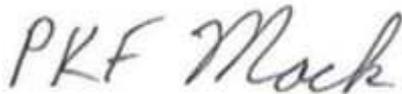
Opinion

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of AusCann Group Holdings Ltd for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



PKF MACK



SHANE CROSS
PARTNER

21 SEPTEMBER 2018
WEST PERTH
WESTERN AUSTRALIA

AUSCANN GROUP HOLDINGS LTD

ABN 72 008 095 207

ADDITIONAL ASX INFORMATION

The following additional information is required by the Australian Securities Exchange. The information is current as at 18 September 2018.

(a) Distribution schedule and number of holders of equity securities as at 18 September 2018

	1 – 1,000	1,001 – 5,000	5,001 – 10,000	10,001 – 100,000	100,001 – and over	Total
Fully Paid Ordinary Shares	9,208	8,320	2,254	2,030	123	21,935
Unlisted Options – \$0.20 19.01.2020	-	-	-	-	1	1
Unlisted Options – \$0.21 19.01.2020	-	-	-	3	-	3
Unlisted Options – \$0.70 31.12.2020	-	-	-	-	1	1
Unlisted Options – \$0.80 31.12.2020	-	-	-	-	1	1
Unlisted Options – \$1.465 13.01.2021	-	-	6	18	9	33

The number of holders holding less than a marketable parcel of fully paid ordinary shares as at 18 September 2018 is 3,944.

(b) 20 largest holders of quoted equity securities as at 18 September 2018

The names of the twenty largest holders of fully paid ordinary shares (ASX code: AC8) as at 18 September 2018 are:

Rank	Name	Shares	% of Total Shares
1	CANOPY GROWTH CORPORATION	34,410,000	11.13
2	CITICORP NOMINEES PTY LIMITED	19,331,962	6.25
3	ACN 161 995 204 PTY LTD	16,943,715	5.48
4	GOLSPIE PTY LTD	16,943,715	5.48
5	GEMELLI NOMINEES PTY LTD <GEMELLI FAMILY A/C>	15,771,393	5.10
6	MAL WASHER NOMINEES PTY LTD	12,707,786	4.11
7	MS ELAINE LUCY DARBY	11,606,445	3.76
8	BNP PARIBAS NOMINEES PTY LTD <BNPP NYB CLEARING ACC DRP>	8,159,000	2.64
9	DR STEWART JAMES WASHER + DR PATRIZIA DERNA WASHER	6,353,893	2.06
10	CELTIC CAPITAL PTY LTD <CELTIC CAPITAL A/C>	5,883,500	1.90
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,416,838	1.75

AUSCANN GROUP HOLDINGS LTD

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Rank	Name	Shares	% of Total Shares
12	MR WARREN SIDNEY LANGMAN	4,235,928	1.37
13	MR ANTHONY NICHOLAS NAGY	4,235,928	1.37
14	BIOLOGICA VENTURES PTY LTD	4,080,230	1.32
15	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	4,039,920	1.31
16	UBS NOMINEES PTY LTD	3,747,676	1.21
17	J P MORGAN NOMINEES AUSTRALIA LIMITED	3,704,662	1.20
18	CPS CAPITAL GROUP PTY LTD	2,521,500	0.82
19	DANNY STEPHENS INVESTMENTS PTY LTD <DANNY STEPHENS FAMILY A/C>	2,150,200	0.70
20	MR JASON PETERSON + MRS LISA PETERSON <J & L PETERSON S/F A/C>	2,142,401	0.69
	TOTAL	184,386,692	59.65

Stock Exchange Listing: Listing has been granted for 176,382,702 fully paid ordinary shares of the Company on issue on the Australian Securities Exchange.

The unquoted securities on issue as at 18 September 2018 are detailed below in part (d).

(c) Substantial shareholders

Substantial shareholders in AusCann Group Holdings Ltd and the number of equity securities over which the substantial shareholder has a relevant interest as disclosed in substantial holding notices provided to the Company are listed below:

Name	Shares	% of Total Shares	Date of Notice
Canopy Growth Corporation	23,032,917	10.65%	14 February 2017
Golspie Pty Ltd	14,209,473	6.57%	2 February 2017
Gemelli Nominees Pty Ltd <Gemelli Family A/C>	13,226,331	6.11%	2 February 2017
ACN 161 995 204 Pty Ltd	14,209,473	6.57%	1 February 2017

AUSCANN GROUP HOLDINGS LTD

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(d) Unquoted Securities

The number of unquoted securities on issue as at 18 September 2018:

Unquoted Security	Number on Issue
Fully Paid Ordinary Shares	142,115,215
Unlisted Options – exercisable at \$0.20 expiring on 19.01.2020	7,677,639
Unlisted Options – exercisable at \$0.21 expiring on 19.01.2020	150,000
Unlisted Options – exercisable at \$0.70 expiring on 31.12.2020	1,000,000
Unlisted Options – exercisable at \$0.80 expiring on 31.12.2020	2,500,000
Unlisted Options - exercisable at \$1.465 expiring on 13.07.2021	15,187,503

(e) Holder Details of Unquoted Securities

Option holders that hold more than 20% of a given class of unquoted securities as at 18 September 2018 other than options issued under an employee incentive scheme:

Security	Name	Number of Securities
Unlisted Options – exercisable at \$0.20 expiring on 19.01.2020	Canopy Growth Corporation	7,677,639
Unlisted Options – exercisable at \$0.21 expiring on 19.01.2020	Nicholas Calder	50,000
Unlisted Options – exercisable at \$0.21 expiring on 19.01.2020	Jimbzal Pty Ltd	50,000
Unlisted Options – exercisable at \$0.21 expiring on 19.01.2020	Pathways Corporate Pty Ltd	50,000
Unlisted Options – exercisable at \$0.70 expiring on 31.12.2020	CG Nominees (Australia) Pty Ltd	2,500,000
Unlisted Options – exercisable at \$0.80 expiring on 31.12.2020	CG Nominees (Australia) Pty Ltd	2,500,000
Unlisted Options – exercisable at \$1.465 expiring on 13.01.2021	BNP Paribas Nominees Pty Ltd	5,389,036
Unlisted Options – exercisable at \$1.465 expiring on 13.01.2021	Citicorp Nominees Pty Limited	3,791,381

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(f) Restricted Securities as at 18 September 2018

The Company had the following restricted securities as at 18 September 2018:

Security	Escrow Period
132,707,146 Fully Paid Ordinary Shares	Under escrow until 3 February 2019.
7,677,639 Unlisted Options – exercisable at 20c expiring on 19.01.2020	Under escrow until 3 February 2019.
150,000 Unlisted Options – exercisable at 21c expiring on 19.01.2020	Under escrow until 3 February 2019.

(g) Voting Rights

All fully paid ordinary shares carry one vote per ordinary share without restriction.

Unquoted options have no voting rights.

(h) On-Market Buy-Back

The Company is not currently undertaking an on-market buy-back.

(i) Corporate Governance

The Board of AusCann Group Holdings Ltd is committed to achieving and demonstrating the highest standards of Corporate Governance. The Board is responsible to its Shareholders for the performance of the Company and seeks to communicate extensively with Shareholders. The Board believes that sound Corporate Governance practices will assist in the creation of Shareholder wealth and provide accountability. In accordance with ASX Listing Rule 4.10.3, the Company has elected to disclose its Corporate Governance policies and its compliance with them on its website, rather than in the Annual Report. Accordingly, information about the Company's Corporate Governance practices is set out on the Company's website at <http://www.auscann.com.au/investor-centre/corporate-governance/>.

(j) Application of Funds

During the financial year, AusCann Group Holdings Ltd confirms that it has used its cash and assets (in a form readily convertible to cash) during the financial year in a manner which is consistent with the Company's business objectives.