Cann Group Limited
Appendix 4D
Half-year report

CANN GROUP LIMITED

1. Company details

Name of entity:	Cann Group Limited
ABN:	25603949739
Reporting period:	For the half-year ended 31 December 2024
Previous period:	For the half-year ended 31 December 2023

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	down	23.8%	to	6,467
Loss from ordinary activities after tax	down	25.4%	to	(10,698)
Loss for the half-year	down	25.4%	to	(10,698)

	31 December 2024 Cents	31 December 2023 Cents
Basic earnings per share	(2.23)	(3.40)
Diluted earnings per share	(2.23)	(3.40)

Dividends
There were no dividends paid, recommended or declared during the current financial period.

Comments
The loss for the Group after providing for income tax amounted to $10,698,000 (31 December 2023: $14,338,000).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	1.18	11.59

4. Dividends

Current period
There were no dividends paid, recommended or declared during the current financial period.

Previous period
There were no dividends paid, recommended or declared during the previous financial period.

5. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report. An unmodified conclusion has been issued. A material uncertainty relating to going concern is included in the auditor's report and the auditor's conclusion is not modified in respect of this matter.

6. Attachments

Details of attachments (if any):

The Interim Report of Cann Group Limited for the half-year ended 31 December 2024 is attached.

7. Signed

Signed ___________________________ Date: 28 February 2025

Doug Rathbone
Chairman
Melbourne

Cann Group Limited

ABN 25603949739

Interim Report - 31 December 2024

General information

This Half-Year Financial Report is of Cann Group Limited (The group) and its subsidiaries, including Cannproducts Pty Ltd, Cannoperations Pty Ltd, Cann IP Pty Ltd, Botanitech Pty Ltd, Satipharm Europe, Satipharm Limited, Satipharm AG, Satipharm Australia (deregistered on 2 December 2023), Satipharm Canada Limited and Phytotech Therapeutics Ltd (together, the Consolidated Group). These financial statements are for the half-year ended 31 December 2024. Unless otherwise stated, all amounts are presented in $AUD’000.

A description of the group’s operations and of its principal activities is included in the review of operations and activities in the Directors’ Report on pages 3 to 5. The Directors’ Report is not part of the financial statements.

Directors	Dr Julian Chick (Chairman) resigned 10 February 2025 Ms Jenni Pilcher (CEO and Managing Director) Mr Doug Rathbone AM (Interim Chairman and Non-executive Director) Dr Julian Chick (Non-executive Director) resigned 10 February 2025 Mr Robert Barnes (Non-executive Director)
Chief Executive Officer	Ms Jenni Pilcher
Company secretary	Mr Steven Notaro
Registered office	Ground Floor 262 Lorimer Street Port Melbourne Victoria 3207
Share register	Link Market Services Limited Tower 4, 727 Collins Street Melbourne Vic 3008 Ph: 1300 554 474
Auditor	Connect National Audit Pty Ltd, Level 11/333 Collins St, Melbourne VIC 3000
Bankers	National Australia Bank 395 Bourke Street Melbourne Vic 3000
Stock exchange listing	Cann Group Limited shares are listed on the Australian Securities Exchange (ASX code: CAN)
Contact Information	Ph: (03) 9095 7088 Email: contact@canngrouplimited.com Website: www.canngrouplimited.com

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Cann Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2024.

Directors
The names and details of the Directors in the office during the half year period are as follows. Directors have been in office for the entire half year unless otherwise stated.

Dr Julian Chick (Chairman) - resigned 10 February 2025
Ms Jenni Pilcher (CEO and Managing Director)
Mr Doug Rathbone, AM (Interim Chairman and Non-executive Director)
Mr Robert Barnes (Non-executive Director)

Principal activities
The principal activities of the Group during the year consisted of cultivation of medicinal cannabis for both medicinal and research purposes pursuant to the licenses and permits issued to the Group; the development and manufacture (via third party arrangements) of finished product formulations; and the pursuit and execution of various supply agreements with third parties.

Operating Results
The loss for the Group after providing for income tax amounted to $10.70 million (31 December 2023: $14.34 million).

The Group's basic and diluted loss per share is 2.23 cents per share (2023: 3.40 cents per share). The weighted average number of shares used to calculate the basic and diluted earnings per share is 478,972,354 (2023: 421,144,668).

The net assets of the Group are $6.32 million as at 31 December 2024 (30 June 2024: $13.92 million).

Review of operations
The loss for the Group after providing for income tax amounted to $10,698,000 (31 December 2023: $14,338,000).

Production and sales
Sales during the half have declined compared with the prior comparative period, primarily driven by significant pricing pressure caused by continued changes in market dynamics, particularly in the flower segment, as well as reduced contract service opportunities. In response, Cann Group has implemented several strategic measures to address these challenges. These include the ongoing enhancements to cultivation and production processes, a strategic reassessment of commercial cultivars, and continuous refinement of the Botanitech brand strategy.

Despite challenging market conditions, significant operational progress has been achieved in the half. A total of 2.29 tonnes has been produced across 17 cultivars meaning the company is on track to meet its 5.5 tonne objective for the full year.

CANN GROUP LIMITED

Facilities
During the half, several external parties visited Cann's Mildura facility, further validating the strength of the operation with positive feedback around the processes, the team, quality of the plants, and the automation. The Mildura facility has been focusing on the following activities and initiatives during the half:

- Production of 2.29 tonnes across 17 cultivars. The Company is on track to meet its 5.5 tonne objective for FY2025.
- Refining the Integrated Disease and Pest Management plan to reduce the effects of insects and disease resulting in improved crop yields.
- Refining glass house environmental controls to cope with multiple greater-than-40-degree days to protect against crop losses.
- Continuous improvement in relation to increasing dry flower yield by reducing biomass prior to the cutting and drying phase to allow for more efficient dry trimming.
- Final planning phase to engineer a carbon dioxide recirculation system to lower CO_2 cost and reduce emissions from gas fired boilers.
- Training of staff in planting out cuttings produced from tissue culture at the Northern facility. Tissue culture cuttings ensure ongoing disease-free, genetically pure mother stock.
- Collaboration with SuniTafe Mildura providing Certificate 2 training in Protective Cropping (Medicinal Cannabis) for six staff. This is the first course of its kind in Australia which is aiming to achieve national accreditation status.
- Growing the new genetics selected at the Northern Facility at a commercial scale.
- Selecting the most appropriate genetics for customer desirables, THC levels, consistency and yield.
- Commissioning into full production the Muti Head Filler. This equipment reduces the labour cost associated with packing medicinal cannabis into either 10, 15 or 28 gram jars.
- Continuous improvement in relation to labour efficiencies, quality control and lowering cost of production.
- Promoting capability in relation to contract growing and contract packing for third parties.

Research and Development
Cann's R&D program has been focusing on the following activities and initiatives during the half:

- Ongoing evaluation of over 800 lines across 44 families derived from seed purchased internationally and from in-house breeding has led to 40 R&D lines under further evaluation at Mildura and a further 4 promising strains have been identified with plans to undergo scale up and commercial introduction.
- La Trobe University delivered a Dossier and Report on Tissue Culture of Cannabis which covers elements of lab practices to enable users to undertake explant introduction to tissue culture, maintenance of germplasm and preparation of media to sustain plant growth in vitro. This work stems from the ARC funded Medicinal Agriculture Hub in which Cann is the lead Industry Partner.
- Ongoing implementation of a collaboration between La Trobe University, Spex AI and Cann which establishes a production-level AI imaging capability through translation of research laboratory outputs and data transfer, between La Trobe University and Cann. Image capture, data acquisition and storage, and High-Performance Computing (HPC) systems will be used to capture and manage data for correlation with plant growth and health. It will assist in establishing machine learning and Artificial Intelligence (AI) algorithms to predict disease or plant attributes from images.
- The development of Satipharm formulations containing THC has progressed with the optimisation of formulation dosing for capsules containing THC and the combination of THC and CBD.

Funding
During the half, Cann appointed LAWD as sole agent for a potential sale and leaseback of its Mildura facility. Since then, the Company received expressions of interest, and one term sheet. The terms offered were not considered beneficial to the Company and the sale and leaseback opportunity is no longer being pursued at this current time.

Cann also drew down $0.50 million from its short-term debt facility it established with a high net-worth lender. Of this $0.30 million was repaid, and $0.20 million plus interest was converted to fully paid ordinary shares under the short fall placement within the NREO such that this loan was fully settled.

A letter of intent was also received from NAB dated 29 August 2024 confirming that no call will be made on either facility for a period of 13 months to 29 September 2025.

On 13 August the Company received a non-binding term sheet from a financier for a $3 million convertible note facility, which was subsequently increased to $5 million on 30 September 2024. The Company did not proceed with this offer.

Cann received an advance of $1 million from Endpoints Capital Pty Limited (Endpoints), providing early access to the Company's expected Research and Development Tax Incentive for FY2024 of $1.965 million (R&D Refund). This loan was repaid (together with $0.04 million of interest and costs) upon receipt of the Company's R&D Refund on 1 October 2024.

On 7 October 2024, the Company announced a non-renounceable entitlement offer to raise a maximum of $6.25 million. At the closing date of 25 November 2024, the Company raised $2.025 million (before costs). The Company is now pursuing a placement of the shortfall (~$4 million), led by its appointed broker, Alpine Capital.

Board and Management Changes

On 14 August 2024, Mr Tony Di Pietro resigned as Chief Financial Officer (CFO) and Company Secretary, with Cann Group's Head of Legal and Regulatory Affairs, Mr Steven Notaro, taking sole responsibility for the Company Secretary role.

Significant changes in the state of affairs
Fully paid ordinary shares issued during the half year

During the half year, the Company issued 90.24 million (16.8%) fully paid ordinary shares, as follows:
- 50.72 million on 2 December 2024 pursuant to a non-renounceable rights issue.
- 33.84 million to Obsidian pursuant to a convertible securities agreement announced on 21 November 2023.
- 5.68 million to a private, short-term lender pursuant to the settlement of a short-term funding arrangement.

Bank Facilities

On 27 November 2024, the Company announced it had requested its major financier, National Australia Bank (NAB) to defer three quarters of interest payments and extend maturity dates for its loans. A total of $0.88 million of finance costs had been capitalised to the Company's construction loan, as agreed by National Australia Bank (NAB) in the half. On 11 February 2025, the Company announced that NAB had agreed to defer two quarters of interest payments to 31 May 2025, totalling approximately $1.8m, for the Company's construction loan. The maturity dates for its loans were also extended from 31 May 2025 to 30 September 2025. The next quarterly interest payment for the construction loan will now be due in August 2025. Furthermore, the Directors expect that NAB will not intend to call upon the principal repayments until after 28 February 2026.

Dividends
No dividend has been proposed or paid during the half year period ended 31 December 2024.

Rounding of amounts
The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the Directors

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28 February 2025

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

As lead auditor for the review of Cann Group Limited for the half-year ended 31 December 2024, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Cann Group Limited.

ROBIN KING HENG LI CA RCA
DIRECTOR
CONNECT NATIONAL AUDIT PTY LTD
Authorised Audit Company No. 521888
28 February 2025

Cann Group Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2024

	Note	31 December 2024 $'000	31 December 2023 $'000
Revenue		6,467	8,487
Other income	3	-	2,563
Total revenue		6,467	11,050
Expenses			
Administration and corporate costs		(1,898)	(5,009)
Direct production costs		(3,419)	(5,016)
Employee costs		(5,123)	(7,027)
Research and development costs		(92)	(380)
Depreciation and amortisation expense		(3,763)	(5,698)
Total expenses		(14,295)	(23,130)
Loss before finance costs and income tax expense		(7,828)	(12,080)
Finance costs		(2,870)	(2,258)
Loss before income tax expense		(10,698)	(14,338)
Income tax expense		-	-
Loss after income tax expense for the half-year		(10,698)	(14,338)
Other comprehensive loss			
Items that may not be reclassified subsequently to profit or loss			
Movement in foreign currency translation reserve		(193)	(9)
Other comprehensive loss for the half-year, net of tax		(193)	(9)
Total comprehensive loss for the half-year		(10,891)	(14,347)
		Cents	**Cents**
Basic earnings per share	12	(2.23)	(3.40)
Diluted earnings per share	12	(2.23)	(3.40)

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

Cann Group Limited
Consolidated statement of financial position
As at 31 December 2024

CANN GROUP LIMITED

	Note	31 December 2024 $'000	30 June 2024 $'000
Assets			
Current assets			
Cash and cash equivalents		60	1,640
Trade and other receivables		2,154	4,084
Prepayments		1,014	347
Inventories		7,910	8,505
Biological assets		1,048	1,684
Total current assets		12,186	16,260
Non-current assets			
Property, plant and equipment	4	72,744	76,444
Intangibles		21	36
Financial assets at fair value through profit or loss		18	31
Total non-current assets		72,783	76,511
Total assets		84,969	92,771
Liabilities			
Current liabilities			
Trade and other payables		5,484	5,437
Contract liabilities		131	176
Employee entitlements		477	587
Borrowings	5	70,735	69,625
Convertible notes	6	1,277	2,420
Total current liabilities		78,104	78,245
Non-current liabilities			
Employee entitlements		196	184
Borrowings	5	347	421
Total non-current liabilities		543	605
Total liabilities		78,647	78,850
Net assets		6,322	13,921
Equity			
Issued capital	7	186,160	182,899
Reserves	8	332	494
Accumulated losses		(180,170)	(169,472)
Total equity		6,322	13,921

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

	Issued capital $'000	Share based payments reserve $'000	Convertible note reserve $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2023	177,368	262	-	(139)	(118,230)	59,261
Loss after income tax expense for the half-year	-	-	-	-	(14,338)	(14,338)
Other comprehensive loss for the half-year, net of tax	-	-	-	(9)	-	(9)
Total comprehensive loss for the half-year	-	-	-	(9)	(14,338)	(14,347)
Transactions with owners in their capacity as owners:						
Issue of shares related to capital raise	4,457	-	-	-	-	4,457
Issue of shares related to services	82	-	-	-	-	82
Issue of placement and commitment shares	768	-	-	-	-	768
Issue of options to Convertible Note holders	-	-	80	-	-	80
Less: transaction costs	(291)	-	-	-	-	(291)
Share-based payments	-	299	-	-	-	299
Transfer - expiry of options	-	(95)	-	-	95	-
Balance at 31 December 2023	182,384	466	80	(148)	(132,473)	50,309

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

CANN GROUP LIMITED

	Issued capital $'000	Share based payments reserve $'000	Convertible note reserve $'000	Foreign currency translation reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2024	182,899	438	80	(24)	(169,472)	13,921
Loss after income tax expense for the half-year	-	-	-	-	(10,698)	(10,698)
Other comprehensive loss for the half-year, net of tax	-	-	-	(193)	-	(193)
Total comprehensive loss for the half-year	-	-	-	(193)	(10,698)	(10,891)
Transactions with owners in their capacity as owners:						
Issue of shares relating to capital raise (note 7)	2,256	-	-	-	-	2,256
Vesting charge for share-based payments (note 8)	-	31	-	-	-	31
Issue of shares on conversion of convertible notes (note 6)	1,082	-	-	-	-	1,082
Transaction costs associated with issuing equity	(77)	-	-	-	-	(77)
Balance at 31 December 2024	186,160	469	80	(217)	(180,170)	6,322

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

Cann Group Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2024

CANN GROUP LIMITED

	Note	31 December 2024 $'000	31 December 2023 $'000
Cash flows from operating activities			
Receipts from customers		7,155	10,175
Payments to suppliers and employees		(11,061)	(19,732)
Interest received		-	18
Other income - R&D tax incentive rebate		1,965	3,468
Interest and other finance costs paid		(2,595)	-
Net cash used in operating activities		(4,536)	(6,071)
Cash flows from investing activities			
Payments for property, plant and equipment	4	(68)	(2,325)
Net cash used in investing activities		(68)	(2,325)
Cash flows from financing activities			
Proceeds from issue of shares	7	2,029	4,457
Proceeds from borrowings		2,690	15,658
Share issue transaction costs		(77)	(304)
Repayment of borrowings		(1,618)	(10,543)
Net cash from financing activities		3,024	9,268
Net increase/(decrease) in cash and cash equivalents		(1,580)	872
Cash and cash equivalents at the beginning of the financial half-year		1,640	764
Cash and cash equivalents at the end of the financial half-year		60	1,636

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

Note 1. Material accounting policy information

These general purpose financial statements for the interim half-year reporting period ended 31 December 2024 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

This financial report does not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2024 and any public announcements made by Cann Group Limited and its controlled entities during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the Australian Securities Exchange Listing Rule 3.1.

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of the financial assets and liabilities at fair value through the profit and loss.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

Rounding of amounts
The Group is of a kind referred to in Corporation instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to "rounding off". Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New or amended Accounting Standards and Interpretation adopted
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of The Group's annual consolidated financial statements for the year ended 30 June 2024. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Research and development tax refund
The Group has a dedicated research facility which is used for all the research and development activities in conjunction with all the other research and development activities carried out with other research partners. Expenses on all the research and development activities are claimed back by the Group by filing an annual return with the government under the Income Tax Act 1997. The research and development tax refund is recognised as income in the books when it is received or the right to receive the incentive is certain.

New or amended Accounting Standards and Interpretations adopted
The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Going concern
The Consolidated Group has incurred losses for the half year ended 31 December 2024 of $10.70 million (31 December 2023: $14.34 million) and has a net cash outflow from operating activities of $4.54 million (31 December 2023: $6.07 million) these events or conditions could indicate a material uncertainty which may cast doubt as to whether the Group will continue as a going concern.

The Directors believe there are reasonable grounds to expect the Group will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report, despite a material uncertainty existing as at 31 December 2024, and therefore continue as a going concern, after consideration of a range of factors, not limited to, but including the following:

- The Company had $317,785 in cash and cash equivalents and borrowings available to it on 27 February 2025 and expects to receive a further $185,702 from Trade Receivables by close of business on the 28 February 2025.

- On 27 February 2025, the Company formally agreed to draw down $750,000 (‘special purchase’) on its Convertible Note facility with Obsidian Global GP, LLC with $150,000 to be received no later than 28 February 2025 and the remainder of $600,000 to be received within five business days of the Second Special Purchase Prospect being lodged, which is expected in the month to 31 March 2025. This facility still has a further $12,250,000 available, noting that any further drawdowns are subject to the lender’s agreement at the

CANN GROUP LIMITED

Note 1. Material accounting policy information (continued)

relevant time. The draw down has a term of 18 months to maturity. It is expected that the remaining Convertible Notes outstanding from the 27 November 2023 draw down will be converted into equity in the period to maturity being 27 May 2025.

- On 11 February 2025, the Company announced its major financier, National Australia Bank (NAB) had agreed to defer a further two quarters of interest payments, due approximately on 22 February 2025 and 22 May 2025, totalling approximately $1,800,000, for the Company's construction loan. The next quarterly interest payment will be due on this loan on or around 22 August 2025. This arrangement is in the process of being formally documented.

- NAB have also agreed to the maturity dates for its working capital facility and construction loan to be extended from 31 May 2025 to 30 September 2025. This arrangement is in the process of being formally documented. Furthermore, the Directors expect that NAB will continue to provide support to the Company beyond this expiry date.

- The Company is the process of obtaining a loan secured against its R&D Tax Credit for FY 2025 as it did for the FY2024 credit. The Company expects to borrow approximately $800,000 as a first tranche in March 2025 and $600,000 as a second tranche in June 2025. The loan is expected to be subject to an interest rate of 16% and is repayable on receipt of the proceeds from the Company's actual lodgement, expected sometime in September or October 2025.

- The Company remains focused on ensuring a consistent supply of its Botanitech range of products to Australian patients through its network of distributors and consignees. A comprehensive review of the Botanitech flower portfolio has been completed to align with market demands for 2025. Pending the commercial viability of R&D cultivar assessments from the Mildura facility, new and refined products will be introduced to patients throughout the coming year which is expected to lead to revenue growth from an approximate May 2025 launch date. Additional product formats are also being evaluated to further diversify the portfolio and capitalise on the growing customer demand for Botanitech.

- The Company continues to extract efficiencies in its production process at its regional cultivation facility near Mildura. For example, the multi-head filler plant has enhanced production efficiency so that product can be delivered at a faster rate to the market, new techniques are being tested in the bucking and trimming area which have already since strong double digit increased in output, and hang drying continues to be superior to tray drying on many levels. The Company expects to derive cost benefits from the use of these new techniques in its Mildura facility.

The Directors have prepared cash flow forecasts that indicate that the Consolidated Group will have sufficient cash flows to meet its commitments for a period of at least 12 months from the date of this report. These forecasts assume the above-mentioned financings are secured, and that the Company can execute an extension or a refinancing of its core debt facility.

Based on the cash flow forecast, which include the monitoring of operational costs, the Directors are satisfied that, the going concern basis of preparation is appropriate. The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the settlement of liabilities in the ordinary course of business.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Key judgments - non-recognition of carry forward tax losses
The balance of future income tax benefit estimated to be $1.58 million (30 June 2024 $4.47 million) arising from current half year tax losses of $6.32 million (30 June 2024 $17.86 million) and timing differences has not been recognised as an asset because it is not clear when the losses will be recovered. The cumulative future income tax benefit estimated to be $27.35 million which has not been recognised as an asset, will only be obtained if:

(i) the Group derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised.
(ii) the Group continues to comply with the conditions for deductibility imposed by law; and
(iii) no changes in tax legislation adversely affecting the Company realising the benefit.

Key judgments - recognition of research and development tax incentive benefits
The Group is entitled to claim grant credits from the Australian Government in recompense for its research and development program expenditure. The program is overseen by AusIndustry, which is entitled to audit and/or review claims lodged for the past 4 years. In the event of a negative finding from such an audit or review AusIndustry has the right to rescind and clawback those prior claims, potentially with penalties. Such a finding may occur in the event that those expenditures do not appropriately qualify for the grant program. In their estimation, considering also the independent external expertise they have contracted to draft and claim such expenditures, the directors of the Company consider that such a negative review has a remote likelihood of occurring.

At the half year, no asset has been recognised in respect of the research and development tax incentive arising from the operations of the Group. It is likely that an asset will be recognised at the full financial year end as at 30 June 2025. The research and development tax incentive will only be obtained if:

i) the Group's activities fulfill the eligibility criteria of the research and development tax initiative, and it is successful in registering for the research and development tax incentive;

ii) the Group continues to comply with the conditions for registration of the research and development tax initiative imposed by law, and:

iii) no changes in tax legislation occur that adversely affect the Group realising the tax incentive from research and development.

Key judgements - provision for write down of inventories
The provision for the write down of inventories assessment requires a degree of estimation and judgement. The level of the write down is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Key judgments - impairment of property, plant and equipment
The Group assesses impairment of property, plant and equipment at each reporting date by evaluating conditions specific to the Group 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 fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Fair value measurement hierarchy
The Group is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

CANN GROUP LIMITED

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

When borrowings have conversion clauses that entitle the investor to a variable number of shares, at initial recognition an embedded derivative is recognised separately on the statement of financial position at fair value and thereafter is recognised at fair value with changes in fair value taken to the profit or loss. The underlying host contract is separated from the embedded derivative at initial recognition and thereafter measured at amortised cost, using the effective interest method.

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.

Convertible notes

The Group has convertible notes (CN) on issue at the reporting date, including the CN host debt and the CN embedded derivate. The determination of the fair value of the host debt and embedded derivative is based on certain assumptions, including but not limited to the expected execution of the conversion elements of the CNs, the Company’s share price used to calculate the daily volume weighted average prices (VWAPs) during the 15 trading days prior to maturity, volatility and those macroeconomic factors which influence the aforementioned inputs

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group 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 fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's results are regularly reviewed by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

The Group operates in one operational sector and has identified only one reportable segment being cultivation of medicinal cannabis and further processing into manufactured medicinal cannabis products, as well as the corporate office. The majority of the Group's assets are held within Australia.

Note 3. Other income

	31 December 2024 $'000	31 December 2023 $'000
Net fair value gain/(loss) on financial assets	-	(19)
Research and development tax incentive	-	29
Interest income	-	16
Gain on sale of Southern Facility	-	1,734
Other	-	803
Other income	-	2,563

There was a net fair value (loss) of $0.01m on financial instruments held by the Group. This has been recognised in Administrative and Corporate costs for the half year.

The R&D tax rebate was recoverable on all eligible research and development expenses incurred during the period 1 July 2022 to 30 June 2023. An accrual to June 2023 was raised in FY23 after a review was conducted by the Company's independent tax specialists. The amount recognised in the previous period represents the additional amount received against the accrual that was raised in the prior financial year.

A gain on sale of the Southern facility business assets was recognised in December 2023.

Note 4. Property, plant and equipment

	31 December 2024 $'000	30 June 2024 $'000
Non-current assets		
Land and buildings - at cost	77,056	77,096
Less: Accumulated depreciation	(8,569)	(7,330)
Less: Impairment	(14,730)	(14,730)
	53,757	55,036
Freehold improvements - at cost	475	438
Less: Accumulated depreciation	(390)	(355)
	85	83
Plant and equipment - at cost	41,461	40,982
Less: Accumulated depreciation	(17,743)	(15,426)
Less: Impairment	(5,396)	(5,396)
	18,322	20,160
Fixtures and fittings - at cost	894	894
Less: Accumulated depreciation	(474)	(407)
	420	487
Computer equipment - at cost	582	582
Less: Accumulated depreciation	(518)	(435)
	64	147
Capital work in progress	96	531
	72,744	76,444

CANN GROUP LIMITED

Note 4. Property, plant and equipment (continued)

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

	Land and Buildings $'000	Freehold improvements $'000	Plant and equipment $'000	Fixtures and fittings $'000	Computer equipment $'000	Capital work in progress $'000	Total $'000
Balance at 1 July 2024	55,036	82	20,160	487	148	531	76,444
Additions	-	-	-	-	-	82	82
Disposals	(33)	-	-	-	-	-	(33)
Transfers in/(out)	-	37	479	-	-	(517)	(1)
Depreciation expense	(1,246)	(35)	(2,317)	(67)	(83)	-	(3,748)
Balance at 31 December 2024	53,757	84	18,322	420	65	96	72,744

During the period $0.52 million was reclassified from CWIP to Intangibles.

Note 5. Borrowings

	31 December 2024 $'000	**30 June 2024 $'000**
Current liabilities		
NAB Working Capital facility	15,257	14,945
NAB Construction facility	50,278	49,400
Short term loans	5,065	5,150
Chattel mortgages	135	130
	70,735	69,625
Non-current liabilities		
Chattel mortgages	347	421

Note 5. Borrowings (continued)

Working Capital Facility

In April 2022 Cann executed documentation to enter into a $15.60 million working capital facility with the National Australia Bank. The working capital facility has been used by Cann to support the scale up of the business and the next phase of its long-term growth strategy.

The working capital facility had an initial period with review on 30 November 2022 and thereafter it will be reviewed on rolling 12-month periods. The last review was done in November 2023 at which point it was extended to 31 May 2025. This facility has a drawn margin rate of 6.7837% pa and a facility fee of 0.35% pa and it is a secured facility.

The Working Capital facility is cross-collateralised and co-defaulting with the Construction facility. As at 31 December 2024 the facility had been drawn down by $15.26 million leaving an undrawn balance of $0.34 million.

Construction Facility

The Construction facility was renegotiated in April 2022 after the commissioning of the Mildura facility. Key terms of this facility include a base interest rate of the BBSY and a drawn margin rate of 7.1129%. A facility fee of 0.35% pa is also applicable. As at 31 December 2024 the facility had been fully drawn down to $50.28 million. This includes $0.88 million of capitalised interest in relation to the quarter ending 30 November 2024. Quarterly repayments of the principal loan amounts have been extended from 31 May 2024 to 31 May 2025 and, subsequent to the half year, to 30 September 2025.

Short-term Loans

On 7 May 2024 Cann executed a facility agreement with a prominent Australian private credit fund to provide a secured debt facility of $5.00 million. The full $5.00 million was drawn in one lump sum. The principal is subject to 15% interest per annum, payable monthly in arrears and the facility date has a maturity date of 7 May 2025. The facility is secured over Cann's Mildura property as a second mortgage behind the National Australia Bank. In addition to the monthly interest, the Facility has upfront fees of 3% of the principal, $0.07 million work free and a 1% broker fee together with customary legal costs.

On 31 October 2024, Cann entered into a short-term finance arrangement with a local lender to fund its insurance obligations. The initial balance payable was $0.08 million payable monthly in arrears until 31 July 2025. The balance outstanding at 31 December 2024 was $0.07 million.

Note 6. Convertible notes

Carrying amount of convertible notes	**31 December 2024 $'000**	**30 June 2024 $'000**
Convertible note - host liability at amortised cost	1,277	2,359
Convertible note - fair value of embedded derivative	-	61
Carrying amount at 31 December 2024	1,277	2,420
	1,277	2,420

	31 December 2024 $'000	**30 June 2024 $'000**
Current liabilities		
Other current liabilities	1,277	2,420

Note 6. Convertible notes (continued)

Reconciliation of movements in convertible notes:

	31 December 2024 $'000	30 June 2024 $'000
Proceeds received on issue	2,000	2,000
Cost of issuance of Convertible Notes	(351)	(351)
Equity instruments issued	(555)	(555)
Amortisation	1,780	1,841
Conversion into equity	(1,597)	(515)
	1,277	2,420

On 21 November 2023, the Company entered into a funding arrangement through an unsecured Convertible Note with Obsidian Global GP, LLC (‘Noteholder’). The funding arrangement has an aggregate limit of up to $15 million.

On 27 November 2023, the Company issued 1,322,200 Convertible Notes to Obsidian Global GP, LLC at a face value of US$1.15 per convertible note as at 27 November 2023, in respect of which the Company received $2 million gross proceeds at the time of issue.

The facility has a limit of $15 million and maturity date of 18 months after the execution date, being 27 May 2025. It is expected that the remaining Convertible Notes be converted to equity from the period end date to maturity. As at 31 December 2024, the facility has an undrawn facility amount of $13 million with subsequent draw down tranches being permitted 90 days immediately after the previous tranche drown and the maximum amount of each subsequent purchase to not exceed $3 million. Any subsequent tranche draw down up to a maximum of four (4) tranches is to be agreed by mutual agreement between Cann Group and the Noteholder, subject to Cann Group maintaining a market capitalisation of at least $35 million and unless mutually agreed by way of special issue.

Upon issue of the Convertible Notes (Notes), the Company also issued 985,286 Commitment shares and 3,333,333 Placement shares for the purpose of incentivising the Noteholder into the transaction. The Commitment shares issued to the note holder were assessed at a fair value of $0.10 million and the Placement shares were assessed at a fair value of $0.40 million.

As per the Convertible Note agreement, along with the entitlement for conversion of Notes into fully paid ordinary shares, the Noteholder was also issued 6,735,867 share options over fully paid ordinary shares, which are yet to be exercised as at 31 December 2024. The arrangement was valued using the Binomial model, with the fair value on grant date being $0.08 million. The options issued over fully paid ordinary shares had a $0.225 exercise price and expire on 24 April 2026.

The 6.74 million noteholder options are included in the convertible note reserve.

The options had the following valuation model inputs to determine the fair value at grant date:

Grant Date	Expiry Date	Share Price at Grant Date	Exercise Price	Expected Volatility %	Dividend Yield %	Risk-Free Interest Rate %	Fair Value at Grant Date
27/11/2023	27/05/2025	$0.110	$0.225	61.900%	-	4.155%	$0.012

Note 6. Convertible notes (continued)

Whereby, the drawn down amount becomes due and payable, or the Noteholder at their discretion at any time prior to the maturity date, may elect to convert the convertible notes into shares. The convertible notes can be converted into shares on the following terms being the lesser of:

(a) 92% of the average of the 3 lowest daily VWAPs during the 15 Actual Trading Days prior to the relevant Conversion Notice Date, rounded down to the lowest $0.001; and

(b) The fixed conversion price.

Where the maximum number of shares that can be issued without shareholder approval is 40 million and the fixed conversion price is defined as $0.1998.

As a result of the above, a conversion option exists which has resulted in an embedded derivative being recognised on initial recognition of the convertible notes in the financial statements of $0, due to the convertible feature being considerably out of the money at execution date. There is an FX embedded derivative on initial recognition of $0.06 million, on account of the face value being US$1.15, and the drawdown amount being $2.00 million having been recognised. The valuation of the embedded derivatives at initial recognition were performed by an external valuation expert. The FX embedded derivative has not been revalued on the grounds of materiality.

The convertible notes are unsecured.

Further to the above, should Cann Group undertake a fund raising in excess of $2.50 million prior to the maturity date, the Noteholder may elect to require the Company to apply up to 20% of those funds to redeem Convertible Notes on issue.

Further to the above, 6,735,867 share options were issued to the lead broker, EverBlu Capital, as payment for their services in arrangement of the convertible note. The fair value of 6,735,867 options issued to the lead broker was $0.08 million. This cost was recognised in the share-based payment reserve. Further to this, the Group incurred the following:

- a cash fee of $0.12 million paid to the lead broker, being 6% of the initial $2.00 million drawn down, and
- 2,662,938 ordinary shares were issued to the lead broker, EverBlu Capital, for a fair value of $0.29 million as payment for their services.

Valuation methodology applied in valuing Convertible Notes

Upon issue of the Convertible Notes in November 2023, the Group utilised an external valuation expert to value the Convertible Notes including the issued share options using the Binomial Option Pricing. The FX embedded derivative was valued using market observed pricing to determine the fair value.

Significant unobservable inputs in applying this technique include the Company's future share price, exercise price, expiry date and volatility used to calculate the 5 lowest daily volume weighted average prices (VWAPs) during the 20 trading days prior to maturity.

A Binomial Option Pricing valuation methodology has been used to determine the value of the Options issued to the Noteholder and Lead Broker and the spot price used in valuing the Placement Shares, Commitment Shares & Lead Broker Shares.

The Directors of the Company appointed an external valuation expert to perform a fair value valuation on the Convertible Notes and the related embedded derivatives at inception.

In fair valuing the host liability as at inception, an effective interest rate of 78% was applied which reflects the short-term nature and costs associated with issuance of the Convertible Notes.

As at 31 December 2024 the Group has no liabilities where the fair value measurement is based on quoted prices in active markets (Level 1 hierarchy) or significant unobservable inputs (Level 2 hierarchy). As at 31 December 2024 the fair value of the embedded derivative is measured using significant unobservable inputs (Level 3 hierarchy). There has been no change in the Group's valuation process, valuation techniques and types of inputs used in the fair value measurement at the end of the reporting period in comparison to the methodology upon inception. There have been no transfers between levels of fair value hierarchy during the period ended 31 December 2024.

CANN GROUP LIMITED

Note 6. Convertible notes (continued)

Refer to note 9 for further information on financial instruments including significant unobservable inputs (Level 3 hierarchy).

Event of Default

On 1 March 2024 ("Default Date") the Group triggered an Event of Default due to its suspension from trading on the ASX. This triggered an increase in the Notes' face value by 10% (US$1.15 to US$1.265), default conversion price and default interest clause of the facility. The additional interest to reflect the higher discount rate has been adjusted for in the financial statements.

Following the Event of Default, interest shall be payable on the Convertible Notes at a rate of 15% per annum which shall accrue daily and shall be compounded monthly from the date of the Event of Default until the Company discharges the amount outstanding in full.

Additionally following the Event of Default, the conversion price will change to the lesser of the premium conversion price and 80% of the lowest daily VWAP during the 10 actual days prior to the conversion date.

Due to the fact that the Convertible Note is now repayable on demand and the embedded derivative considered immaterial, management have made an assessment to fully amortise the liability as at 31 December 2024, to better reflect the possible immediate repayment that could be called upon, subsequent to the default event.

Conversions

As at 31 December 2024, 635,237 notes have been redeemed for the issue of 46,431,152 ordinary shares. Shares issued in the Half Year are as detailed in note 7.

Note 7. Issued capital

	31 December 2024 Shares	30 June 2024 Shares	31 December 2024 $'000	30 June 2024 $'000
Ordinary shares - fully paid	536,086,077	445,846,142	186,160	182,899

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2024	445,846,142		182,899
Shares issued under conversion of Convertible Notes	4 July 2024	6,379,543	$0.02	178
Shares issued under conversion of Convertible Notes	15 July 2024	15,050,476	$0.02	428
Shares issued under conversion of Convertible Notes	9 September 2024	1,660,322	$0.03	60
Shares issued under conversion of Convertible Notes	8 November 2024	10,749,762	$0.03	416
Shares issued under non-renounceable rights issue	2 December 2024	50,724,489	$0.04	2,029
Transaction costs associated with issuing equity		-	$0.00	(77)
Shares issued for repayment of short-term loan	6 December 2024	5,675,343	$0.04	227
Balance	31 December 2024	536,086,077		186,160

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.

Note 7. Issued capital (continued)

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.

Share buy-back
There is no current on-market share buy-back.

Note 8. Reserves

	31 December 2024 $'000	30 June 2024 $'000
Foreign currency reserve	(218)	(24)
Share-based payments reserve	470	438
Convertible note reserve	80	80
	332	494

The increase the share-based payments reserve is due to vesting charges from performance rights issued in the prior period.

Note 9. Fair value measurement

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

31 December 2024	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Ordinary shares	18	-	-	18
Total assets	18	-	-	18
Liabilities				
Convertible notes - embedded derivative	-	-	80	80
Total liabilities	-	-	80	80

30 June 2024	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Ordinary shares	31	-	-	31
Total assets	31	-	-	31
Liabilities				
Convertible notes - embedded derivative	-	-	61	61
Total liabilities	-	-	61	61

Note 9. Fair value measurement (continued)

During the period to 31 December 2024, the fair value of the convertible note derivatives was unchanged.

The embedded derivative financial instrument has been valued using available market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

The sensitivity analysis undertaken on the unobservable inputs identified no material impact to the valuation at 31 December 2024.

There were no transfers between levels during the financial period.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Level 3 assets and liabilities
Accounting policy for 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.

Note 10. Contingent liabilities and Capital Commitments

The Group does not have any contingent liabilities at 31 December 2024.

Note 11. Events after the reporting period

On 11 February 2025, the Company announced its major financier, National Australia Bank (NAB) had agreed to defer two quarters of interest payments to 31 May 2025, totalling approximately $1.8m, for the Company's construction loan. The maturity dates for its loans were also extended from 31 May 2025 to 30 September 2025. The next quarterly interest payment for the construction loan will now be due in August 2025. Furthermore, the Directors expect that NAB will not intend to call upon the principal repayments until after 28 February 2026.

On 10 February 2025, Dr Julian Chick resigned as Chairman of the Company and will act in a handover capacity for three months. Mr Doug Rathbone has filled the role of interim Chairman whilst the Company finds a replacement.

Note 12. Earnings per share

	31 December 2024 $'000	31 December 2023 $'000
Loss after income tax	(10,698)	(14,338)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	478,972,354	421,144,668
Weighted average number of ordinary shares used in calculating diluted earnings per share	478,972,354	421,144,668
	Cents	**Cents**
Basic earnings per share	(2.23)	(3.40)
Diluted earnings per share	(2.23)	(3.40)

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2024 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the Directors

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28 February 2025

Independent Auditor's Review Report

To the members of CANN Group Limited and its controlled entities

Report on the Half-year Financial Report

Conclusion

We have reviewed the accompanying Half-year Financial Report of CANN Group Limited and its controlled entities ("Group") . Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Group is not in accordance with the Corporations Act 2001, including:

- Giving a true and fair view of the group's financial position as at 31 December 2024 and of its performance for the Half-year ended on that date; and
- Complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

The Half-year Financial Report comprises:

- Consolidated statement of financial position as at 31 December 2024;
- Consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the Half-year ended on that date;
- Notes 1 to 12 comprising a summary of material accounting policies and other explanatory information; and
- The Directors' Declaration.

Basis for Conclusion

We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of the Financial Report performed by the Independent Auditor of the Entity. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Half-year Financial Report section of our report. We are independent of the group in accordance with the auditor independence requirements of 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 (including Independence Standards) (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the corporations Act 2001 which has been given to the directors of the company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Emphasis of Matter - Material uncertainty related to going concern

We draw attention to Note 1 of the financial report which notes that the Consolidated Group has incurred losses for the half year ended 31 December 2024 of $10.70 million (31 December 2023: $14.34 million) and has a net cash outflow from operating activities of $4.54 million (31 December 2023: $6.07 million) these events or conditions could indicate a material uncertainty which may cast doubt as to whether the Group will continue as a going concern.

The Directors believe there are reasonable grounds to expect the Group will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report, despite a material uncertainty existing as at 31 December 2024, and therefore continue as a going concern, after consideration of a range of factors, not limited to, but including the following:

- The Company had $317,785 in cash and cash equivalents and borrowings available to it on 27 February 2025 and expects to receive a further $185,702 from Trade Receivables by close of business on the 28 February 2025.

- On 27 February 2025, the Company formally agreed to draw down $750,000 ('special purchase') on its Convertible Note facility with Obsidian Global GP, LLC with $150,000 to be received no later than 28 February 2025 and the remainder of $600,000 to be received within five business days of the Second Special Purchase Prospect being lodged, which is expected in the month to 31 March 2025. This facility still has a further $12,250,000 available, noting that any further drawdowns are subject to the lender's agreement at the relevant time. The draw down is subject to an interest rate of 15% per annum and has a term of 18 months to maturity. It is expected that the remaining Convertible Notes outstanding from the 27 November 2023 draw down will be converted into equity in the period to maturity being 27 May 2025.

- On 11 February 2025, the Company announced its major financier, National Australia Bank (NAB) had agreed to defer a further two quarters of interest payments, due approximately on 22 February 2025 and 22 to 31 May 2025, totalling approximately $1,800,000, for the Company's construction loan. The next quarterly interest payment will be due on this loan on or around 22 August 2025. This arrangement is in the process of being formally documented.

- NAB have also agreed to the maturity dates for its working capital facility and construction loan to be extended from 31 May 2025 to 30 September 2025. This arrangement is in the process of being formally documented. Furthermore, the Directors expect that NAB will continue to provide support to the Company beyond this expiry date.

- The Company is the process of obtaining a loan secured against its R&D Tax Credit for FY 2025 as it did for the FY2024 credit. The Company expects to borrow approximately $800,000 as a first tranche in March 2025 and $600,000 as a second tranche in June 2025. The loan is expected to be subject to an interest rate of 16% and is repayable on receipt of the proceeds from the Company's actual lodgement, expected sometime in September or October 2025.

- The Company remains focused on ensuring a consistent supply of its Botanitech range of products to Australian patients through its network of distributors and consignees. A comprehensive review of the Botanitech flower portfolio has been completed to align with market demands for 2025. Pending the commercial viability of R&D cultivar assessments from the Mildura facility, new and refined products will be introduced to patients throughout the coming year which is expected to lead to revenue growth from an approximate May 2025 launch date. Additional product formats are also being evaluated to further diversify the portfolio and capitalise on the growing customer demand for Botanitech.

- The Company continues to extract efficiencies in its production process at its regional cultivation facility near Mildura. For example, the multi-head filler plant has enhanced production efficiency so that product can be delivered at a faster rate to the market, new techniques are being tested in the bucking and trimming area which have already since strong double digit increased in output, and hang drying continues to be superior to tray drying on many levels. The Company expects to derive cost benefits from the use of these new techniques in its Mildura facility.

The Directors have prepared cash flow forecasts that indicate that the Consolidated Group will have sufficient cash flows to meet its commitments for a period of at least 12 months from the date of this report. These forecasts assume the above-mentioned financings are secured, and that the Company can execute an extension or a refinancing of its core debt facility.

Based on the cash flow forecast, which include the monitoring of operational costs, the Directors are satisfied that, the going concern basis of preparation is appropriate. The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the settlement of liabilities in the ordinary course of business.

As stated in note no 1, these events or conditions, along with other matters detailed in the note, indicate the existence of material uncertainty. If these events or conditions are not completed, and within the timeframes forecast, whether the Group is able to continue as a going concern and therefore realise its assets and settle its liabilities in the ordinary course of business is uncertain. Our opinion is not modified in respect of this matter."

Other Matters
The financial report of CANN Group Limited, for the half-year ended 31 December 2023 and year ended 30 June 2024, was reviewed/audited by another auditor, who expressed a modified opinion on the going concern in the half-year report and an unqualified opinion on the annual report on 29 February 2024 and 30 August 2024, respectively.

Responsibilities of the Directors for the Half-year Financial Report
The Directors of the Company are responsible for:

- The preparation of the Half-year Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and Corporations Act 2001

- For such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the group's financial position as at 31 December 2024 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Connect National Audit

CONNECT NATIONAL AUDIT PTY LTD
Authorised Audit Company No. 521888

ROBIN KING HENG LI CA RCA
DIRECTOR
28 February 2025