

## 1. Company details

Name of entity:	Cann Group Limited
ABN:	25 603 949 739
Reporting period:	For the year ended 30 June 2025
Previous period:	For the year ended 30 June 2024

## 2. Results for announcement to the market

	30 June 2025 \$'000	30 June 2024 \$'000	Change \$'000	Change %
Revenue and other income from ordinary activities	13,253	19,074	(5,821)	(31%)
Net (loss) from ordinary activities after tax attributable to members	(22,345)	(51,242)	28,897	56%
Net (loss) attributable to members	(22,345)	(51,242)	28,897	56%
Dividends	n/a	n/a	n/a	n/a

*Explanatory information*

## Review of operations

### Key financial metrics

	30 June 2025	30 June 2024	change
Revenue from operations	11.30m	15.37m	-26%
Other income	1.95m	3.70m	-47%
Operating expenses	18.28m	28.00m	-35%
EBITDA (normalised)	(5.03m)	(8.93m)	-44%*
Write down of inventory	3.89m	4.33m	-10%
Impairment of property, plant and equipment	-	20.13m	n/a
Loss after providing for income tax	22.35m	51.24m	-56%*
Net assets / (liabilities)	(2.77m)	13.92m	(\$16.69m)
Basic and diluted loss per share	4.2 cents	11.9 cents	-65%*

\*Indicates positive improvement to loss position

### Financial performance

Normalised Earnings before interest, tax, depreciation, and amortisation (EBITDA) (excluding loss on fair value changes) improved by \$3.90 million (44%) compared to the prior corresponding period (PCP), reducing EBITDA (normalised) to -\$5.03 million. This improvement is largely due to effective cost management, with operating costs down 31%, a similar rate of reduction.

Loss after tax improved by \$28.90 million (52%) compared to the PCP, reducing the loss to \$22.35 million. The prior year's result was impacted by a \$20.13 million fair value write-down of property, plant, and equipment at the Mildura facility. The current year's improvement also reflects \$9.72 million (31%) in operating expense savings.

### Sales revenue

Sales revenue for the year ended 30 June 2025 decreased by \$4.07 million (27%) to \$11.30 million, down from \$15.37 million in the PCP. The decline was primarily due to a product mix change, with a market shift away from oils toward dried flower products, with oil revenues falling by \$3.43 million (70%). Contract packing services also declined by \$0.98million (83%).

Despite the overall decrease in revenue, dried flower sales continue to show strong growth. Dried flower tonnage sold increased by 30% year-on-year, however, a higher proportion of bulk flower sales in the product mix limited revenue growth, resulting in a 7% uplift in related revenues.

The Group's own-brand Botanitech maintained its positive trajectory, delivering a 17% increase in sales year-on-year, and importantly a 100% increase in the Botanitech dried flower range, as it continues to gain market share.

### Expenditure

Operating expenses were down by \$9.72 million (35%) reflecting the Group's cost management program. Notably, direct production expenses were down \$3.63 million (46%) which is driving a corresponding uptick in gross margins. With lower cost of goods, the Company can be highly competitive with pricing of its products. Employee costs and administration costs were reduced by \$4.32 million (31%).

The unaudited full year results are set out in the accompanying sections below.

### 3. Preliminary consolidated statement of profit or loss and other comprehensive income

	Note	30 June 2025 \$'000	30 June 2024 \$'000
<b>Revenue from customer contracts</b>	1	11,300	15,373
Other income	1	1,953	3,701
<b>Total revenue and other income</b>		<b>13,253</b>	<b>19,074</b>
<b>Expenses</b>			
Administration and corporate costs	2	(3,718)	(5,424)
Direct production costs		(4,217)	(7,847)
Employee costs		(9,596)	(13,913)
Research and development costs		(781)	(755)
Depreciation and amortisation expense		(7,439)	(11,037)
Finance costs		(5,997)	(6,819)
Gain/(Loss) on fair value of investment		33	(64)
Inventory write-down		(3,883)	(4,331)
Impairment of property, plant and equipment		-	(20,126)
<b>Loss before income tax expense</b>		<b>(22,345)</b>	<b>(51,242)</b>
Income tax expense		-	-
<b>Loss after income tax expense for the year</b>		<b>(22,345)</b>	<b>(51,242)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		19	115
Other comprehensive income for the year, net of tax		19	115
<b>Total comprehensive loss for the year</b>		<b>(22,326)</b>	<b>(51,127)</b>
	Note	30 June 2025 Cents	30 June 2024 Cents
Basic loss per share	3	(4.23)	(11.93)
Diluted loss per share	3	(4.23)	(11.93)

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

#### 4. Preliminary consolidated statement of financial position

	Note	30 June 2025 \$'000	30 June 2024 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		10	1,640
Trade and other receivables	4	2,757	4,084
Prepayments		821	347
Inventories	5	4,343	8,505
Biological assets		1,643	1,684
<b>Total current assets</b>		<b>9,574</b>	<b>16,260</b>
<b>Non-current assets</b>			
Property, plant and equipment	6	69,171	76,444
Intangible assets		9	36
Financial assets at fair value through profit or loss		35	31
<b>Total non-current assets</b>		<b>69,215</b>	<b>76,511</b>
<b>Total assets</b>		<b>78,789</b>	<b>92,771</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	7	4,844	5,437
Contract liabilities		326	176
Employee entitlements		374	587
Borrowings	8	74,861	69,625
Convertible notes	9	511	2,420
<b>Total current liabilities</b>		<b>80,916</b>	<b>78,245</b>
<b>Non-current liabilities</b>			
Employee entitlements		180	184
Borrowings	8	286	421
Convertible notes	9	182	-
<b>Total non-current liabilities</b>		<b>648</b>	<b>605</b>
<b>Total liabilities</b>		<b>81,564</b>	<b>78,850</b>
<b>Net assets</b>		<b>(2,775)</b>	<b>13,921</b>
<b>Equity</b>			
Issued capital	10	187,951	182,899
Reserves	11	1,092	494
Accumulated losses		(191,818)	(169,472)
<b>Total equity</b>		<b>(2,775)</b>	<b>13,921</b>

5. Preliminary consolidated statement of cash flows

	Note	30 June 2025 \$'000	30 June 2024 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		11,409	16,334
Payments to suppliers and employees		(19,808)	(30,439)
Other income received		2,246	-
Research and development tax incentive received		1,965	3,468
Interest received		1	17
Interest and other finance costs paid		(5,456)	(4,565)
Net cash used in operating activities	12	(9,643)	(15,185)
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment	6	(157)	(2,505)
Proceeds from disposal of fixed assets			3,680
Net cash from/(used in) investing activities		(157)	1,175
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares net of expenses	10	2,827	4,457
Proceeds from borrowings		6,968	20,985
Net proceeds from convertible notes		750	1,865
Repayment of borrowings		(135)	(12,491)
Repayment of lease liabilities		(2,238)	(45)
Net cash from financing activities		8,172	14,771
Net increase/(decrease) in cash and cash equivalents		(1,628)	761
Cash and cash equivalents at the beginning of the financial year		1,640	765
Effects of exchange rate changes on cash and cash equivalents		(2)	114
Cash and cash equivalents at the end of the financial year		10	1,640

6. Dividends paid or recommended

N/A

7. Details of any Dividend or distribution reinvestment plans

N/A

8. Preliminary consolidated statement of changes in equity

	Issued Capital	Share based payments reserve	Foreign currency translation reserve	Convertible note reserve	Other reserve	Accumulated losses	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2023	177,368	262	(139)	-	-	(118,230)	59,261
Loss after income tax expense for the year	-	-	-	-	-	(51,242)	(51,242)
Other comprehensive income for the year, net of tax	-	-	115	-	-	-	115
Total comprehensive income/(loss) for the year	-	-	115	-	-	(51,242)	(51,127)
<i>Transactions with owners in their capacity as owners:</i>							
Issue of shares relating to capital raise (note 10)	4,457	-	-	-	-	-	4,457
Issue of shares related to services (note 10)	82	-	-	-	-	-	82
Issue of placement and commitment shares (note 10)	768	-	-	-	-	-	768
Issue of shares on conversion of convertible notes (note 10)	515	-	-	-	-	-	515
Transaction costs associated with issuing equity	(291)	-	-	-	-	-	(291)
Vesting charge for share-based payments (note 11)	-	176	-	-	-	-	176
Issue of options to convertible note holders (note 11)	-	-	-	80	-	-	80
Balance at 30 June 2024	182,899	438	(24)	80	-	(169,472)	13,921

**Preliminary consolidated statement of changes in equity (continued)**

	Issued Capital	Share based payments reserve	Foreign currency translation reserve	Convertible note reserve	Other reserve	Accumulated losses	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2024	182,899	438	(24)	80	-	(169,472)	13,921
Loss after income tax expense for the year	-	-	-	-	-	(22,345)	(22,345)
Other comprehensive income for the year, net of tax	-	-	19	-	-	-	19
Total comprehensive income/(loss) for the year	-	-	19	-	-	(22,345)	(22,326)
<i>Transactions with owners in their capacity as owners:</i>							
Shares issued under non-renounceable rights offer (note 10)	2,029	-	-	-	-	-	2,029
Transaction costs associated with issuing equity (note 10)	(77)	-	-	-	-	-	(77)
Shares issued as repayment of short-term loan (note 10)	227	-	-	-	-	-	227
Shares issued on exercise of options issued under NREO (note 10)	-	-	-	-	-	-	-
Issue of shares for convertible notes special purchase (note 10)	105	-	-	-	-	-	105
Issue of placement shares (note 10)	712	-	-	-	-	-	712
Issue of shares on conversion of convertible notes (note 10)	2,056	-	-	-	-	-	2,056
Vesting charge for share-based payments (note 11)	-	82	-	-	-	-	82
Issue of options on issue of share placement (note 11)	-	-	-	-	241	-	241
Issue of options to convertible note holders (note 11)	-	-	-	255	-	-	197
Balance at 30 June 2025	187,951	520	(5)	335	241	(191,817)	(2,775)

**9. Net tangible assets**

	Reporting period \$	Previous period \$
Net tangible assets per ordinary security	0.004	0.031

**10. Changes in controlled entities**

N/A

**11. Details of associates and joint venture entities**

N/A

**12. Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position**

Refer to information contained within the accompanying ASX Announcement.

**13. Foreign entities disclosures**

N/A

**14. Additional information**

Refer to the Notes below, which accompany the financial statements presented in items 3, 4 and 5 above:

	30 June 2025 \$'000	30 June 2024 \$'000
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**Note 1. Revenue and other income**

Research and development tax incentives and other government grants	1,946	2,150
Other income	7	835
Gain on sale of fixed assets	-	716
	<u>1,953</u>	<u>3,701</u>

Revenue from sales of products	11,138	14,023
Revenue from services	162	1,350
	<u>11,300</u>	<u>15,373</u>

**Note 2. Administration and corporate costs**

Other corporate and administration expenses	1,986	3,167
Insurance expenses	1,080	1,182
Legal and consultancy expenses	652	642
Impairment of investment at fair value through profit or loss	-	433
	<u>3,718</u>	<u>5,424</u>

**Note 3. Loss per share**

Loss after income tax	<u>(22,345)</u>	<u>(51,242)</u>
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	30 June 2025 Number	30 June 2024 Number
Weighted average number of ordinary shares used in calculating basic loss per share	<u>528,049,376</u>	<u>429,385,901</u>
Weighted average number of ordinary shares used in calculating diluted loss per share	<u>528,049,376</u>	<u>429,385,901</u>

	Cents	Cents
Basic loss per share	(4.23)	(11.93)
Diluted loss per share	(4.23)	(11.93)

30 June 2025 30 June 2024  
\$'000 \$'000

**Note 4. Trade and other receivables**

*Current assets*

Trade receivables	587	1,607
R&D Tax Incentive Accrual	1,646	2,014
Accrued revenue from consignment sales	524	463
	<u>2,170</u>	<u>2,477</u>
	<u>2,757</u>	<u>4,084</u>
Not overdue	2,266	3,535
0 to 3 months overdue	252	435
3 to 6 months overdue	178	114
Over 6 months overdue	71	-
	<u>2,757</u>	<u>4,084</u>

**Note 5. Inventories**

*Current assets*

Cultivation materials & work in progress	546	304
Finished goods - biomass	2,834	5,466
Finished goods - crude extract resin	-	874
Finished goods - oil	783	1,502
Other inventories	130	148
Finished goods - capsules	50	211
	<u>4,343</u>	<u>8,505</u>

**Note 6. Property, plant and equipment**

*Non-current assets*

Land and buildings - at cost	77,062	77,096
Less: Accumulated depreciation	(9,799)	(7,330)
Less: Impairment	(14,730)	(14,730)
	<u>52,533</u>	<u>55,036</u>
Freehold improvements - at cost	476	438
Less: Accumulated depreciation	(425)	(355)
	<u>51</u>	<u>83</u>
Plant and equipment - at cost	41,561	40,982
Less: Accumulated depreciation	(20,043)	(15,426)
Less: Impairment	(5,396)	(5,396)
	<u>16,122</u>	<u>20,160</u>
Fixtures and fittings - at cost	894	894
Less: Accumulated depreciation	(533)	(407)
	<u>361</u>	<u>487</u>
Computer equipment - at cost	582	582
Less: Accumulated depreciation	(565)	(435)
	<u>17</u>	<u>147</u>
Capital work in progress	85	531
	<u>69,169</u>	<u>76,444</u>

**Note 6. Property, plant and equipment (continued)**

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current financial 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	76,144
Additions	-	-	-	-	-	178	178
Disposals	(34)	-	-	-	-	(7)	(41)
Impairment of assets	-	-	-	-	-	-	-
Write off of assets	-	-	-	-	-	-	-
Transfers in/(out)	-	38	579	-	-	(617)	-
Depreciation expense	(2,469)	(69)	(4,617)	(126)	(131)	-	(7,412)
Balance at 30 June 2025	52,533	51	16,122	361	17	85	69,169

	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 2023	71,952	142	34,172	613	278	239	107,396
Additions	-	-	66	4	34	2,401	2,505
Disposals	(300)	-	(2,154)	(1)	-	(15)	(2,470)
Impairment of assets	(14,730)	-	(5,396)	-	-	-	(20,126)
Write off of assets	-	-	-	-	(19)	(14)	(33)
Transfers in/(out)	1,442	8	626	4	-	(2,080)	-
Depreciation expense	(3,328)	(68)	(7,154)	(133)	(145)	-	(10,828)
Balance at 30 June 2024	55,036	82	20,160	487	148	531	76,444

*Key judgments – impairment of property, plant and equipment*

As at 30 June 2025, due to impairment triggers (eg a reduction in market capitalisation against the net assets of the Group), the Directors conducted a fair valuation assessment on the property, plant and equipment held at the Group's Mildura facility. The valuation approach employed was based upon a discounted cash flow model. The recoverable amount was based on value-in-use.

The total fair valuation of this property, plant and equipment was assessed at \$70.20m (2024: \$75.20m). The valuation was performed on the Mildura site as a CGU. As a result, no impairment of the Mildura site was identified.

In determining this valuation, the following key inputs and assumptions were applied in the discounted cashflow model:

	2026 %	2027 %	2028 %	2029 %	2030 %
Revenue growth	59.53%	29.98%	16.11%	15.45%	13.73%
Inflation	3.00%	3.00%	3.00%	3.00%	3.00%
Terminal yield	-	-	-	-	2.50%
Total tonnage yield	6.27	7.06	7.94	8.93	9.83

The discount rate applied in the model was 19.50%

*Discount rate sensitivity*

%	17.50%	18.50%	19.50%	20.50%	21.50%
Value \$'000	80,284	74,914	70,189	65,999	62,261

	30 June 2025 \$'000	30 June 2024 \$'000
<b>Note 7. Trade and other payables</b>		
Mildura construction	16	35
Contract manufacturing	397	793
Cultivation vendors	1,178	540
Accrued expenses	1,896	2,058
Research and development	18	624
Other vendors	1,337	1,387
Total trade and other payables	<u>4,843</u>	<u>5,437</u>

	30 June 2025 \$'000	30 June 2024 \$'000
<b>Note 8. Borrowings</b>		
<i>Current liabilities</i>		
NAB Working Capital facility (i)	15,600	14,945
Construction facility (ii)	52,117	49,400
Chattel mortgages	129	130
Short term loans (iii)	5,839	5,150
R&D tax incentive loan advance (iv)	1,176	-
	<u>74,861</u>	<u>69,625</u>
<i>Non-current liabilities</i>		
Chattel mortgages	286	421
	<u>286</u>	<u>421</u>

*i) Working capital facility*

On 20 April 2022 Cann executed documentation to enter into a \$15.00 million working capital facility with the National Australia Bank, which was subsequently extended to \$15.60 million by way of amendment, dated 13 December 2023. 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 April 2025 at which point it was extended to 30 September 2025. This facility has a drawn margin rate of 6.6039% 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 30 June 2025 the facility had been fully drawn down leaving a nil undrawn balance.

*ii) Construction facility*

The Construction facility as originally executed 14 December 2020 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 total drawn margin rate of 6.4203%. A facility fee of 0.35% pa is also applicable. As at 30 June 2025 the facility had been fully drawn down to \$49.40 million and \$2.72 million interest had been capitalised. The quarterly repayments of the principal loan amounts have been deferred from May 2025 to September 2025. This facility matures on 30 September 2025.

**Note 8. Borrowings (continued)**

*iii) Short-term loans and financing facilities*

On 3 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 on 7 May 2024. The principal is subject to 15% interest per annum, payable monthly in arrears until 31 January 2025. Interest has been capitalised from 28 February 2025 to 30 June 2025. The original facility maturity date of 7 May 2025 has been extended to 30 September 2025. The facility is secured over Cann's Mildura property as a second mortgage behind the NAB.

On 31 October 2024, Cann entered a short-term finance arrangement with a local lender to fund part of its insurance obligations. The initial balance payable was \$0.08 million payable monthly in arrears until 31 July 2025 subject to an interest rate of 5.75% The balance outstanding at 30 June 2025 was \$0.01 million.

On 15 June 2025, Cann entered a short-term finance arrangement with a local lender to fund its Industrial Special Risks insurance obligation. The initial balance payable was \$0.51 million payable monthly in arrears until 15 November 2025 subject to an interest rate of 2.89% The balance outstanding at 30 June 2025 was \$0.51 million.

*iv) R&D tax incentive loan advance*

On 24 April 2025, Cann drew down the first tranche of a loan advance from a local lender against the expected research & development tax incentive (RDTI) for FY25. The amount loaned was \$0.84 million based on R&D activities from 1 July 2024 to 28 February 2025 and is subject to 15% interest per annum, payable together with the capital on receipt of the RDTI in the period to 31 October 2025, the loan maturity date. On 12 June 2025, Cann drew down the second and final tranche of the loan. The amount loaned was \$0.32 million, based on R&D activities from 1 March 2025 to 30 April 2025 and is subject to the same terms as tranche one. In addition to interest, a small account fee was deducted from the proceeds.

**30 June 2025 30 June 2024**  
**\$'000 \$'000**

**Note 9. Convertible notes**

**Carrying amount of convertible notes**

Current liabilities

Convertible note – host liability at amortised cost	241	2,359
Convertible note – fair value of embedded derivative	269	61

Carrying amount at 30 June 2025	<u>510</u>	<u>2,420</u>
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Non current liabilities

Convertible note – host liability at amortised cost	182	-
Convertible note – fair value of embedded derivative	-	-

Carrying amount at 30 June 2025	<u>182</u>	<u>-</u>
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*Total liabilities*

Convertible notes	<u>693</u>	<u>2,420</u>
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**Note 9. Convertible notes (continued)**

Reconciliation of movements in convertible notes:

	30 June 2025 \$'000	30 June 2024 \$'000
Proceeds received on issue	2,750	2,000
Cost of issuance of convertible notes	(415)	(351)
Equity instruments issued	(920)	(555)
Amortisation	1,850	1,841
Conversion into equity	(2,572)	(515)
	<u>693</u>	<u>2,420</u>

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 \$15.00 million.

On 27 November 2023, the Company issued 1,322,200 Convertible Notes to Obsidian Global GP, LLC for proceeds of US\$1 per convertible note, and a face value of US\$1.15 per convertible note as at 27 November 2023, in respect of which the Company received A\$2.00 million gross proceeds at the time of issue.

The facility has a limit of \$15.00 million and maturity date of 18 months after the execution date, being 27 May 2025. Obsidian Global GP, LLC have not demanded the Group settle the remaining balance at maturity in cash, instead opting to convert remaining notes into fully paid ordinary shares. As at 30 June 2025, the facility has an undrawn facility amount of \$12.25 million (2024: \$13.00 million) with proceeds of \$0.75 million received in the period to 30 June 2025 in respect of Special Purchases (see below). Subsequent draw down tranches are permitted 90 days immediately after the previous tranche drawn and the maximum amount of each subsequent purchase to not exceed \$3.00 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 \$35.00 million.

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. 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 have an \$0.225 exercise price and expiry date of 11 November 2026.

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
				%	%	%	
11/11/2024	11/11/2026	\$0.110	\$0.225	61.900%	-	4.155%	\$0.012

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:

- 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
- The fixed conversion price.

Where the maximum number of shares that can be issued without shareholder approval is 40,000,000 and the fixed conversion price is defined as \$0.1998.

### Note 9. Convertible notes (continued)

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 of \$2.00 million was recognised. The valuation of the embedded derivatives at initial recognition were performed by an external valuation expert and subsequently on balance date.

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 facility. The fair value of 6,735,867 options issued to the lead broker was \$0.08 million. This cost was recognised in the Convertible Notes reserve. See note 13 for further details in respect of Share Based Payments. 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 2024, 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 Group'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 30 June 2025 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 30 June 2025 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 30 June 2025.

#### **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 securities 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.

## Note 9. Convertible notes (continued)

Due to the fact that the convertible note is now repayable upon demand, management made an assessment to fully amortise the liability in the year ending 30 June 2024. The treatment remains consistent as at 30 June 2025 and better reflects the possible immediate repayment that could be called upon, subsequent to the default event.

### Conversions

As at 30 June 2025, 1,195,237 notes (2024: 330,000) had been redeemed for the issue of 97,642,664 ordinary shares (2024: 12,591,040 ordinary shares).

### Special Purchase

On 27 February 2025, the Company agreed to a \$750,000 drawdown on its Convertible Note facility with Obsidian Global GP, LLC ('Noteholder'). The Facility Agreement was amended such that proceeds were received in two tranches, \$150,000 on 5 March 2025 and \$600,000 on 18 March 2025.

On 6 March 2025, the Company issued 95,550 Convertible Notes and on 21 March 2025 issued 385,260 Convertible Notes to Obsidian Global GP, LLC for proceeds of US\$1 per convertible note, and a face value of US\$1.15 per convertible note.

Upon issue of the Convertible Notes (Notes), the Company issued 7,000,000 Placement shares for the purpose of incentivising the Noteholder into the transaction. The Placement shares were assessed at a fair value of \$0.17 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 1,746,147 share options in respect of the First Special Purchase and a further 7,924,832 options in respect of the Second Special Purchase, which are yet to be exercised at 30 June 2025. The arrangement was valued using the Binomial model, with the fair value on grant date being assessed as \$0.05 million. The options issued in respect of the First Special Purchase have a \$0.057 exercise price and expire on 2 June 2027. The options issued in respect of the Second Special Purchase have a \$0.051 exercise price and expire on 2 June 2027.

The 9.67 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
2/6/2025	2/6/2027	\$0.027	\$0.0573	73.00%	-	3.832%	\$0.001
2/6/2025	2/6/2027	\$0.027	\$0.0505	73.00%	-	3.832%	\$0.001

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; and
- (b) The fixed conversion price.

Where the maximum number of shares that can be issued without shareholder approval is 40,000,000 and the fixed conversion price is defined as \$0.05.

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 \$0.16 million, on account of the face value being US\$1.15, and the drawdown amount of \$0.75 million being recognised. The valuation of the embedded derivatives at initial recognition were performed by an external valuation expert and subsequently on balance date.

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.

**Note 9. Convertible notes (continued)**

***Valuation methodology applied in valuing Special Purchase Convertible Notes***

Upon issue of the Convertible Notes in March 2025, the Group utilised an external valuation expert to value the Convertible Notes including the issued share options using the Trinomial 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 Group'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 the spot price used in valuing the Placement 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 29.8% was applied to the First Special Purchase on 6 March 2025 and 55.2% to the Second Special Purchase on 21 March 2025 which reflects the short-term nature and costs associated with issuance of the convertible notes.

As at 30 June 2025 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 30 June 2025 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 30 June 2025.

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**Note 10. Issued capital**

	30 June 2025	30 June 2024	30 June 2025	30 June 2024
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	636,176,155	445,846,142	187,951	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 offer (NREO)	2 December 2024	50,724,489	\$0.04	2,029
Transaction costs associated with issuing equity		-	\$0.00	(77)
Shares issued as repayment of short-term loan	6 December 2024	5,675,343	\$0.04	227
Shares issued under conversion of Convertible Notes	4 February 2025	10,026,950	\$0.03	321
Shares issued on exercise of options issued under NREO	6 February 2025	799	\$0.22	-
Shares issued under the Special Purchase Agreement	21 March 2025	7,000,000	\$0.02	105
Shares issued on exercise of options	3 April 2025	1,185	\$0.08	-
Shares issued under conversion of Convertible Notes	3 April 2025	7,930,438	\$0.02	178
Shares issued in Private Placement	8 April 2025	41,876,573	\$0.02	712
Shares issued under conversion of Convertible Notes	30 April 2025	7,676,567	\$0.02	119
Shares issued under conversion of Convertible Notes	20 May 2025	11,607,322	\$0.02	178
Shares issued under conversion of Convertible Notes	13 June 2025	13,970,244	\$0.01	178
Balance	30 June 2025	636,176,155		187,951

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2023	388,614,865		177,368
Shares issued under non-renounceable rights issue	1 August 2023	37,139,102	\$0.12	4,457
Shares issued to CSIRO for payment of services	28 August 2023	520,118	\$0.16	82
Shares issued under the Convertible Securities Agreement	21 November 2023	985,286	\$0.11	108
Shares issued under the Convertible Securities Agreement	22 November 2023	3,333,333	\$0.11	367
Shares issued under the Convertible Securities Agreement	22 November 2023	2,662,398	\$0.11	293
Transaction costs associated with issuing equity		-	\$0.00	(291)
Shares issued under conversion of Convertible Notes	2 February 2024	2,099,905	\$0.04	78
Shares issued under conversion of Convertible Notes	23 February 2024	2,397,104	\$0.03	80
Shares issued under conversion of Convertible Notes	11 June 2024	8,094,031	\$0.03	357
Balance	30 June 2024	445,846,142		182,899

30 June 2025 30 June 2024  
\$'000 \$'000

**Note 11. Reserves**

Foreign currency reserve	(5)	(24)
Share based payments reserve	520	438
Convertible note reserve	335	80
Other reserve	242	-
	<u>1,092</u>	<u>494</u>

For share-based payments received by employees and Key Management Personnel of the Group, fair value is measured by reference to the fair value of the equity instruments at their grant date, being the date that both the recipient and the Group have a shared understanding of the terms and conditions connected to the share-based payment. Any market-based vesting conditions are incorporated into the valuation of the share-based payment arrangement as at the grant date. Share-based payments with non-market based performance conditions vest according to the pro-rata achievement of those conditions. Share-based payments with non-performance-based conditions are valued using the Black-Scholes model and payments with market-based performance conditions are valued using a binomial model which incorporates from both the performance rights arrangement and market data that existed at grant date.

Employee remuneration (benefits)/costs incurred in respect of performance rights for the year ended 30 June 2025 is \$0.11 million (2024: \$0.18 million).

**Performance rights over ordinary shares**

No Performance Rights were issued in the year to 30 June 2025 (2024: nil).

The fair value of performance rights still vesting has been calculated on the basis of the Black-Scholes model using the following key assumptions:

Grant of performance rights		Number of performance rights	Spot price on issue date	Risk free rate %	Expiry date	Volatility rate	Fair value 000's
Performance Rights 2023 Series	10/02/2023	554,466	0.18	3.41%	10/02/2026	71.23%	103
		<u>554,466</u>					<u>103</u>

The weighted average remaining contractual life of performance rights outstanding at 30 June 2025 was 0.6 years (2024: 1.1 years).

Given a nil exercise price of the Performance Rights, adopting different volatility assumptions does not have an impact on the Performance Rights' valuation.

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/forfeited/other	Balance at the end of the year
21/12/2021	21/12/2025	\$0.00	448,203	-	-	(448,203)	-
10/02/2023	10/02/2026	\$0.00	982,149	-	-	(427,683)	554,466
			<u>1,430,352</u>	<u>-</u>	<u>-</u>	<u>(875,886)</u>	<u>554,466</u>
Weighted average exercise price			\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

**Note 11. Reserves (continued)**

**Options over ordinary shares**

On 4 April 2023 1,620,000 options over fully paid ordinary shares were issued to employees of the Company. The options will vest over 3 years in equal tranches of 20,000 with the tranche vesting 12 months after the issue date. The exercise price for each tranche is 22 cents per share. During the financial year, 260,000 options vested and 380,000 options were forfeited by virtue of staff leaving the Company.

On 1 August 2023, 18,569,840 options were issued as free attaching options as an incentive to attract investors to a non-renounceable rights issue. As no good or service had been provided, no charge was recognised in the share-based payments vesting expense. These options expired on 1 February 2025.

On 6 November 2024 1,200,000 share options were issued to the Non-Executive Directors and the Chairman of the Group. All options issued vest in three equal tranches over 3 years from the grant date and have an exercise price of \$0.08 per option. All options issued carry a single vesting condition of continuous employment at Cann at each annual vesting date and expire five years from grant date.

On 11 November 2024, as per the Convertible Note agreement, along with the entitlement for conversion of Notes into fully paid ordinary shares, the Noteholders were issued 6,735,867 options over fully paid ordinary shares. These options expire 11 November 2026. An additional 6,735,867 options were issued to the broker for their services, which also expire on 11 November 2026.

On 11 and 12 November 2024 a total of 16,625,000 options over fully paid ordinary shares were issued to the Cann Group leadership team. All options issued vest in three equal tranches over 3 years from the grant date. The options were issued in three separate tranches with three different exercise prices (Year 1 - \$0.06, Year 2 - \$0.08 and Year 3 - \$0.10). All options issued carry a single vesting condition of continuous employment at Cann at each annual vesting date and expire five years from grant date. A total of 1,500,000 options were lapsed during the year due to staff leaving the Company.

On 2 December 2024, 18,799,046 options were issued as free attaching options as an incentive to attract investors to a non-renounceable rights issue. These options have an exercise price of \$0.08 per share and expire 2 December 2026.

On 8 April 2025, the Group received a commitment to raise \$711,902 (before costs) via private placement at 1.7 cents per share through issue of 41,876,573 shares. Participants received one attaching 'Placement Option' for every share resulting in an issue of 49,376,573 share options including 7,500,000 issued to the lead placement manager. The options have an exercise price of \$0.03 and expire 24 months from issue date. A charge for the lead manager options has been recognised in financing costs in the year to 30 June 2025. The charge was based on a valuation performed by an external specialist.

On 2 June 2025 - 95,550 Convertible Notes and 1,746,147 share options were issued to Obsidian Global GP, LLC for a consideration of \$150,000 ('First Special Purchase'), and a further 385,260 Convertible Notes and 7,924,832 share options were issued to the same counterparty for a consideration of \$600,000 ('Second Special Purchase'). A charge has been recognised in financing costs in the year to 30 June 2025. The charge was based on a valuation performed by an external specialist.

Set out below is a table containing options outstanding at balance date:

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/forfeited/other	Balance at the end of the year
9/02/2023	9/02/2028	\$0.45	1,500,000	-	-	(1,500,000)	-
4/04/2023	4/04/2028	\$0.22	1,180,000	-	-	(380,000)	800,000
1/08/2023	1/02/2025	\$0.22	18,569,840	-	-	(18,569,840)	-
6/11/2024	31/10/2029	\$0.08	-	1,200,000	-	-	1,200,000
11/11/2024	11/11/2026	\$0.225	-	13,471,734	-	-	13,471,734
13/11/2024	30/06/2029	\$0.06	-	5,375,001	-	(500,000)	4,875,001
13/11/2024	30/06/2029	\$0.08	-	5,375,001	-	(500,000)	4,875,001
13/11/2024	30/06/2029	\$0.10	-	5,374,998	-	(500,000)	4,874,998
2/06/2025	2/06/2027	\$0.0508	-	1,746,147	-	-	1,746,147
2/06/2025	2/06/2027	\$0.0523	-	7,924,832	-	-	7,924,832
8/04/2025	4/06/2027	\$0.03	-	49,376,573	-	-	49,376,573
			<u>21,249,840</u>	<u>108,643,332</u>	<u>-</u>	<u>(35,421,575)</u>	<u>97,451,597</u>

**Note 11. Reserves (continued)**

Weighted average exercise price			\$0.236	\$0.073	\$0.00	\$0.228	\$0.074	
Grant of options	Number of options	Spot price at grant of option	Options exercise price	Risk free rate %	Options expiry date	Options vesting date	Volatility %	Fair value \$'000
Former CEO - Tranche 1	1,500,000	0.18	0.45	3.41%	9/02/2028	10/02/2024	71.23%	7
GESOP 2023 Series - Tranche 4 (a)	460,000	0.15	0.22	2.98%	4/04/2028	4/04/2024	76.00%	8
GESOP 2023 Series - Tranche 4 (b)	360,000	0.15	0.22	2.98%	4/04/2028	4/04/2025	76.00%	8
GESOP 2023 Series - Tranche 4 (c)	360,000	0.15	0.22	2.98%	4/04/2028	4/04/2026	76.00%	8
NED Opts 2025 - Tranche 1	400,000	0.05	0.08	4.20%	31/10/2029	1/11/2025	70.00%	8
NED Opts 2025 - Tranche 2	400,000	0.05	0.08	4.20%	31/10/2029	1/11/2026	70.00%	8
NED Opts 2025 - Tranche 3	400,000	0.05	0.08	4.20%	31/10/2029	1/11/2027	70.00%	9
Options 2025 Series - Tranche 1	3,833,334	0.05	0.06	4.24%	30/06/2029	1/07/2025	70.00%	91
Options 2025 Series - Tranche 2	3,833,334	0.05	0.08	4.24%	30/06/2029	1/07/2026	70.00%	84
Options 2025 Series - Tranche 3	3,833,332	0.05	0.10	4.24%	30/06/2029	1/07/2027	70.00%	79
Options 2025 Series - Tranche 1	1,708,334	0.05	0.06	4.24%	30/06/2029	1/07/2025	70.00%	41
Options 2025 Series - Tranche 2	1,708,334	0.05	0.08	4.24%	30/06/2029	1/07/2026	70.00%	38
Options 2025 Series - Tranche 3	1,708,332	0.05	0.10	4.24%	30/06/2029	1/07/2027	70.00%	35
Noteholder Options - Special Purchase 1	1,746,147	0.03	0.06	3.83%	6/03/2027	6/03/2025	73.00%	10
Noteholder Options - Special Purchase 2	7,924,832	0.02	0.05	3.73%	21/03/2027	21/03/2025	73.00%	39
Placement Options	49,376,573	0.02	0.03	3.73%	4/06/2027	4/06/2025	73.00%	242

The total expense of share-based payments recognised in the statement of profit or loss and other comprehensive income amounted to \$0.19 million. The remaining fair value will be expensed in subsequent years in accordance with the specific service conditions of the rights.

During the year 1,984 (2024: nil) shares were issued on conversion of options.

The 9.61 million convertible noteholder options are included in the convertible note reserve. An expense of \$0.05 million has been recognised in the statement of profit or loss and other comprehensive income in respect of these options.

The 49.4 million placement options are included in the other reserve. An expense of \$0.24 million has been recognised in the statement of profit or loss and other comprehensive income in respect of these options.

**Note 12. Reconciliation of loss after income tax to net cash used in operating activities**

	30 June 2025	30 June 2024
	\$'000	\$'000
Loss after income tax expense for the year	(22,345)	(51,242)
Adjustments for:		
Impairment of property, plant and equipment	-	20,126
Insurance expenses subject to financing	488	(692)
Loss/(Gain) on sale of fixed assets	20	(716)
Equity settled transactions	-	(171)
Share-based payments expense	325	117
Interest capitalised into convertible notes	130	1,853
Changes in the value of financial assets	(5)	64
Depreciation, Amortisation and loss on sale of assets	7,440	11,037
Impairment of investment	-	433
Interest and other finance costs	-	271
(Gain)/Loss on derivatives and foreign exchange	(65)	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	1,306	2,276
Decrease/(increase) in inventories	4,203	2,008
Decrease/(increase) in prepayments	(474)	1,758
(Decrease)/increase in trade and other payables	(665)	(2,307)
Net cash used in operating activities	<u>(9,643)</u>	<u>(15,185)</u>

-----End of Notes to Financial Statements-----

**15. Compliance Statement**

The financial information provided in this Appendix 4E is based on the annual financial report which is being prepared in accordance with Australian Accounting Standards and standards acceptable to the ASX. The reporting and the accounts which the report is based used the same accounting principles.

The annual financial report for Cann Group Limited is in the process of being audited and the Directors understand that the audit is expected to be completed on or before 30 September 2025.

**16. If the accounts have not yet been audited and are likely to contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph is described below**

The auditors have advised that their audit report is likely to include an emphasis of matter paragraph in relation to the following matters:

**Going Concern**

The financial statements have been prepared on a going concern basis, which incorporates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

As reported above, the Group has incurred net losses for the year ended 30 June 2025 of \$22.33 million (30 June 2024: \$51.13 million), a net current asset deficiency of \$71.34 million as at 30 June 2025 (30 June 2024: \$61.98 million), a net asset deficiency of \$2.78 million (30 June 2024: net asset surplus \$13.92 million), and has a net cash outflow from operating activities of \$9.64 million for the year ended 30 June 2025 (30 June 2024: \$15.19 million).

These conditions give rise to a material uncertainty that may cast a significant doubt on the consolidated entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors have extensively considered the following factors that may alleviate this uncertainty:

Refinancing of borrowings

The Group is currently in the process of refinancing its borrowings outlined in Note 8. The refinance contemplates a major restructure of its debt position with its primary lenders, and in addition, is also expected to contribute a portion of working capital of between \$2 - \$3 million. Given the progress and discussions held to date, the Directors are confident of a successful outcome and expect to be able to complete the refinance by 30 September 2025, being the maturity date of the borrowings. The refinancing, if successful, will mean the Group's new debt position will be classified as a non-current liability, resulting in a material increase in net current assets (and net assets), together with a material decrease in interest costs which will assist cash flows going forward.

Convertible note

The Company has a \$15 million convertible note facility, which it has accessed a total of \$2.75 million to date. This facility represents a potential future source of funding (subject to the lender's credit approval) should it be required.

Equity

The Company has a history of successfully raising capital from the equity markets, having raised a total of \$2.97 million this financial year (30 Jun 2024: \$4.46 million). These raises have been well supported by both existing shareholders (via Rights Issues) and new shareholders (via private placement). The Company has existing relationships with broker(s) who are readily available to assist should the Company decide to pursue further equity raisings.

R&D Tax Credit Refund

The Group expects to receive its R&D tax credit refund of \$1.76 million during October 2025. These funds will be used to repay the R&D loan of approximately \$1.21 million, contributing approximately \$0.55 million of cashflow into the business.

Cashflows from operations

The Group has made material improvements in its operating cash flows over the past several years, and these positive trends are expected to continue as the Group's products gain market share. More specifically, operating cash flows have gone from negative \$22.8 million for FY23 to \$9.64 million in FY25, a 58% improvement over the past two financial years.

This improvement, which is expected to continue, has been underpinned by the following:

- Significant reduction in operating expenditures, which have been reduced by 35% YOY.
- Increase in dried flower production of 35% YOY, resulting in more product available for sale
- Increase in revenues from leading product (Botanitech Flower) of 100% YOY
- Increase in revenues from bulk flower sales as production increases
- Reduction in cost of sales and increased gross margins as the economies of scale are realised
- Refinance of borrowings which is expected to result in a material reduction to interest costs.

Cashflow forecasts for the next 12 months from the date of this report

The Directors have reviewed The Group's 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. This forecast takes into account the newly reset cost-base of the Group, growth of the Botanitech product range, and assumes the debt refinance described above is successful.

Based on the factors described above, the Directors are satisfied that the going concern basis of preparation is appropriate. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the Group not continue as a going concern and meet its debts as and when they become due and payable.

**Property, Plant and Equipment**

The audit report may draw the reader's attention to note 6 above, which describes management's assessment of the value in use of the entity's property, plant and equipment asset class. The value in use is based on a discounted cash flow model prepared by the Company and reviewed by the Directors using key inputs and assumptions. Should the key assumptions not be achieved, or within the timeframe forecasted, then the value in use of the asset class will not hold and be subject to impairment. This risk reduces over time as the asset continues to be depreciated.

**Authorised for release by the Board of Directors of Cann Group Limited.**