



## ASX ANNOUNCEMENT

17 July 2020

### QUARTERLY ACTIVITIES REPORT AND APPENDIX 4C

30 JUNE 2020 QUARTER

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#### Highlights

- Cann continues strong commercial momentum with several important supply agreements executed for its medicinal cannabis products and dried flower material
- Agreements relate to B2B customers in Australia as well as in international export markets including the UK, Europe and New Zealand
- Cann's first GMP manufactured cannabis oil formulations and dried cannabis flower completes initial shelf life stability testing; released to the market
- Cann receives \$1.975 million grant from Victorian Government Regional Jobs Fund
- Subsequent to quarter end, Cann announces Placement and Share Purchase Plan to raise funds for working capital and support of the Company's growth plans

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**17 July 2020** – Melbourne-based Cann Group is pleased to report on its activities for the quarter ended 30 June 2020.

The period has seen Cann secure several important commercial supply agreements involving medicinal cannabis products and dried flower material for sale in Australia and to export markets, including the UK, Europe and New Zealand.

In May, Cann Group announced it had signed two new supply agreements involving the export of medicinal cannabis products and dried flower material for sale in UK and European markets.

The first agreement was with Astral Health Limited, a UK-based specialist importer and distributor of medicinal cannabis products.

Astral Health is a subsidiary of LYPHE Group, a European leader in medicinal cannabis solutions across distribution channels, including medicinal cannabis clinics, online pharmacies, and healthcare practitioner training. The UK's medicinal cannabis markets continues to expand, with the lifting of import restrictions in March allowing licenced wholesalers to build inventory for future supply needs.

The Astral Health supply agreement is a multi-year agreement with options to extend. Cann Group will supply a range of formulated oils, including high THC, high CBD and a balanced formulation. The agreement provides for additional products to be developed and supplied to Astral Health over time.

Cann Group also executed an agreement with Germany-based iuvo Therapeutics GmbH for the supply of medicinal cannabis oil formulations and dried flower material for sale within Germany and other

European countries. Germany is Europe's largest medicinal cannabis market with 2019 sales exceeding all other European markets combined.

iuvo Therapeutics GmbH is a leading independent GMP certified importer and distributor in Germany, and a subsidiary of Wundr Co., a pharmaceutical company focused on providing a diversified portfolio of medical cannabis products for European patients.

The agreement with iuvo is for a period of three years, with the option to extend. Supply will commence when all relevant regulatory approvals are received from the Australian and European authorities.

These new agreements compliment Cann Group's execution of several new contracts in March and April. These included a supply agreement with Entoura Pty Ltd, an Australian operated healthcare company, developing and supplying high quality medicinal cannabis products. Cann Group is supplying its whole plant extract product range to Entoura for distribution to Australian patients via the TGA's Special Access Scheme.

Cann Group also executed a five-year supply agreement with New Zealand based Zalm Therapeutics Ltd (formerly Pure Cann NZ Limited), which is building a patient-centric medicinal cannabis business focused on supplying cannabinoid-based medicines to patients in New Zealand and other key global markets. New Zealand's medicinal cannabis regulations came into effect on 1 April 2020.

Cann Group, through its wholly owned subsidiary Botanitech Pty Ltd ("Botanitech"), holds 3.9% of the issued capital of Zalm Therapeutics, for which it paid NZ\$1 million (out of a previously committed total amount of NZ\$6 million on a staggered basis, as announced to the market on 26 April 2019).

As part of the new agreement, Cann Group can increase its holding to circa 7.7% in exchange for an issue to Zalm Therapeutics of new shares in Cann Group having a value of NZ\$1 million (based on the Volume Weighted Average Price of Cann Group's shares during the seven full trading days on the ASX ending on the day immediately prior to their allotment to Zalm Therapeutics). Cann Group is no longer obligated to invest the unpaid balance of NZ\$4 million into Zalm Therapeutics given these new arrangements.

More details of this agreement are in the ASX Announcement released to the market on 21 April 2020.

Cann Group also has in place a five-year offtake agreement with Aurora Cannabis Inc. The offtake agreement enables Cann to supply GMP processed dry flower, extracted resin and manufactured medicinal cannabis products to Aurora until 2024. Aurora has marketing arrangements in 25 medical cannabis markets, including in Europe and South America.

### **Manufacturing milestones**

Cann Group has demonstrated an ability to supply a broad range of products from specific medicinal cannabis cultivars to unique finished product formulations that meet the specific requirements of supply customers in Australia and overseas. The Company's manufacturing arrangements with IDT Australia (ASX: IDT) ensure it can meet the high GMP standards that reputable distributors in Australia and overseas markets such as the UK and Europe require.

During the period Cann Group reported that the first of its GMP manufactured products, dried cannabis flower and cannabis oil formulations from its Australian-grown cannabis, had completed initial shelf life stability testing and been released to the market to fill specific customer orders.

In the quarter Cann commenced manufacturing a new high CBD oil-based formulation – this product is a combination of Active Pharmaceutical Ingredient (API) from Cann’s locally grown CBD dominant cultivar, supplemented with a CBD isolate. The product has commenced stability studies and is expected to be available for release and sale in Q2 FY21, for domestic supply and export.

#### **Financials and Capital Raising**

Revenue for the quarter was \$49,000 and, included in the net cash position, the company received an R&D rebate of \$937,000. Net cash used was \$4.623M. Further details of the company’s financials are set out in the Appendix 4C.

Subsequent to the end of the quarter on 17 July, Cann Group announced a Placement and Share Purchase Plan to raise a total of up to \$24.3 million (**Capital Raising**).

The proceeds from the Capital Raising will be used to provide working capital to support the Company’s near-term growth plans. Since announcing a strategic re-set in January 2020, Cann has secured multiple new offtake and supply agreements which support short-term revenues and de-risk its expansion plans.

The Mildura expansion remains a critical component of Cann’s growth strategy. COVID-19 impacts have slowed progress of potential funding options for Mildura as well as the practical timing of any construction, due to the need to engage European-based specialist contractors. All funding options for the Mildura expansion continue to be pursued, including a bank debt facility.

The Company is forecasting revenues of \$15 million in FY21, underpinned by existing supply contracts, and is confident that a proven track record of sustainable revenues will support both the business case for Mildura and help secure the support of financiers.

Details of the Capital Raising have been separately announced to the market on 17 July.

#### **Victorian Government Regional Jobs Fund grant**

Subsequent to the end of the period, Cann Group announced it had been awarded a grant for up to \$1.975 million under the Regional Jobs Fund established by the Victorian Government.

The grant will assist with funding of electricity upgrades at Cann’s proposed Mildura facility in regional Victoria.

#### **Issue of Shares**

On 8 April 2020, Cann Group issued 147,500 fully paid ordinary shares as a result of the conversion of 100,000 convertible notes. On 15 June 2020, Cann Group gave notice that it had issued 325,272 fully paid ordinary shares by way of a placement to the Commonwealth Scientific and Industrial Research Organisation (CSIRO), a sophisticated investor, as settlement of an invoice for services rendered.

## Meeting Results

At a General Meeting of Cann Group shareholders held on 12 June 2020, all resolutions contained in the Notice of Meeting were decided on a poll and were approved. These included:

1. Ratification of Prior Issue of Shares to CSIRO
2. Ratification of Prior Issue of Convertible Notes
3. Approval of Issue of new Shares to CSIRO
4. Approval of Issue of New Shares to Pure Cann NZ Limited
5. Amendments to Constitution (Special Resolution).

Each of resolutions 1-4 set out in the Notice of Meeting (being ordinary resolutions) was approved by a majority of the votes cast by shareholders entitled to vote and voting on the resolution. Resolution 5 was a special resolution and was approved by more than 75% of the votes cast by shareholders entitled to vote and voting on the resolution.

## Outlook

A key priority for management during the next quarter is to work closely with new offtake customers to finalise their specific product and volume requirements and complete related regulatory approvals. The Company expects initial shipments for overseas-based supply customers to occur from September.

The Company is otherwise continuing to operate within the COVID-19 restrictions, ensuring that the health and wellbeing of its employees are maintained.

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

## For further information please contact:

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## About Cann Group

Cann Group Limited (ABN 25 603 949 739) is building a world-class business focused on breeding, cultivating, manufacturing and supplying medicinal cannabis for sale and use within Australia and for approved overseas export markets. The company has established research and cultivation facilities in Melbourne and is developing a state-of-the-art cultivation facility near Mildura, Victoria. Cann Group has executed collaboration agreements that have enabled it to establish a leading position in plant genetics, breeding, extraction, analysis and production techniques required to facilitate the supply of medicinal cannabis for a range of diseases and medical conditions. The Company is commercialising a range of imported and locally sourced and manufactured medicinal cannabis products. **Learn more about Cann Group at [www.canngrouponlimited.com](http://www.canngrouponlimited.com)**

## Appendix 4C

### Quarterly cash flow report for entities subject to Listing Rule 4.7B

**Name of entity**

Cann Group Limited

**ABN**

25 603 949 739

**Quarter ended ("current quarter")**

30 June 2020

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	49	1,721
1.2 Payments for		
(a) research and development	(265)	(1,652)
(b) product manufacturing and operating costs	(3,942)	(7,549)
(c) advertising and marketing	(29)	(94)
(d) leased assets	-	-
(e) staff costs	(1,723)	(7,991)
(f) administration and corporate costs	(842)	(5,140)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	263
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	791	1,779
1.8 Other (provide details if material)	1,338	2,532
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(4,623)</b>	<b>(16,129)</b>

**Explanation to 1.8 Other:** This amount mainly consists of GST refund from capital purchases. As the accounting standard requires investing activities to be shown exclusive of taxes, GST refund component has been classified in operating activities.

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
	(c) property, plant and equipment	(303)	(36,218)
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(303)</b>	<b>(36,218)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	8,000
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(487)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>-</b>	<b>7,513</b>

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	6,566	46,473
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(4,623)	(16,129)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(303)	(36,218)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	7,513
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>1,639</b>	<b>1,639</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,554	6,481
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (Rental Guarantees)	85	85
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,639</b>	<b>6,566</b>

**6. Payments to related parties of the entity and their associates**

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1.2
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter  
\$A'000**

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

**7. Financing facilities**

*Note: the term "facility" includes all forms of financing arrangements available to the entity.*

*Add notes as necessary for an understanding of the sources of finance available to the entity.*

7.1 Loan facilities

7.2 Credit standby arrangements

7.3 Other (Corporate Credit Cards)

7.4 **Total financing facilities**

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
-	-
-	-
60	20
60	20

7.5 **Unused financing facilities available at quarter end**

40

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

**8. Estimated cash available for future operating activities**

**\$A'000**

8.1 Net cash from / (used in) operating activities (Item 1.9)

**(4,623)**

8.2 Cash and cash equivalents at quarter end (Item 4.6)

**1,639**

8.3 Unused finance facilities available at quarter end (Item 7.5)

**40**

8.4 Total available funding (Item 8.2 + Item 8.3)

**1,679**

8.5 **Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**

**0.363**

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: It is expected that the entity will have negative operating cash flows in the next two quarters.

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: The entity is currently undertaking steps to raise further cash to fund the operations via an equity issue. The issue has been announced and the entity is expected to raise up to AUD24.3m from the offer.

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: The entity will be able to continue its operations and to meet its business objectives once the equity issue has been completed.



## Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: **17 July 2020**

Authorised by: **Board of Directors, Cann Group Limited**

(Name of body or officer authorising release – see note 4)

## Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.