



## ASX ANNOUNCEMENT

28 January 2021

# CANN GROUP DECEMBER 2020 QUARTERLY ACTIVITIES REPORT AND APPENDIX 4C

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### Highlights

- Cann secures \$50m bank debt facility from National Australia Bank for construction of its state-of-the-art medicinal cannabis production site near Mildura
- Initial order of 19,000 units from leading European importer and distributor of medicinal cannabis iuvo Therapeutics – further orders anticipated
- Shipment of 1,400 units to LYPHE Group to be used in support of Europe’s largest medicinal cannabis registry, Project Twenty21
- Supply of more than 1,400 units to local white label customers and compound pharmacists during the period
- Review of several alternatives to enable recommencement of construction at Mildura facility as soon as possible
- Positive regulatory momentum with changes at a local and international level
- Customers indicating continued growth in demand across various markets
- Projected revenues remain heavily weighted to H2 – Cann continues to work through regulatory clearances in Australia and overseas
- COVID related impacts continue in relation to areas including regulatory clearance timing; market access; and ability to access overseas-based skilled workers

**28 January 2021** – Melbourne-based Cann Group Limited (ASX:CAN) is pleased to report on its activities for the quarter ended 31 December 2020.

### Financials

Cann’s quarterly cash flow report shows a \$645,000 (or circa 10%) reduction in operating costs from the previous quarter due mainly to lower production charges. Costs for the quarter were broadly in line with the information given by the Company to its shareholders at the Annual General Meeting (AGM) in November.

Receipts from customers were steady at \$99,000 for the quarter. The Company expects that revenue will be boosted from announced sales contracts and purchase orders that are anticipated to ship to customers in the quarter ending 31 March 2021, pending the required regulatory approvals. Further information about the expected timing of sales during this period is provided later in this report.

The key cash flows in Q2 were:

- Research and development costs of \$637,000 that included payment to La Trobe University for the AgriHub project; development of new products and delivery systems; and payments

to research partners. Monthly R&D spend is expected to be approximately \$112,000 per month going forward.

- Product manufacturing costs and inventory build, at \$2.69m, were down from \$3.6m in the previous quarter and broadly in line with the \$865,000 per month target outlined at the AGM.
- Staff, administration and corporate overheads, at \$2.99m, were in line with the last quarter (\$2.91m).
- Receipt of \$508,000 in government grants and tax incentives.
- Expenditure of \$712,000 in property, plant and equipment, namely capital expenditure for the Mildura facility, IT capital spend and general facility maintenance.

Subsequent to the end of the quarter, Cann received a \$3.2m R&D tax incentive refund, relating to the costs of research and development incurred by Cann during the 2020 financial year.

### **Production/sales**

Cann announced several important sales during the quarter, with associated products expected to be shipped during Q3. The supply of LYPHE Group's NOIDECS-branded medicinal cannabis products (announced on 22 December 2020) will be used in support of Project Twenty21, Europe's first and largest national medical cannabis registry. The supply of these products to LYPHE was made under a supply agreement with LYPHE's subsidiary, Astral Health, entered into in May 2020 (as previously announced). The December shipment of 1,400 units was made on a consignment basis and was the first such supply made under the Astral Health supply agreement. This followed receipt of a purchase order and regulatory approvals and permits to facilitate the shipment. Revenue from this shipment will be received following the sale of product by LYPHE Group. Further supplies will be made to LYPHE / Astral Health as and when purchase orders are received.

Cann also announced that iuvo Therapeutics Ltd, a leading independent GMP certified medicinal cannabis importer and distributor in Europe (with whom Cann entered into a supply agreement in May 2020, as previously announced), has placed an initial 19,000 units order for Cann product which is expected to be shipped to Germany within the current quarter, subject to relevant regulatory clearances. Being fully compliant with the latest German Pharmacopoeia Monograph "Cannabis Extractum Normatum", the product will be one of the first full spectrum extracts available in the German market. This order from iuvo is the first order placed under the supply agreement entered into with iuvo in May 2020. As with other supply agreements, further supplies of product to iuvo will be made as and when purchase orders are received.

In relation to the supply agreement entered into with Zalm Therapeutics (formerly Pure Cann), a New Zealand medicinal cannabis company (as announced in April 2020), Cann is working with Zalm to obtain all the necessary licences and permits to enable the supply of products to Zalm. No products have yet been supplied to Zalm under this supply agreement pending these regulatory processes.

Local supply of various products has been made to our white label customers and compound pharmacists with over 1,400 units supplied in the period. Our customers are forecasting steady growth over the balance of FY21 as the Australian patient pool continues to grow.

## Capex and Mildura

Subsequent to the end of the quarter – on 5 January 2021 – Cann announced it had made a strategic CAD1m investment in iuvo as part of iuvo’s CAD5m capital raising. Cann will hold approximately 2% of the issued capital of iuvo on completion of the raising. The capital raised by iuvo will be used to expand iuvo’s sales and marketing capabilities and construct a manufacturing facility in Malta.

The investment in iuvo gives Cann exclusive external supply rights to iuvo for medicinal cannabis extracts until 31 December 2021, with those rights then converting to preferred non-exclusive status. The initial order of 19,000 units is expected to be followed by further orders during calendar year 2021 and beyond.

Cann continues to work toward mobilising construction in Mildura, with site activities scheduled to begin in late February. Cann remains committed to using as many Australian workers as possible but there are some specialist roles required from overseas. COVID travel restrictions and availability of flights continue to have some impact on the timing associated with this activity. The Company is reviewing several alternative plans that will enable work to get underway at full pace.

As part of mobilising the Mildura construction, Cann has recently varied a contract originally signed with Aurora Larssen Projects (**ALPS**) in 2018, (announced on 19 April 2018) to update and confirm the nature of the design and construction services that ALPS will be providing for the Mildura facility. The material terms of the original contract have not changed, however the scope of the services to be provided has been updated and refined to reflect developments in the ALPS service offerings.

The final cost of \$65m to complete the facility, with an initial capacity of 12,500kg, will be funded via Cann’s existing cash on balance sheet as well as the \$50m NAB debt facility announced in November. The Company will keep shareholders abreast of progress with the build during 2021.

## Markets and regulations

International cannabis markets have been buoyed by the recent down-scheduling of cannabis by the United Nations Commission under the 1961 Single Convention on Narcotic Drugs. This is expected to result in stronger demand across international markets and open up new opportunities, particularly for cannabidiol (CBD) products. Cann is well positioned to take advantage of this evolving space.

In Australia, the industry welcomed the TGA’s decision to down-schedule CBD low-dose CBD under particular conditions, from Schedule 4 (S4) (Prescription Only Medicines) to Schedule 3 (S3) (Pharmacist Only Medicines). Schedule 3 products still need to go through the TGA’s formal registration process for inclusion of the product on the Australian Register of Therapeutic Goods (ARTG) as an over the counter (OTC) medicine, and the TGA have noted that “*applications to register a Schedule 3 low dose CBD preparation on the ARTG would involve assessment of safety and efficacy data to support the proposed dose and indication*”. Further information regarding the regulatory application process for low-dose CBD products, including the level and quality of data required, is still being confirmed by the TGA. Cann is examining various CBD product opportunities and will thereafter seek registration of one or more CBD products.

Demand for medicinal cannabis in Australia continues to grow as evidenced by the strong increase in patients receiving medicine under the TGA Special Access Scheme (SAS) – Category B. Based on current growth rates, it is anticipated that more than 30,000 active patients are currently receiving product in

Australia, a significant rise from just over 10,000 a year ago. This is estimated to have generated sales of approximately \$95m in 2020, up from just \$30m in 2019 (Fresh Leaf Analytics Q3 2020 report).

The cannabis industry in the USA is also buoyed by the change of government and control of both houses at the recent election, with the Democrats seen to be far more proactive in legalising cannabis.

### **Research and development**

Cann signed an agreement to work in collaboration with Agriculture Victoria to develop novel genetics using accelerated breeding with Cann's existing genetics. Phenotypic trials have progressed with new genetics grown from seed. Genotypic analysis of the new lines has commenced and chemotypic analysis of the flowers is planned in the next quarter. This data will be used to design a breeding plan that will lead to new lines with improved yields of cannabinoids and buds.

Cann has also validated results from experiments performed by DPI NSW to improve root production in a key cannabis cultivar. The improvement will now be transferred to Cann's commercial operations.

### **COVID impacts**

We are continuing to monitor COVID impacts on our business and other parts of the sector outside our control. These impacts relate to longer timeframes for regulatory responses and clearances; difficulty in accessing overseas markets; and the inability of skilled overseas workers to come to Australia.

In Victoria, with low or no community transmitted cases in recent months, we have been able to move back to single-shift operations. We continue to monitor the situation, and are ready to re-institute split shifts if required to de-risk any impact on our workforce.

### **Outlook**

Encouragingly, Cann's customers are placing orders and indicating continued growth in demand in their various markets.

As indicated at the AGM in November last year, this year's projected sales revenues are heavily weighted to the second half of the financial year, due to the requirement for certain regulatory clearances to be finalised. The Company is continuing to work with authorities in Australia and elsewhere to expedite those clearances.

# CANN GROUP LIMITED

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

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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 and manufacturing 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 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")**

31 December 2020

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	99	192
1.2 Payments for		
(a) research and development	(637)	(844)
(b) product manufacturing and operating costs	(2,688)	(6,291)
(c) advertising and marketing	(24)	(47)
(d) leased assets	-	-
(e) staff costs	(1,756)	(3,427)
(f) administration and corporate costs	(1,236)	(2,469)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	27	27
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	508	545
1.8 Other (provide details if material)	394	1042
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(5,314)</b>	<b>(11,273)</b>

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

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(712)	(1,253)
(d) investments	-	-
(e) intellectual property	-	-

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(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)	-	325
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(712)</b>	<b>(928)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	40,198
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(1,900)
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>38,298</b>

<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	33,762	1,639
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(5,314)	(11,273)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(712)	(928)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	38,298

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	<b>Cash and cash equivalents at end of period</b>	<b>27,736</b>	<b>27,736</b>

5.	Reconciliation of cash and cash equivalents 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	27,651	33,677
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	85	85
5.5	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>27,736</b>	<b>33,762</b>

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	
6.2	Aggregate amount of payments to related parties and their associates included in item 2	

*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 <i>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.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (Corporate Credit Cards)	60	30
7.4	<b>Total financing facilities</b>	<b>60</b>	<b>30</b>
7.5	<b>Unused financing facilities available at quarter end</b>		<b>30</b>
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.		

<b>8.</b>	<b>Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1	Net cash from / (used in) operating activities (item 1.9)	<b>(5,314)</b>
8.2	Cash and cash equivalents at quarter end (item 4.6)	<b>27,736</b>
8.3	Unused finance facilities available at quarter end (item 7.5)	<b>30</b>
8.4	Total available funding (item 8.2 + item 8.3)	<b>27,766</b>
8.5	<b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	<b>5.23</b>
<p><i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i></p>		
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	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: N/A	
8.6.2	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: N/A	
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer: N/A	
<p><i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i></p>		

### Compliance statement

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

Date: 28 January 2021

Authorised by: By the Board of Directors  
(Name of body or officer authorising release – see note 4)

### Notes

- 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.
- 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.
- 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.