



ASX ANNOUNCEMENT

26 July 2021

June 2021 Quarterly Activities Report and Appendix 4C

Highlights

- Construction of new Mildura production facility continues on schedule; laboratory commissioning underway
 - External sales for the quarter totalled \$2.704 million; full year sales \$4.293 million (unaudited)
 - More than 30,000 units shipped in quarter, including more than 21,000 units to overseas markets
 - Satipharm distribution expanded in UK; OTC low CBD registration progressing in Australia
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26 July 2021 – Melbourne-based Cann Group Limited (ASX:CAN) (**Cann**) is pleased to report on its activities for the quarter ended 30 June 2021.

Financials

Cann's quarterly cash flow report shows a cash outflow of \$5.617 million for the period.

The key cashflows in Q4 were:

- Receipts from customers during the quarter, at \$568,000, were steady on the previous quarter and take full year receipts to \$1.378 million. Outstanding receivables are to be collected during FY22 Q1 and Q2.
 - Product manufacturing costs of \$3.022 million were \$0.938 million higher than last quarter due to a large 20,000 bottle order shipped to Germany.
 - Staff costs rose from \$1.629 million to \$2.027 million due to one extra fortnight in the salary cycle and five new staff hires. Administration and corporate costs were steady on last quarter at \$1.192 million.
 - R&D expenses of \$0.28 million were down on the previous quarter due to payment timing. Full year spend on R&D of \$1.68 million was in line with forecasts.
 - Cash flow from investing activities included expenditure relating to acquisition of plant, property and equipment of \$7.618 million at Cann's new production facility near Mildura. This expenditure completes Cann's contribution from cash reserves with the balance of the project funding to be drawn down against the NAB loan facility.
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Sales and supply activity

External sales for the quarter totalled \$2.704 million, bringing full year sales to a value of just over \$4.293 million (unaudited). This represents a significant increase on the prior year sales, which totalled approximately \$650,000.

Sales for the period included a shipment of more than 20,000 bottles of cannabis extract to Cann's German customer and partner iuvo Therapeutics. iuvo is a leading independent German GMP certified importer and distributor in which Cann made a strategic C\$1 million investment in January 2021. Cann has an exclusive agreement to supply medicinal cannabis extracts up until 31 December 2021, and a further two years as a preferred supplier after that date.

The shipment to iuvo consisted of Cann's 30ml bottles of two formulations of cannabis extract products (High THC oil and a Balanced THC:CBD oil).

During the quarter, additional sales were also made to Astral Health in the UK, and to a number of Cann's Australian distribution customers. Supply agreements were executed with an additional three Australian customers in the quarter, taking the total to seven domestic distribution agreements.

Total units shipped/sold for the year to end June were approximately 34,000.

Mildura production facility

Construction of the state-of-the-art production facility at Mildura progressed on schedule during the quarter. Laboratory commissioning is now underway, as is installation of the extraction and manufacturing suite. Mildura is a staged project, with the initial stage allowing Cann to produce 12,500 kgs of cannabis dried flower per annum. The first stage of cultivation activity is scheduled to commence before the end of the calendar year.

The Mildura construction project remains on schedule and on budget, with the first draw down of funds having been made from the Company's \$50 million secured debt facility with National Australia Bank (NAB) this week.

During the quarter, the Company completed the previously announced assessment of options relating to the inclusion of an extraction process capability in the new Mildura facility. The extraction facility would allow for the dried cannabis flower to undergo extraction to a concentrated viscous extract, or 'resin', for further processing and would provide the Company with end-to-end direct control of its supply chain and manufacturing requirements.

The assessment has confirmed the potential to generate significant cost savings when compared to current outsourced extraction services. The Company is currently reviewing funding options to proceed with this project and will update the market in due course.



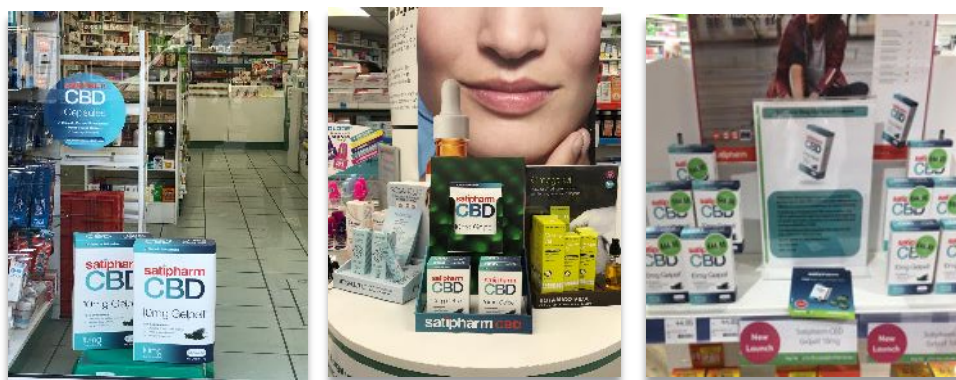
Recent images as construction continues at Cann's Mildura facility

Satipharm distribution and registration plan

Following completion of the acquisition¹ of the Satipharm business in the previous quarter, a plan has been developed to expand distribution of Satipharm products and proceed with the registration of a low dose CBD capsule in Australia, to be available on an over-the-counter basis (S3 registration).

Satipharm is exclusively licensed to develop and market the proprietary “Gelpell” delivery system for cannabinoids, which is based on a patented micro-sphere encapsulation technology. Satipharm provides Cann with a platform to access the rapidly growing low dose CBD market segment and to also fast track development of new, novel THC-based medicinal cannabis formulations.

During the quarter, Cann facilitated expanded distribution of Satipharm CBD products in major UK pharmacy outlets and progressed distribution plans for the product in several other European markets as well as Argentina.



** United Kingdom point-of-sale material – products not available in Australia*

Research & Development highlights

The completion of Cann’s Phase 1 trial of new genetic lines in partnership with Agriculture Victoria has resulted in the selection of 10 new high THC lines for a Phase 2 commercial evaluation trial. This trial will enable selection of commercially viable candidate lines that are expected to lead to an improvement in the cost of production. A second research trial of new cannabis lines has also started, with the aim of identifying improved high yielding CBD and further THC lines for commercial use. These trials / genetics will feed into the Company’s accelerated breeding program.

Recent results generated by La Trobe University – which has a research partnership with Cann – have provided insight into improvement of nutritional requirements and management of Cann’s commercial lines that will improve yields at the Mildura facility.

Appointment of new Director

Mr John Sharman was appointed to the Board of Directors on 27 April. Mr Sharman has extensive international business experience as a Managing Director, CEO, CFO and non-executive director with public and private companies, including several ASX listed entities. He has a comprehensive understanding of the medical manufacturing industry as well as the pharmaceutical and nutraceutical

¹ Refer Annexure A for details of Satipharm acquisition terms, including outstanding milestone payments.

sectors. He has led businesses with operations in Australia, the UK, Europe, Asia and the USA, building distribution, sales, marketing and manufacturing networks both locally and internationally.

Mr Sharman is currently the CEO of Universal Biosensors Inc (ASX:UBI). Prior to that he served 10 years as CEO of Medical Developments International (ASX:MVP). Previous roles included Managing Director of CVC Venture Managers (private equity managers), Managing Director of Vita Life Sciences (ASX:VSC) and Cyclopharm (ASX:CYC), as well as roles at PriceWaterhouseCoopers, National Australia Bank and KPMG in both London and Melbourne.

Product recall

As disclosed to the market on 29 April 2021, one of Cann's customers initiated a class III recall in respect of a specific formulation of medicinal cannabis oil products which was manufactured and released by a third party GMP-licensed manufacturer, engaged by Cann, using ingredients which included a starting material supplied by another third party. The recall was undertaken following the identification by the contract manufacturer of particulate matter in a subsequent batch of the product which used the same starting material.

In line with the TGA's uniform recall procedure for therapeutic goods to mitigate any potential risk to public health and safety, a class III recall of the released product was deemed the most appropriate course of action based on the available information. A class III recall is not a safety-related recall and is undertaken where a deficient product is not likely to cause adverse health consequences. Of the 250 units of the product released by Cann's third party GMP manufacturer, only 11 were supplied to patients (from whom no adverse effects were reported). The balance of the products not supplied to patients is in Cann's control, and is under quarantine. The cause of the product recall was identified following an investigation by the manufacturer with the assistance of Cann, and corrective actions have been implemented, thus satisfying Australian quality and regulatory requirements. With this investigation now closed, the product in question contained and the corrective actions implemented, Cann is now able to continue to manufacture the product without issue.

Subsequent events

On 9 July 2021, Cann announced that it had received \$1.2 million in connection with court proceedings seeking to recover funds that were the subject of the cyber security incident announced to the market on 8 February 2021. As further announced on 29 March 2021, the Company had commenced a civil proceeding in Hong Kong to seek recovery of funds. Criminal investigations are continuing in various jurisdictions, however there is no guarantee that any formal prosecutions against any third parties involved in the cyber incident will either commence or result in any further funds being recovered.

On 26 July 2021, Cann announced a successful capital raise of \$10.0m by way of an institutional placement. Cann also announced its intention to undertake a further capital raise of \$10.0m by way of a share purchase plan (which will be subject to shareholder approval). Details of the share purchase plan will be announced to the market as soon as possible.

Outlook

Cann expects sales activity to build over coming months, reflecting expanded distribution arrangements in Australia and in overseas markets. A key focus will be marketing support for the Satipharm products currently being sold in the UK.

A number of key components of the Mildura build and fit-out will take place in the next few months, with construction of the manufacturing and extraction suite expected to be completed along with installation of pilot-scale extraction equipment and completion of laboratory commissioning.

Annexure A – Details of Satipharm acquisition consideration

Further details of the deferred consideration are provided below:

- CAD\$0.750 million following delivery of equipment in accordance with required specifications and satisfactory working conditions to Cann's nominated facility in Australia;
- first earn out payment of up to CAD\$0.250 million linked to an agreed revenue of the Satipharm business for the 6 months to 30 June 2021 (to be reduced to an agreed fraction of the revenue if the actual revenue is below that amount);
- second earn out payment of up to CAD\$0.250 million linked to gross profit of the Satipharm business for the financial year ended 30 June 2021 (to be reduced to an agreed multiple of the gross profit if the actual gross profit is below that amount); and
- third earn out payment of up to CAD\$0.250 million linked to an agreed EBITDA loss of the Satipharm business for the 6 months to 30 June 2021 (to be reduced by CAD\$1 for every CAD\$1 that the actual EBITDA loss for that period is greater than the agreed EBITDA loss for that period).

If Cann does not elect to pay each element of the deferred consideration in cash but instead decides to issue new Cann shares, then the number of new Cann shares to be issued for each element of the deferred consideration will be determined as follows:

- following delivery of equipment, Cann will issue a number of new Cann shares to the value of the AUD\$ equivalent of CAD\$0.750 million at an issue price per share to be based on the VWAP of Cann's shares during the 30 full trading days on the ASX ending on the ASX trading day immediately prior to the date on which delivery of the equipment to the satisfaction of Cann occurs; and
- in respect of each of the three earn out payments, Cann will issue a maximum of 664,895 new Cann shares (calculated based on the value of the AUD\$ equivalent of CAD\$0.250 million as at 28 June 2021, and an issue price per share of \$0.403 (being the VWAP of Cann's shares during the 30 full trading days on the ASX ending on 29 June 2021)).

Cann expects that all elements of the deferred consideration will be paid during the first or second quarters of FY22, either in the form of cash or shares, as outlined above.

Authorised for release by the Board of Directors of 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. Cann also owns Satipharm, a Europe-based business exclusively licensed to manufacture, develop and market the proprietary Gelpell delivery system for cannabinoids. Cann 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 established 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 at: www.canngrouponlimited.com | www.satipharm.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 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	568	1,378
1.2 Payments for		
(a) research and development	(281)	(1,680)
(b) product manufacturing and operating costs	(3,023)	(11,396)
(c) advertising and marketing	(20)	(67)
(d) leased assets	-	-
(e) staff costs	(2,027)	(7,084)
(f) administration and corporate costs	(1,192)	(4,857)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4	41
1.5 Interest and other costs of finance paid	(219)	(222)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	3,812
1.8 Other (provide details if material)	573	1,860
1.9 Net cash from / (used in) operating activities	(5,617)	(18,215)

Explanation to 1.8 Other: The amount mainly consists of 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.

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(7,618)	(16,061)
(d) investments	-	(1,026)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
	(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	-	214
	(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)	-	(3,249)
2.6	Net cash from / (used in) investing activities	(7,618)	(20,122)

3.	Cash flows from financing activities		
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	-	1,554
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)	-	-
3.10	Net cash from / (used in) financing activities	-	39,852

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	16,389	1,639
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(5,617)	(18,215)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(7,618)	(20,122)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	39,852
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	3,154	3,154

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	3,069	16,304
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	85	85
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,154	16,389

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	
<i>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.</i>		

7.	Financing facilities <i>Note: the term “facility” includes all forms of financing arrangements available to the entity.</i> <i>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	50,000	-
7.2	Credit standby arrangements	-	-
7.3	Other (Corporate Credit Cards)	60	40
7.4	Total financing facilities	50,060	40
7.5	Unused financing facilities available at quarter end		50,020
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.		
	The debt facility has been provided by the National Australia Bank and is a construction loan to fund the construction of the entity’s Mildura facility. The base rate is BBSY and the drawn margin will be 3.20% p.a. The facility fee is 1.80%p.a. The term of the loan is 8 years and it is a secured facility.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(5,617)
8.2 Cash and cash equivalents at quarter end (item 4.6)	3,154
8.3 Unused finance facilities available at quarter end (item 7.5)	50,020
8.4 Total available funding (item 8.2 + item 8.3)	53,174
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	9*
<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>	
* Note: the construction loan facility included within "Total available funding" at item 8.4 is only to be used to fund the building of the entity's Mildura facility. Please refer to answers below regarding net operating cash flows and funding.	
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: Yes the entity expects that it will continue to have the current level of net operating cash flows.	
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: Contemporaneously with the release of this Appendix 4C, the entity has announced a successful capital raise of \$10m, by way of an institutional placement, and the intention to raise at least a further \$10m by way of a share purchase plan.	

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: Yes the company expects to be able to continue its operations and meet its business objectives on the basis that it can draw down on its loan facility to fund the construction of its Mildura facility, and the capital raise along with expected revenue from product sales will provide the company with other working capital and funds for ongoing business objectives.

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.

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: **26 July 2021**

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.