



ASX ANNOUNCEMENT

30 November 2021

Cann to sell interest in Zalm Therapeutics to Rua Bioscience and strengthen supply arrangements with New Zealand

30 November 2021 – Cann Group Limited (ASX: CAN) (**Cann** or the **Company**) announced today that Zalm Therapeutics Limited (**Zalm**), the entity in which Cann holds 8.36% shares through a wholly-owned subsidiary, will be acquired by Rua Bioscience Limited, a company listed on the New Zealand Stock Exchange (NZE: RUA) (**Rua**). The total value of the transaction is up to NZ\$ 10 million, of which Cann will benefit on a pro-rata basis in accordance with its shareholding in Zalm. This is a premium to Cann's carrying value of its investment in Zalm.

The transaction is subject to approval from Rua's shareholders, in accordance with the NZX Listing Rules, which is expected to occur by 31 January 2022.

All of the shareholders of Zalm have agreed to sell their shares in exchange for shares in Rua. The shares will be issued to Zalm shareholders in three tranches. The first tranche of shares to the value of NZ\$3.3 million will be issued on completion of the transaction which is expected to occur by 31 January 2022. The remaining consideration will be paid in equal instalments, conditional on Zalm achieving critical production, pricing and regulatory milestones by 30 December 2022 and 31 March 2024 respectively. The milestones relate to Cann's supply of products to Rua for sale in Germany, pursuant to the existing supply arrangements in place between Cann and Zalm. Further details of the transaction between Zalm and Rua, including details relating to the conditional consideration, are set out in Annexure A below and in the announcement made today by Rua to the New Zealand Stock Exchange.

Mr Peter Crock, Cann's CEO, and Mr Allan McCallum, AO, Cann's Chairman, will both step down as directors of Zalm as part of the transaction, while Peter Crock and Mr Shane Duncan (Cann's COO), will join the Transition Advisory Board to help maximise and accelerate the potential of this opportunity.

Importantly, the Master Supply Agreement and the Technical Services Agreement between Cann and Zalm will remain in place and will be a key aspect of the achievement of the milestones relating to the supply of products to Rua, as noted above.

Cann CEO Peter Crock said "Following this transaction, we look forward to supporting and working with Rua as it looks to accelerate its expansion into the New Zealand market and further develop its opportunities in its targeted export markets.

Rua has an impressive business plan, and is well resourced with established distribution channels and intends to launch a number of medicinal cannabis products in 2022. Rua plans

to invest over NZ\$6 million across the next three years in sales and marketing activities as part of its go to market plan, so our supply relationship will make an important contribution to Cann's capacity utilisation as we approach the completion of the first stage of our new manufacturing facility in Mildura."

Annexure A – Details of payment milestones for Rua acquisition of Zalm

- NZ\$10 million equity value and NZ\$8.5 million enterprise value (net of Zalm cash)¹
- 100% of agreed purchase value satisfied through issue of 24,420,000 new Rua shares with 8,140,000 issued on completion (~NZ\$3.3 million) and remaining share consideration issued contingent on completion of two critical milestones (subject to adjustments noted below):
 - 8,140,000 Rua shares (NZ\$3.3 million) on Cann supplying the necessary manufacturing information required for Rua and their Agents to submit their German regulatory approvals for the sale of CBD and THC oil extracts as medicinal cannabis products and confirmation of production capacity of 10,000 units per annum (for each of CBD100, THC26 and Balanced) at specified preferential pricing terms (expected by July 2022); and
 - 8,140,000 Rua shares (NZ\$3.3 million) on Cann supplying the necessary manufacturing information required for Rua and their Agents to submit their German regulatory approvals for the sale of dried flower grown at Cann Group's cultivation facilities and confirming commercial production capacity of up to 150kg per month at agreed pricing terms (expected by July 2023)
- The total number of shares issued to Zalm shareholders will be adjusted in the following circumstances:
 - If Rua raises additional capital prior to achievement of the second milestone at an issue price below NZ\$0.4095 **and** if the prevailing share price at satisfaction of milestone two is lower than NZ\$0.4095, Rua will issue additional shares such that the total number of shares issued is equal to NZ\$10 million divided by the higher of the market price and NZ\$0.348 (implying an effective cap of 4,315,623 additional shares); and
 - If the future contracted purchase price for oil and dried flower from Cann is above certain agreed levels, the number of shares issued under the relevant milestone will be reduced (or result in the milestone not being achieved if the purchase price exceeds agreed thresholds)
- NZ\$1.0 million of Zalm cash available to Rua immediately on settlement with ~NZ\$0.5 million held in escrow pending achievement of at least one of two milestones
- If neither of the two milestones is achieved, ~NZ\$0.5 million of cash will be released to vendors and Rua would have paid NZ\$3.3 million for Zalm (NZ\$2.3 million net of cash)

¹ Transaction value based on ascribed Rua share value of NZ\$0.4095 being the 60-day VWAP up to 12 November 2021

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. 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