

ASX ANNOUNCEMENT

29 January 2020

Cann Group Market Update

- **Business strategy reset following recent global market disruption**
 - Focus on value-added product sales into Australian domestic market while export opportunities continue to develop
 - **Further details announced on staging of Mildura expansion**
 - Stage 1 (25,000 kgs per annum capacity) to be commissioned in two phases
 - Stage 1A – 12,500 kgs; and
 - Stage 1B – increasing capacity to 25,000 kgs
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29 January 2020 – Cann Group Limited (ASX: CAN) (**‘Cann’**, the **‘Company’**) today outlined its strategic reset following recent demand-supply disruptions in the global medicinal cannabis market and provided an update on plans to proceed with its new production facility near Mildura, in Victoria.

Strategy reset

The Company has revised its near-term business strategy in response to the current demand-supply imbalance in global medicinal cannabis markets.

The Board and Management have developed an updated business plan that focuses on initially meeting Australian domestic demand while export markets continue to be developed and, concurrently, reducing operating expenses while the Company transitions to near-term profitability and positive cash flows.

Cann will continue to develop and commercialise value-added GMP grade finished products to meet Australian domestic demand, including utilisation of the Company’s wholesale and distribution agreement with Symbion Health to deliver Cann finished product through pharmacies and hospitals across Australia along with other channels to market that are being developed.

A range of imported medicinal cannabis products was commercially launched late last year, and Cann expects to supply locally grown and manufactured medicinal cannabis value-added products by late Q1 CY2020.

Cann will also continue to develop export pathways in addition to its existing pathway under the Aurora offtake agreement. Cann product will be manufactured to GMP standards, meeting European and other overseas market requirements.

Since announcing the need to revise its business plan late last year, Cann has reduced headcount by 25%, and \$7 million in annualised costs have been either eliminated from the business or deferred.

Cann currently holds all required licences and permits for cultivation, production, manufacturing, import and export and is committed to maintaining those licences and permits and operating to the highest of industry standards.

The Board and Management believe this reset of the business provides a more certain and lower risk pathway to near-term profitability, positive cash flows and a platform to expand the business as global demand continues to grow.

Mildura expansion plans

Cann announced on 21 November 2019 that it intends to complete the construction of its new medicinal cannabis production facility near Mildura in stages.

This follows a review of the project scope and timetable in the wake of significant recent disruption in the global medicinal cannabis supply position. An imbalance between demand and supply, particularly in Canada, has resulted in higher than anticipated inventories. The demand-supply imbalance has been attributed to delays in licensing and other regulatory approvals and a delay in the opening of new retail outlets.

The Company proposes to proceed with the first stage of the Mildura facility which will include an annual capacity to produce 25,000 kgs of cannabis dry flower. This initial stage of the project will be commissioned in two phases, with stage 1A providing a capacity of 12,500 kgs per annum with plant material expected to be in the facility by end of Q4 CY2020 and the first harvest targeted in Q1 CY2021. This expected timeline is subject to completion of detailed design and construction review, funding and necessary approvals. The Company has to date, expended approximately \$50M in respect to the facility (including purchase of the property).

Stage 1B will increase annual capacity to 25,000 kgs, with the timing of commissioning to be linked with volume demand growth that provides strong confidence in capacity utilisation.

The design of the Mildura facility will allow subsequent capacity expansion stages to be commissioned as the Australian and export markets continue to develop and higher volumes of product demand are confirmed. The facility will have a total potential future annual capacity of 70,000 kgs of dry flower.

This revised construction plan more closely aligns capacity with anticipated demand and lowers capital investment risk.

The Company continues to be in discussions with a tier 1 Australian bank in relation to finalising a loan facility to assist in the completion of the stage 1A expansion. The stage 1A funding package is expected to be finalised before the end of Q1 CY2020 and is anticipated to involve both debt and equity. The final mix of debt and equity is yet to be determined but the



extent of funding required to complete construction of Stage 1A is anticipated to be between \$65 million and \$75 million. Stage 1A is expected to generate near-term profitability and positive cash flows. The stage 1B expansion is expected to be funded from working capital and debt.

Aurora Cannabis Inc has informed the Company that it will not participate in any new funding associated with Cann's near-term plans. Aurora has confirmed that it continues to view its relationship with Cann, including the current offtake agreement, as strategically important.

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Authorised for release by Geraldine Farrell, Company Secretary, 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 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.cann grouplimited.com**