



ASX ANNOUNCEMENT

21 October 2021

September 2021 Quarterly Activities Report and Appendix 4C

- Quarterly customer receipts total \$1.47 million, reflecting positive revenue momentum
 - Cann undertakes successful institutional placement to raise \$10 million and completes Share Purchase Plan to raise a further \$8.69 million
 - Mildura construction progresses, with commissioning activity now underway
 - GMP Upgrade to Cann's Southern facility completed
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21 October 2021 – Cann Group Limited (ASX: CAN) (**Cann** or the **Company**) is pleased to provide its September 2021 Quarterly Activities Report and Appendix 4C.

Financials

Net cash outflows from operating activities for the quarter ending 30 September 2021 were \$2.575 million. Key cashflow items for the quarter were:

- Cann collected \$1.470 million in receipts from customers representing an increase of 158% on the prior quarter receipts as it continues to expand its customer base.
- Cann Group received \$1.2 million in connection with court proceedings seeking to recover funds that were the subject of a cyber security incident.
- Staff costs were consistent with the prior quarter while administration and corporate costs increased to \$1.701 million as a result of additional costs incurred for telecommunications, capital raising and IT infrastructure.
- Research and development expenses of \$0.49 million were incurred during the quarter as the Company continued with its research and development program.
- The Company raised \$10 million (before costs) through an institutional placement, with Cann directors subscribing for approximately \$1 million in new shares.
- Cashflow from investing activities included \$22.08 million in expenditure associated with the construction and development of Cann's new production facility near Mildura. An amount of \$18.669 million was drawn down from the Company's NAB facility for this development.

Sales and production

Unaudited sales for the quarter were \$1.25 million and are expected to build steadily, given strong demand momentum and expected progress with various revenue-generating initiatives over the coming months. White label products continue to build strong momentum from Cann's B2B customers

and the continued expansion of that customer base is expected to contribute to revenue growth during FY22. The Company now has 19 customers signed to ongoing supply agreements, many of which are now cycling repeat orders. 6,545 units were shipped during the quarter, along with bulk dried flower and bulk extract shipments.

International demand remains firm with follow up orders shipped to Astral in the UK and good clearance rates being evidenced in Europe through our distribution partner iuvo Therapeutics.

The upgrade of Cann's Southern facility to support cGMP medicine and API manufacture (including drying cannabis flower) is complete, with Therapeutic Goods Administration (**TGA**) inspection for a GMP licence recently undertaken. Customer demand for dried flower product from the Southern facility is strong and a number of orders have been received pending the grant of the TGA-GMP licence.

Mildura facility

Construction of the state-of-the-art production facility at Mildura progressed during the quarter. Despite restrictions to the number of workers allowed on site during COVID-19 lockdowns, key parts of the facility are now substantially complete and the overall project remains largely on schedule.



Progress in cultivation area

The laboratory commissioning has been completed and the first batches of flower from Cann's Southern facility have arrived for testing. Installation of the extraction and manufacturing suite has also been completed and the small-scale extraction equipment has been installed and awaits outcome of the Office of Drug Control's (**ODC**) recent inspection of the site. To streamline the inspection process at Mildura, TGA inspection of the laboratory, the resin extraction and the Satipharm manufacturing line has been scheduled for mid-January 2022.

Installation and qualification of the resin extraction and Satipharm manufacturing line is on track to meet the TGA inspection date. The installation of the Satipharm manufacturing line will significantly reduce manufacturing costs and give the Company full control of its end-to-end supply chain.

Subsequent to the small-scale extraction being approved, the installation of the large-scale extraction facility will occur. Additionally, preparation for commissioning of the cultivation part of the facility is underway in anticipation of ODC inspection for a cultivation permit.

Mildura is a staged project, with the initial stage allowing Cann to produce 12,500 kgs of cannabis dried flower per annum. The completion of the on-site laboratory allows the Company to undertake

quality and validation testing without having to outsource those steps or move the product off site. The addition of the extraction capability streamlines processing, and captures important cost savings.

The Company is excited to enter this current quarter as it continues with the commissioning of the Mildura facility and begins producing plants for transfer into the facility once permits have been finalised with the ODC.



Laboratories are equipped and functioning with commissioned equipment

Placement and Share Purchase Plan

On 7 September 2021, the Company announced that, following shareholder approval received at an Extraordinary General Meeting, it would be proceeding with a Share Purchase Plan (**SPP**) to raise up to \$10 million. The SPP offer closed on 15 October 2021 with \$8.69 million raised. The SPP was in addition to the Company's successful \$10 million placement announced to the market on 26 July 2021 (**Placement**) and, together with the Placement funds, completed the total capital raising of \$18.69 million. As previously announced, the proceeds from the capital raising will be used to invest in initiatives which are expected to deliver substantial cost savings as Cann moves to large scale production with the commissioning of its new manufacturing facility near Mildura. Funding will be used to expedite and strengthen Cann's in-house extraction, laboratory and manufacturing capabilities, which are expected to de-risk Cann's supply chain and lower cost of goods sold by reducing the Company's reliance on third party manufacturers and service providers.

The Company thanks its existing shareholders for their continued support and looks forward to moving ahead with the various activities that the capital raising has funded.

S3 product registration

The Company is progressing with a S3 product registration program for the proprietary Satipharm CBD capsules. This is aimed at the market for over-the-counter sales of registered CBD products, announced by the Commonwealth government in February 2021. The Company has appointed a Clinical Research Organisation to assist in the registration process and the various steps of confirming indication, trial design and appointment of lead investigators are underway. The Company expects the proprietary Satipharm capsule technology will prove to be an important point of differentiation when CBD products are registered and reach the market.

Research and Development highlights

Harvesting of flowers from a two-phase evaluation trial of new genetic lines has been completed and the results of this trial will help enable selection of new cultivars for the commercial pipeline. A first phase of a second research trial of new cannabis lines has been harvested and Cann is working on

chemotype analysis. This trial is designed to identify high yielding CBD and further THC lines for commercial use. The improved lines selected from the trials will also be fed into the Company's accelerated breeding program with Agriculture Victoria.

Installation of LED lights at Cann's Northern greenhouse facility has resulted in an improved growing environment, with early indications showing a 50 to 200% increase on flower bud yield per plant, depending on the cultivar.

Recent results on testing completed by CSIRO have identified key production improvements in the drying of cannabis flowers that Cann will plan to implement at the Mildura facility.

Satipharm acquisition – completion of payments

During the quarter, the Company issued a total of 2,749,946 fully paid ordinary shares to Harvest One as deferred consideration for the acquisition of the Satipharm business. These shares were issued following receipt of manufacturing equipment and confirmation of adjusted earnout payments. The issue of those shares now completes all payment obligations for the Satipharm acquisition.

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 September 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,470	1,470
1.2 Payments for		
(a) research and development	(499)	(499)
(b) product manufacturing and operating costs	(1,965)	(1,965)
(c) advertising and marketing	(2)	(2)
(d) leased assets	-	-
(e) staff costs	(1,941)	(1,941)
(f) administration and corporate costs	(1,701)	(1,701)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	1
1.5 Interest and other costs of finance paid	(234)	(234)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	2,296	2,296
1.9 Net cash from / (used in) operating activities	(2,575)	(2,575)

Explanation to 1.8 Other: The amount is made up of the Company's GST refund from capital purchases and a receipt of \$1.2 million in connection with court proceedings seeking to recover funds that were the subject of a cyber security incident.

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(22,417)	(22,417)
(d) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 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	-	-
(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)	-	-
2.6 Net cash from / (used in) investing activities	(22,417)	(22,417)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	10,000	10,000
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	(771)	(771)
3.5 Proceeds from borrowings	18,670	18,670
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)	(677)	(677)
3.10 Net cash from / (used in) financing activities	27,222	27,222

Explanation to 3.8 Other: This amount consists of intercompany loans to overseas subsidiaries.

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	3,154	3,154
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,575)	(2,575)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(22,417)	(22,417)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	27,222	27,222
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	5,384	5,384

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	5,299	3,069
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)	5,384	3,154

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 ¹	129
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>		

¹ Salary payments made to Directors during the quarter ending 30 September 2021.

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<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>		
7.1 Loan facilities	50,000	18,670
7.2 Credit standby arrangements	-	-
7.3 Other (Corporate Credit Cards)	115	9
7.4 Total financing facilities	50,115	18,679
7.5 Unused financing facilities available at quarter end		31,436
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. 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)	(2,575)
8.2 Cash and cash equivalents at quarter end (item 4.6)	5,384
8.3 Unused finance facilities available at quarter end (item 7.5)	31,436
8.4 Total available funding (item 8.2 + item 8.3)	34,245
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	13
<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>	
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: The Company announced a Share Purchase Plan on 7 September 2021 to raise up to a maximum of \$10 million. The plan closed on 15 October 2021 after raising \$8.69 million.	
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 on its loan facility to fund the construction of its Mildura facility. The recently completed capital raise and expected revenue will provide the company with other working capital and funds for ongoing business objectives	
<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>	

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: **21 October 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.