

ASX ANNOUNCEMENT

28 April 2022

March 2022 Quarterly Activities Report and Appendix 4C

- **Mildura facility achieves practical completion**
 - **ODC permit granted for commercial cultivation at Mildura**
 - **Sales revenue up 334% on prior corresponding period**
 - **Significant subsequent events, including:**
 - **Exclusive option evaluation agreement signed with GSK**
 - **Satipharm Advanced CBD product gets green light from UK Food Standards Agency**
 - **New working capital banking facility and revised terms for existing facility**
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28 April 2022 – Cann Group Limited (ASX: CAN) (**Cann** or the **Company**) is pleased to provide its March 2022 Quarterly Activities Report and Appendix 4C.

Financials

Net cash outflows from operating activities for the quarter ending 31 March 2022 were \$4.188 million. Key cashflow items for the quarter were:

- Cann collected \$1.290 million in receipts from customers.
- Cann received \$1.667 million in GST receipts with a further \$0.706 million to be received in April 2022.
- Staff and administration costs were in line with expectations and consistent with the prior quarter.
- Payments of \$0.10 million were made to directors (being related parties) by way of salary payments.
- Research and development expenses of \$0.391 million were incurred during the quarter as the Company continued with its research and development program.
- Cashflow from investing activities included \$5.844 million in expenditure associated with the construction and development of Cann's new production facility near Mildura. An amount of \$4.744 million was drawn down from the Company's NAB facility for this development.

Sales and production

Unaudited sales revenue for the quarter ended 31 March 2022 was \$1.270 million representing a 334% increase to the prior corresponding period. A number of factors have contributed to this revenue growth including increased sales of extracted oil formulations to existing and new customers, new sales of dried flower products released from our newly GMP licensed Southern

facility, and growth in sales of our Satipharm capsules, particularly in Australia. We are expecting continued increased sales from these sources, as well as growth in our UK Satipharm capsule sales, during the next quarter ending June 2022.

In January, the Therapeutic Goods Administration (**TGA**) granted Cann a GMP licence to manufacture therapeutic goods for Cann's Southern facility (**Southern GMP Licence**). This licence enables Cann to manufacture Active Pharmaceutical Ingredient (**API**) and medicinal cannabis products under cGMP conditions at its Southern facility for supply to customers in Australia and overseas. Dried cannabis flower products produced under this licence have now been supplied to customers and demand for these products continues to be strong.

In March the Office of Drug Control (**ODC**) granted Cann the necessary permit to allow commercial cultivation activities to commence in the Mildura facility. This permit allows for cultivation and production of medicinal cannabis and research activities in relation to medicinal cannabis.

Subsequent to the granting of the permit, Cann has transferred medicinal cannabis plants from its Southern facility to Mildura and has established the starting genetics. The first commercial crop is expected to be harvested at the Mildura facility in June 2022.



A Cann employee tends mother plants in our state-of-the-art glasshouse facility.

As noted below in relation to subsequent events, a separate permit covering the manufacture of medicinal cannabis products at the Mildura facility was granted to the Company in April.

During the reporting period, Cann has continued the commissioning of the Satipharm capsule manufacturing line. Satipharm sales increased in March following the agreement reached with Medlab Clinical Ltd (Medlab) in February to market Satipharm products to doctors.



Left: Our unique, patented microspheres in production at Cann's Mildura facility and right: a newly manufactured batch of Satipharm capsules.

Mildura facility

During the quarter Cann also announced that its new state-of-the-art production facility near Mildura had reached practical completion, which, combined with the granting of the ODC permit referred to above, enabled the commencement of cultivation activities on site during the quarter.

The Mildura facility is the most technologically advanced, large-scale medicinal cannabis cultivation and production facility in Australia. The cultivation area incorporates a closed system micro climate-controlled glasshouse to optimise plant growth cycles and multiple integrated automation systems including:

- automated climate control providing heating and cooling systems to balance temperature, airflow and humidity;
- a mobile table system ensuring plants are in the best position for climate, irrigation, light and growth at all stages in the growth cycle;
- state-of-the-art lighting technology;
- automated screening system with up to 99.9% effective blackout to maximise crop cycles, energy savings and provide plant protection;
- multiple-stage water filtration, irrigation and nutrient delivery system featuring full recirculation and cultivar-specific feeding.



The TGA conducted an audit of Mildura's laboratory, resin extraction and Satipharm manufacturing line and the Company continued to work with the TGA during the quarter to progress the GMP licencing of these parts of the facility.

During the quarter, a total of seven new personnel commenced working at the Company's Mildura facility, bringing the number of employees based at Mildura to 22. Further staff members are scheduled to commence during April 2022 as the facility becomes fully operational.

Clinical trial and S3 product registration program

In February the Company announced that the recruitment of patients for its phase 3 clinical trial examining the efficacy of its proprietary CBD-Satipharm capsule for the short-term treatment of sleep disturbances and quality of life outcomes would begin in March. The clinical trial is a randomised, double blind, placebo-controlled study and part of a registration program undertaken by Cann to secure an Australian approval for a Schedule 3 (**S3**) over-the-counter cannabidiol (**CBD**) product.

Recruitment of patients is well underway with initial patients enrolled in the trial by the end of the quarter and strong levels of interest from potential participants. The trial involves at least 212 patients being randomly placed into four cohorts receiving one of three different doses of the Satipharm CBD formulation, or a placebo. Patients are being treated for four weeks, and results of the trial are anticipated to be released later in 2022, in line with Cann's S3 registration program. Clinical trial sites are in most major capital cities in Australia and further information on the trial is available [here](#).

Research and Development highlights

Research and development highlights during the reporting period include:

- The first commercial crop of Cann's new high THC elite cultivar that was generated through the R&D selection program has been harvested with an increase of approximately 40% in THC levels and bud yields compared to the Company's standard THC cultivar.
- Cann's Mildura laboratory analysed flowers harvested from the second phase high CBD trial and the Company has selected a new elite CBD cultivar which will proceed into a commercial trial. This new cultivar shows a significant improvement in bud yield and CBD level compared to Cann's standard CBD cultivar.
- Further, seed from the first breeding crosses performed by Agriculture Victoria (**AgVic**) are ready to be delivered to Cann's facilities. The second breeding cycle has commenced with the newly characterised and improved cultivars from Cann's trials having been delivered to AgVic labs during this reporting period.

Board and management changes

On 17 February 2022, Mr Geoff Pearce stepped down from the Board having served as a director since April 2016. The Board is continuing to review its skills base needs to determine whether to appoint a new director and, if so, the recruitment process that will be undertaken.

Mr Rhys Cohen will be joining the Company in the role of Senior Corporate Communications Manager with effect from 2 May 2022. Mr Cohen was most recently editor-at-large at [Cannabiz](#), Australia's leading B2B industry publication. He sits on the non-executive advisory board of the Lambert Initiative for Cannabinoid Therapeutics at the University of Sydney.

Subsequent events

The following events have occurred subsequent to the end of the reporting period:

- In April, the UK Food Standards Agency (FSA) included the Satipharm range of Advanced CBD capsules in the list of approved products permitted to be sold in the UK, presenting a major opportunity for Cann to substantially grow sales of Satipharm products within the UK market.

- Cann has entered into an agreement with GSK Consumer Healthcare to enable GSK Consumer Healthcare to evaluate the distribution and marketing of Cann’s CBD capsules in Australia and potentially other global markets. In parallel with the evaluation, both parties will enter into negotiations on an exclusive agreement for the marketing, sale and distribution of the Satipharm CBD product in Australia. GSK Consumer Healthcare also has potential interest in taking up commercialisation rights for markets outside of Australia. The key terms of any definitive sales and marketing agreement are contingent on several factors, including the results of Cann’s Phase 3 clinical trial and regulatory approval, as well as GSK Consumer Healthcare’s evaluation. Further details about this agreement can be found in the Company’s [announcement](#) dated 6 April 2022.
- The ODC has granted Cann the necessary permit to allow the manufacture of medicinal cannabis products at Cann’s Mildura facility.
- Cann announced that commercial cultivation has now officially commenced at the new Mildura facility, with the Company’s first commercial crop now growing on site. This crop is expected to be harvested in June 2022.
- Cann has entered into a \$15 million working capital facility with National Australia Bank (NAB), as well as re-negotiating the Company’s existing \$50 million facility as it converts to an amortisation loan.

CEO comment

Cann Group’s CEO, Peter Crock, said: *“The March quarter encompassed the achievement of key milestones in respect of our manufacturing capabilities and scale; our regulatory approvals; our R&D programs; and progress associated with our pivotal S3 clinical trial. That positive momentum has continued into the early part of this current quarter, with the signing of the agreement with GSK Consumer Healthcare, the UK approval of our Satipharm product range and the commencement of commercial cultivation activity at Mildura. To capitalise on these achievements, we are now prioritising a stronger focus on sustainable sales growth as we look to meet increasing demand from both the domestic Australian market and markets overseas.”*

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 has established research, cultivation and GMP manufacturing facilities in Melbourne and a state-of-the-art cultivation and manufacturing facility near Mildura, Victoria. Cann Group's leading position in plant genetics, breeding, extraction, analysis and production techniques supports its objective to supply high quality, safe medicinal cannabis for a range of diseases and medical conditions. Cann's product portfolio incorporates the proprietary Satipharm delivery system for cannabinoids.

Learn more at: www.cann grouplimited.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")

31 March 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	1,290	4,531
1.2 Payments for		
(a) research and development	(391)	(1,076)
(b) product manufacturing and operating costs	(2,701)	(7,489)
(c) advertising and marketing	(4)	(8)
(d) leased assets	-	-
(e) staff costs	(2,291)	(7,127)
(f) administration and corporate costs	(1,243)	(4,184)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	2
1.5 Interest and other costs of finance paid	(518)	(1,199)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	2,187
1.8 Other (provide details if material)	1,670	6,265
1.9 Net cash from / (used in) operating activities	(4,188)	(8,098)

Explanation to 1.8 Other: The amount is made up the Company's GST refund from capital purchases and operating expenses.

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(5,844)	(46,680)
(d) investments	-	-
(e) intellectual property	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 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)	-	-
2.6	Net cash from / (used in) investing activities	(5,844)	(46,680)
3. Cash flows from financing activities			
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	18,696
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	(2)	(866)
3.5	Proceeds from borrowings	4,744	39,946
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)
3.10	Net cash from / (used in) financing activities	4,742	57,099
Explanation to 3.9 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	10,765	3,154
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(4,188)	(8,098)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(5,844)	(46,680)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4,742	57,099
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	5,475	5,475

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	5,390	10,680
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)	5,475	10,765

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	100
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.

¹ Salary payments made to Directors during the quarter ending 31 March 2022.

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	50,000	39,945
7.2 Credit standby arrangements	-	-
7.3 Other (Corporate Credit Cards)	115	2
7.4 Total financing facilities	50,115	39,947
7.5 Unused financing facilities available at quarter end		10,168
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.		
<p>The loan facilities have been provided by the National Australia Bank. A new working capital facility has been entered into after the quarter end. This facility has an initial period with review on 30 November 2022 and thereafter for rolling 12 month periods. This facility has a drawn margin rate of 2.00% p.a. and a facility fee of 0.35% p.a, and it is a secured facility.</p> <p>The previously existing \$50m construction draw down facility has also been restructured after quarter end. The base rate remains at BBSY, the drawn margin will now be 2.30% p.a. and the facility fee will now be 0.35% p.a. Amortisation of the loan commences on 31 May 2024 on a quarterly basis for 10 years, and it is a secured facility.</p>		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(4,188)
8.2 Cash and cash equivalents at quarter end (item 4.6)	5,475
8.3 Unused finance facilities available at quarter end (item 7.5)	10,168¹
8.4 Total available funding (item 8.2 + item 8.3)	15,643
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	3.7¹
<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?	
<p>Answer: Yes, the entity expects that it will continue to have the current level of net operating cash flows.</p>	
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?	
<p>Answer: The entity has established a \$15m working capital facility with the National Australia Bank. The funds will be used by the entity to support the scale-up of the business and assist Cann in implementing the next phase of its long-term growth strategy. Additionally, Cann has renegotiated its \$50m debt facility to defer amortisation payments until 31 May 2024.</p>	

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 new working capital facility and existing loan facility to fund the remaining construction activities.

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.

¹ Includes NAB construction facility but does not include new working capital facility as this was entered into after quarter end.

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: **28 April 2022**

Authorised by: **Board of Directors of 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.