

ASX ANNOUNCEMENT

28 July 2022

June 2022 Quarterly Activities Report and Appendix 4C

- Mildura facility granted a GMP Licence, completing all necessary regulatory approvals for this site.
 - Operational cultivation begins at Mildura with first commercial harvest completed in June 2022.
 - Exclusive evaluation and option agreement signed with Haleon (formerly GSK Consumer Healthcare) in relation to the potential commercialisation of Cann's Satipharm CBD capsules.
 - Satipharm Advanced CBD products get green light from UK Food Standards Agency
 - \$15m working capital facility and revised terms for existing facility secured via National Australia Bank.
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28 July 2022 – Cann Group Limited (ASX: CAN) (**Cann** or the **Company**) is pleased to provide its June 2022 Quarterly Activities Report and Appendix 4C.

Financials

Net cash outflows from operating activities for the quarter ending 30 June 2022 were \$7.109 million. Key cashflow items for the quarter were:

- Cann collected \$1.952 million in receipts from customers.
- Cann received \$0.70 million in GST receipts.
- Staff and administration costs were in line with expectations and consistent with the prior quarter.
- Payments of \$0.076 million were made to directors (being related parties) by way of salary payments.
- Research and development expenses of \$1.985 million were incurred during the quarter as the Company continued with its research and development program.
- Cash outflow from investing activities included \$3.283 million in expenditure associated with the construction and development of Cann's new production facility near Mildura. An amount of \$3.415 million was drawn down from the Company's NAB facility for this development.
- Cann withdrew an amount of \$3.5 million from the NAB Working Capital Facility during the quarter.

Sales and production

Unaudited sales revenue for the quarter ended 30 June 2022 was \$1.973 million. Sales revenue for the year ended 30 June 2022 was \$6.411 million representing a 49% increase to the prior corresponding period. Revenue growth in this quarter was driven by strong and increasing domestic demand for dried flower products. Satipharm sales have seen slower than expected growth following the announcement in April 2022 from the UK Food Standard Agency that the Satipharm range of Advanced CBD capsules were approved for sale pending their assessment and certification as novel foods.

Cann completed its first GMP release of dried flower products from its Southern facility. These products were all cultivated, harvested, packaged and released from Cann's GMP Southern facility, which was licensed by the Therapeutic Goods Administration in January. Demand for the dried flower product form remains high and Cann has increased production of its high THC cultivars to help meet this demand. With Cann's Mildura facility now operational, the Company is well placed to consistently supply the market with meaningful volumes of locally cultivated and quality-assured products. .

Mildura facility

In March, the Office of Drug Control (**ODC**) granted Cann the necessary permit to allow commercial cultivation activities to commence in the Mildura facility, and starting genetics were transferred to Mildura to commence operations.

In April, the ODC issued a new permit covering the manufacture of medicinal cannabis products. Cann has utilised this permit for its on-site extraction suite. Satipharm CBD capsules are now being manufactured at the Mildura facility, in support of the S3 registration program for this product. The manufacturing permit completes the suite of ODC permits required for the operation of the Mildura facility.

In June, the Company announced that harvesting had begun on the first commercial crop at Mildura, with subsequent crops already progressing well through the vegetative and flowering stages. Plants harvested from the current crop will be trimmed and dried on-site before undergoing extraction and manufacture of medicinal cannabis products in fulfilment of Cann's local and international commercial supply agreements. With Mildura commercially operational, Cann is now actively cultivating commercial crops across all three of its licensed production sites.



Right: Staff at Cann's Mildura facility meticulously hand-harvest the first commercial crop, ensuring a high-quality yield with less waste.

Also in June, the Company was pleased to announce that the Therapeutic Goods Administration (**TGA**) granted a GMP licence to manufacture therapeutic goods at the Mildura facility, and to conduct GMP testing. In combination with the licences and permits issued by the ODC earlier in the year, the GMP licence enables Cann Group to produce Active Pharmaceutical Ingredients (**API**) at the facility, manufacture Satipharm capsules for human therapeutic use, and perform in-house chemical, physical, and microbiological tests to demonstrate that products meet local and overseas regulatory requirements. This is the regulatory capstone for the facility, allowing the Company to cultivate, extract, manufacture, test, and supply finished products entirely in-house. Of particular note, now that Cann has this GMP licence in place it will commence manufacturing of Satipharm capsules containing THC, aiming to have these unique products available for release in early 2023.

During the quarter, a total of 12 new personnel were employed at the Company's Mildura facility, bringing the number of employees based at Mildura to 34.



Left: Production of our unique, patented microspheres for use in Satipharm CBD capsules takes place in a GMP suite at Cann's Mildura facility.

Exclusive agreement signed with Haleon (formerly GSK Consumer Healthcare)

In April, Cann announced that it has entered into an exclusive evaluation and option agreement with Haleon (formerly GSK Consumer Healthcare) in relation to the potential commercialisation of Cann's Satipharm CBD capsules for over-the-counter (OTC) distribution in Australia (S3 registration status) and, potentially, other markets globally.

During the period of exclusivity, Haleon will undertake an evaluation of commercial potential and will review the results of Cann's phase III CBD clinical trial, which is currently underway. In parallel with this evaluation, both parties will enter into negotiations on a definitive exclusive agreement for the marketing, sale and distribution of the Satipharm CBD product in Australia. Haleon also has potential interest in first rights to negotiate exclusivity periods to assess its interest in taking up commercialisation rights for markets outside of Australia. While small scale production of Satipharm capsules is already commissioned and underway at Mildura, the evaluation process will scope the large-scale manufacturing requirements which would be necessary to support Haleon's supply requirements initially in Australia and, potentially, in other markets.



Above: Microspheres roll off the conveyor belt in preparation for encapsulation in our Satipharm capsules.

Clinical trial and S3 product registration program

Cann Group's phase III, double-blind, placebo-controlled, randomised clinical trial has now recruited half of the required participants. Recruitment received an additional boost in June when Cann Group and the Satipharm clinical trial were featured on Channel 9 News. The Company will soon be adding an additional three study sites in New Zealand, and is working towards additional sites in Melbourne, to accelerate recruitment. Further information on the trial is available [here](#).

New funding arrangements with National Australia Bank

In April, Cann reached two important agreements with National Australia Bank, securing a new \$15m working capital facility to support the next phase of the Company's growth strategy. The facility terms have been negotiated for an initial period with review on 30 November 2022 and thereafter for rolling 12-month periods. The drawn margin rate will be 2.00% p.a., and the facility fee will be 0.35% p.a.

Cann also successfully renegotiated the terms of its existing \$50m debt facility with NAB, which had its drawn marginal rate reduced from 3.2% to 2.3% p.a., and its facility fee reduced from 1.8% to 0.35% p.a. Amortisation of the loan will commence 31 May 2024 on a quarterly basis, and the amortisation period has been reduced from 10 to 8 years.

The two facilities are cross-collateralised and cross-defaulting.

Regional Jobs Fund payment

In June, Cann announced that it received the second milestone payment from the Victorian government's *Regional Jobs Fund* program. Cann was approved for the fund in 2020 which is

worth \$1.975m in total. The funds are paid over three milestone periods, with the most recent payment of \$0.5m being received in recognition of Cann meeting the necessary requirements.

The payment was received in the same week that a [media release](#) from the Victorian Premier's office highlighted the current level of government support being provided to Cann at its Mildura facility. In that release, Victoria's Member for Northern, Mark Gepp MLC, noted Cann's contribution to regional employment, saying "This facility is unique to Mildura and is accelerating the future potential of a crucial industry. The medicinal cannabis industry is growing rapidly and Victoria is well placed to compete in the sector". Cann's involvement with the Fund was also promoted by the Premier of Victoria, Daniel Andrews, in a social media post.

Research and Development highlights

The investment in Cann's breeding program in collaboration with Agriculture Victoria, La Trobe University and Cann's in-house research has resulted in the selection of a number of commercially viable elite high-THC lines. In the March Quarterly Activities Report, Cann disclosed that conservative estimates of these lines have seen improvements of 40% in yield and cannabinoid levels compared to existing genetics. Improvements of 90% in bud yield and 50% in THC levels when compared to previous genetics have since been observed in R&D trials. This has allowed an expansion of the dried flower inhalable product selection and an effective decrease in the cost of production.



Above: Cann's Northern facility in Melbourne is home to our plant breeding program, which is being conducted with Agriculture Victoria as well as other research work with La Trobe University.

In April, the Company's partnership with La Trobe University was further strengthened by the successful grant of \$5m from the Australian Government's Regional Research Collaboration (RRC) Program to fund state-of-the art imaging technology at the Mildura facility to improve crop yield and sustainability using medicinal cannabis as a case study. To announce the grant,

the Mildura facility was visited by Federal Senator the Hon. Bridget McKenzie and Federal MP Dr Anne Webster, Member for Mallee. The Company also hosted a separate visit from Federal MP the Hon. David Littleproud.

Subsequent event

On 20 July 2022 Cann announced that it had finalised arrangements with the National Australia Bank for a new leasing facility. The facility will have a revolving leasing limit of \$750,000 which will decrease when goods are financed but increase again when repayments are made. Each financing lease covered under the facility will have a different rate, determined by the Reserve Bank of Australia's then current cash rate, and the nature of the item that is being leased. Cann can repay each lease over a period of 24 – 60 months. The facility has an expiry date of 30 June 2023.

CEO comment

Cann Group's CEO, Peter Crock, said: *"The June quarter has seen us achieve several important goals, most notably the agreement signed with Haleon (formerly GSK Consumer Healthcare) giving it an exclusive option to evaluate and commercialise Satipharm CBD capsules for over-the-counter sale in Australia and potentially other markets. We also reached two crucial milestones at our flagship Mildura facility, being the first commercial harvest of medicinal cannabis crops, and the receipt of a GMP licence. This means the Mildura facility can now cultivate, extract, manufacture, test, and supply finished medicinal cannabis products entirely in-house. We can now leverage the operational capacity at Mildura to secure new supply agreements and meet the growing demand in Australian and overseas markets."*

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 enhancing patients' lives by developing, producing, and supplying innovative cannabis medicines. The Company has built world-class research, cultivation and GMP manufacturing facilities in Melbourne, and a state-of-the-art large-scale cultivation and GMP manufacturing facility near Mildura, Victoria. Cann Group supplies a range of dried flower and oil products, as well as active pharmaceutical ingredients and extracts, to customers in Australia and around the world. Cann Group also owns Satipharm and its patent-protected capsule technology.

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 2022

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	1,952	6,483
1.2 Payments for		
(a) research and development	(1,985)	(3,061)
(b) product manufacturing and operating costs	(2,105)	(9,594)
(c) advertising and marketing	(38)	(46)
(d) leased assets	-	-
(e) staff costs	(3,488)	(10,615)
(f) administration and corporate costs	(2,054)	(6,238)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	2
1.5 Interest and other costs of finance paid	(596)	(1,795)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	500	2,687
1.8 Other (provide details if material)	705	6,970
1.9 Net cash from / (used in) operating activities	(7,109)	(15,207)

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

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(3,283)	(49,963)
(d) investments	-	-
(e) intellectual property	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 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	(3,283)	(49,963)

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	-	(866)
3.5 Proceeds from borrowings	6,915	46,861
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	6,915	64,014

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	5,475	3,154
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(7,109)	(15,207)

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(3,283)	(49,963)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	6,915	64,014
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	1,998	1,998

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	1,913	5,390
5.2	Call deposits	-	-
875.3	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)	1,998	5,475

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	76
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 30 June 2022.

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	65,000	46,860
7.2 Credit standby arrangements	-	-
7.3 Other (Corporate Credit Cards)	115	-
7.4 Total financing facilities	65,115	46,860
7.5 Unused financing facilities available at quarter end		18,255
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.</p> <p>The construction draw down facility (\$50m) base rate is the BBSY and the drawn margin is 2.30% p.a. The facility fee is calculated at 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> <p>The working capital facility (\$15m) 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% pa and it is a secured facility.</p> <p>As announced on 20 July 2022 Cann Group finalised arrangements with the National Australia Bank for a new leasing facility. The facility will have a revolving leasing limit of \$0.75m which will decrease when goods are financed but increase again when repayments are made. Each financing lease covered under the MAFA will have a different rate, determined by the Reserve Bank of Australia's then current cash rate, and the nature of the item that is being leased. Cann can repay each lease over a period of 24 – 60 months. The facility has an expiry date of 30 June 2023.</p>	

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(7,109)
8.2 Cash and cash equivalents at quarter end (item 4.6)	1,998
8.3 Unused finance facilities available at quarter end (item 7.5)	18,255 ¹
8.4 Total available funding (item 8.2 + item 8.3)	20,253
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.8
<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 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. Cann has also finalised arrangements with the National Australia Bank for a new leasing facility which will provide Cann with a cost effective solution to purchasing capital equipment, allowing the Company to spread such costs over an agreed period of time.

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 the facilities it has in place with the National Australia Bank.

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

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 July 2022**

Authorised by: **The 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.