

ASX ANNOUNCEMENT

27 October 2022

**September 2022 Quarterly Activities Report
and Appendix 4C**

- **Phase III clinical trial of low-dose CBD Satipharm capsules reaches recruitment target**
- **Mildura facility has GMP licence extended to cover patient-ready dried flower products**
- **Share Purchase Plan announced to assist with Satipharm manufacturing scale-up**
- **CEO transition announced**

27 October 2022 – Cann Group Limited (ASX: CAN) (**Cann** or the **Company**) is pleased to provide its September 2022 Quarterly Activities Report and Appendix 4C.

Financials

Net cash outflows from operating activities for the quarter ending 30 September 2022 were \$6.829 million. Key cashflow items for the quarter were:

- Cann collected \$2.433 million in receipts from customers representing a 25% increase on the previous quarter and a 66% increase on the prior corresponding period.
- Research and development expenses of \$1.188 million were paid during the quarter as the Company continued with the development program for its Phase III placebo-controlled, randomised clinical trial investigating whether low-dose Satipharm CBD capsules are effective for treating mild sleep disturbances, targeting an over-the-counter Schedule 3 drug registration.
- Product and manufacturing costs increased in line with expectations to support forecast formulation of oil products.
- Staff and administration costs were in line with expectations as the Company continues with the scale up its Mildura facility.
- Payments of \$0.78 million were made to directors (being related parties) by way of salary payments.
- Cash outflow from investing activities included \$2.327 million in expenditure associated with the construction and development of Cann's flagship Mildura facility.
- An amount of \$1.809 million was drawn down from the Company's NAB Construction facility for this development.
- Cann withdrew an amount of \$7.250 million from the NAB Working Capital Facility during the quarter.

New leasing facility with the NAB

On 20 July 2022 Cann Group 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. As of 30 September 2022, \$0.18 million of this facility had been utilised.

Sales and production

Unaudited sales revenue for the quarter ended 30 September 2022 was \$1.967 million representing a 57% increase to the prior corresponding period. Revenue growth in the September quarter was again led by dried flower products, with demand for Cann Group's oil products range also increasing. The first dried flower crops cultivated at Mildura have now been released to clients, with related sales to be reflected in the current quarter. Cann onboarded and secured initial purchase orders from several new clients and is factoring anticipated repeat orders into future production schedules, including the next generation of the Company's exclusive, high-yielding cultivars.

Work is progressing on the optimisation of growing conditions at the Mildura facility. This is expected to result in improved production yields and a subsequent increase in the volume of product – across various forms – being available for sale.

R&D highlights

During the quarter, Cann Group's accelerated plant breeding program trialled 13 new cultivars resulting in five new elite lines that will now progress to commercial evaluation. Three lines have expressed comparable or improved THC levels to Cann's current leading high-THC strain in R&D trials, while two are being explored for their potentially superior disease resistance attributes.

Rooted cuttings of these five new lines were transferred from the Company's Northern facility to Mildura and have been propagated for commercial evaluation. The development of new and improved cultivars is ongoing and the testing of a next generation of genetics is already underway. This program continues to support the Company's objective to be a supplier of choice globally for differentiated high quality medicinal cannabis products.

Board and management changes

During the reporting period the Company announced that two new directors were joining the Company's Board to fill casual vacancies. Mr Robert Barnes was appointed to the Board of Cann Group on 20 September 2022 and was re-elected at the Company's AGM on 25 October 2022 while Dr Julian Chick's appointment took effect from 26 October 2022.

Mr Barnes is an experienced senior executive who has delivered extensive leadership and operational outcomes across a wide variety of healthcare industries. Dr Chick has over 25 years of experience in the biotechnology and medical technology sectors, as well as in investment banking.

Mr John Sharman resigned from the Board due to other business commitments on 1 September 2022, having served as a director since 27 April 2021.

Subsequent events

Board and management changes

On 3 October 2022, Ms Geraldine Farrell resigned as Company Secretary effective 25 October 2022, with Cann Group's Chief Financial Officer, Ms Deborah Ambrosini being appointed to the role effective 25 October 2022 after the Company's Annual General Meeting.

Mildura GMP licence

On 4 October 2022 Cann Group announced that the Therapeutic Goods Administration had extended the Mildura facility's GMP licence to cover additional capabilities. The licence extension allows Cann Group to manufacture and release finished dried flower products for patient use at Mildura. This is in addition to the GMP licence capabilities announced 30 June 2022 covering the manufacture of dried flower as an Active Pharmaceutical Ingredient and hard capsule manufacturing.

Clinical trial

On 11 October 2022 Cann Group announced that the Company's Phase III clinical trial of its proprietary Satipharm CBD capsules had reached and exceeded its target of 212 enrolled participants. An interim statistical analysis of a sample of blinded data has since confirmed that the study is sufficiently powered, and no new participants will need to be enrolled.

The study is a placebo-controlled, randomised clinical trial investigating the efficacy of low doses of CBD for treating mild sleep disturbances. It is anticipated that a positive trial outcome would support the registration of Satipharm capsules as over-the-counter medicines, making them available to patients without needing a prescription. The results of the study are expected to be available early in the 2023 calendar year.

CEO transition announced

On 24 October 2022 Cann Group announced that the Company's CEO, Peter Crock, had given notice of his resignation from the position of CEO, and that a search for a new CEO had commenced. Mr Crock will continue in the role until a successor is appointed and be available to the Company for a period of time after this appointment to ensure a smooth transition. Mr Crock was appointed to the position of CEO in April 2016.

R&D tax rebate

On 24 October 2022 Cann Group announced that it had received a \$4.348 million R&D Tax Incentive Rebate for the 2022 financial year. The rebate relates to eligible R&D activities conducted by Cann, including its in-house research and those activities conducted through its strategic partnerships with key research partners.

Share Purchase Plan

On 25 October 2022 Cann Group announced that it would conduct a Share Purchase Plan (SPP) to raise between \$8 million and \$10 million. Funds from the SPP will contribute to the Company's strategic investment in expanding GMP manufacturing capabilities at Mildura. This is in preparation for the scaling up of production which is needed to respond to the anticipated significant demand for Satipharm products, including over-the-counter CBD products once they become available as registered S3 medicines.

Pilot scale extraction and Satipharm manufacturing lines are installed and operational at the Mildura facility, allowing the Company to produce sufficient volumes to meet short-term

demand for Satipharm capsules as unregistered prescription medicines. To meet demand for over-the-counter sales of a registered medicine, the Company will need to expand manufacturing output considerably.

Eligible shareholders will have the opportunity to apply for a minimum of \$500 and up to a maximum \$30,000 of new fully paid ordinary shares at 22 cents per share, which is an 18.80% discount to the 5-day volume weighted average price of Cann's shares up to and including 24 October 2022 and an 18.52% discount to the closing price of Cann's shares on 24 October 2022. Participants in the SPP will not incur any brokerage.

The SPP offer period will open on Monday, 31 October 2022 and is expected to close at 5.00pm (Melbourne time) on Friday, 18 November 2022, subject to the Company's right to close the SPP offer early or to extend the SPP offer period, at its absolute discretion.

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 September 2022

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	2,433	2,433
1.2 Payments for		
(a) research and development	(1,188)	(1,188)
(b) product manufacturing and operating costs	(3,704)	(3,704)
(c) advertising and marketing	(164)	(164)
(d) leased assets	(3)	(3)
(e) staff costs	(2,959)	(2,959)
(f) administration and corporate costs	(1,485)	(1,485)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(471)	(471)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	712	712
1.9 Net cash from / (used in) operating activities	(6,829)	(6,829)

Explanation to 1.8 Other: This amount includes GST receipts of \$0.5m for the quarter ending 30 September 2022.

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(2,327)	(2,327)
(d) investments	-	-
(e) intellectual property	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 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	(2,327)	(2,327)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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	-	-
3.5	Proceeds from borrowings	9,059	9,059
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)	(113)	(113)
3.10	Net cash from / (used in) financing activities	8,946	8,946

Explanation to 3.9 Other: Repayment of lease liabilities

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,998	1,998
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(6,829)	(6,829)

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)	(2,327)	(2,327)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	8,946	8,946
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	1,788	1,788

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	1,703	1,913
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (bank guarantees)	85	85
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,788	1,998

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	78
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 2022.

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>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	65,750	56,094
7.2	Credit standby arrangements	-	-
7.3	Other (Corporate Credit Cards)	85	-
7.4	Total financing facilities	65,835	56,094
7.5	Unused financing facilities available at quarter end		9,741
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 loan facilities have been provided by the National Australia Bank. 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. 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% p.a. and it is a secured facility. The leasing facility has a revolving leasing limit (MAFA) 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 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.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(6,829)
8.2	Cash and cash equivalents at quarter end (item 4.6)	1,788
8.3	Unused finance facilities available at quarter end (item 7.5)	9,741 ¹
8.4	Total available funding (item 8.2 + item 8.3)	11,529
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.7
<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: As identified in our most recent Annual Report, to maximise the benefits of Mildura, we have commenced a streamlining of our commercial operations which includes centralising key activities at Mildura. Consistent with our aim to consolidate our activities and achieve cost efficiencies, a process is well underway to identify options for a divestment of the Southern facility. We are now reviewing expressions of interest from a number of parties with a view to finalising this transaction during the calendar year.	

- 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 received an R&D Tax Incentive Rebate of \$4.348 million as announced on 24 October 2022. Additionally, the entity is also conducting a Share Purchase Plan (SPP) to raise between \$8m and \$10m. The SPP will open to eligible shareholders on Monday 31 October 2022 and is expected to close on Friday 18 November 2022. As mentioned at 8.6.1 the entity is currently centralising its key activities to Mildura and the process is well underway for the divestment of its Southern facility with a view to this transaction being completed before the end of this calendar year.

- 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 for the reasons mentioned at 8.6.2 and 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:27 October 2022.....

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.