



ASX ANNOUNCEMENT

29 February 2024

Cann Group results for half year ended 31 December 2023

- Sales revenue of \$8.5 million, up 46% compared to the first half of FY23 (PCP)
 - EBITDA loss of \$6.8 million, an improvement of 78% over the PCP (loss \$11.4 million)
 - \$2 million capital raised via convertible notes issued during the period
 - NAB construction facility repayments extended by one year, to commence May 2025
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29 February 2024 – Cann Group Limited (ASX: CAN) (**Cann** or the **Company**) today released its financial results for the six months ending 31 December 2023. The prior corresponding period is the six months ending 31 December 2022 (**PCP**).

Financial highlights

The Company reported revenue from sales of \$8.5 million, representing a 46% increase to the PCP. The increase in revenue reflects the increase in sales across cannabis flower orders from white label customers & compounding pharmacists, contract packing revenue and consignment sales.

The Company reported an EBITDA loss of \$6.8 million, an improvement of 78% over the PCP, reflecting the increase in revenues along with a reduction in operating expenses (excluding depreciation, amortisation and interest) of 12% over the PCP. The reduction in operating expenses was contributed to by the finalisation of the S3 clinical trial which ceased in the second half of FY23.

The Company reported an operating loss after tax of \$14.3 million, an improvement of 24% over the PCP (1H FY23: \$18.8 million loss). This operating loss includes finance costs, which increased by 40% over the PCP due to increased utilisation of the NAB debt facilities together with rising interest rates.

Financing and Going Concern

Cann Group raised A\$2 million via entry into a convertible securities facility with Obsidian Global, LLC (**Obsidian**) in November 2023. Under the facility, Cann issued Obsidian with securities convertible into fully paid ordinary shares in the Company based on an agreed

calculation. The funds raised have provided working capital to assist the Company in achieving its production and cultivation targets.

Since the end of the half year, on 19 January 2024, the company agreed with its lender, National Australia Bank (**NAB**) to a deferral of the quarterly repayment of the principal loan amounts of the NAB Construction facility for 12 months, with repayment deferred from May 2024 to commence May 2025. The amount borrowed under this facility at 31 December 2023 is \$49.0 million.

The Company also has a working capital facility of \$15.6 million of which \$14.8 million has been utilised at 31 December 2023. The total debt (including a small leasing facility) at 31 December 2023 is \$64.1 million, with \$2.8 million of the total facility not yet utilised.

Management is currently pursuing several funding options in order to fund the Company through to its next stage of development. The Company has signed a non-binding agreement for a debt facility with a counter party who is currently completing its due diligence. Additional sources of funding, including the sale of certain assets at its Mildura facility that are currently not being used, are also being pursued.

Expenditure in the Company is undergoing a critical review by management to ensure it is at appropriate levels for the next stage.

On the basis that the Company is successful in its pursuit of additional financing, the Directors are of the opinion the Company is a going concern. Further information on the going concern can be found in Note 1 to the financial statements and Appendix A of this announcement.

Production

Cann's breeding program, including through its collaboration with Agriculture Victoria, has resulted in the introduction of seven (7) new genetic strains during the period, with new varieties now introduced into commercial production at our state-of-the-art Mildura facility. The quality and range of products manufactured from the Mildura facility has increased due in part to the introduction and validation of hang-drying techniques and an increased range of cannabis genetics, so as to meet the expectations and demands of the medicinal cannabis market and most importantly, patients.

Cann Group CEO, Peter Koetsier, says, "The Company is well placed to meet the growing demands for exclusive and consistent supply of high-quality dried flower products through the ever-improving functions of its state-of-the-art Mildura facility alongside our patent-protected Satipharm capsule products. Most notably, projected yield markers and improvements in flower quality have both been achieved in the last six months at Mildura.

"The first half of the 2024 financial year has seen strong performance from Cann Group, aligning with our strategic vision for sustainable growth," he said.

"Our R&D facility has continued its successful in-house breeding program which is resulting in a pipeline of exciting new strains to emerge onto the market in 2024.

“In addition to the optimism following the relaunch of Cann’s medicinal cannabis product range (“Botanitech”), new GMP-packing and labelling agreements – which have seen 87% and 95% increases relative to the previous period - and ongoing progress in multiple long-term supply arrangements are all expected to create significant business development opportunities for Cann. I am confident that we will secure the anticipated funding required to execute on these opportunities.”

Appendix A – Going Concern Disclosure (extract from Note 1 to the financial statements)

The Consolidated Group has incurred losses for the half year ended 31 December 2023 of \$14.34 million (31 December 2022: \$18.84 million), net current asset deficiency of \$54.1 million (31 December 2022: net current asset \$4.27 million) and has a net cash outflow from operating activities of \$6.07 million (31 December 2022: \$11.97 million). which indicate a material uncertainty which may cast doubt as to whether the Group will continue as a going concern.

The Directors believe there are reasonable grounds to expect the Group will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report, despite an element of material uncertainty existing as at 31 December 2023, and therefore continue as a going concern, after consideration of a range of factors, not limited to, but including the following:

- (a) In November 2023 the Group executed an unsecured Convertible Securities and Share Placement Agreement for an aggregate amount of up to \$15 million, with an initial drawdown of \$2 million. The proceeds will contribute to the Group’s strategic investment in expanding GMP manufacturing capabilities at Mildura. Funds will also be used to assist with working capital over the medium term.
- (b) Cash on hand as at 31 December 2023 is \$1.64 million. The Group has a \$15.6m Working Capital facility that it can draw on during the year. The facility was drawn to \$14.8m at 31 December 2023 leaving a balance available of \$0.8m. The Group also has access to \$1.5m Temporary Excess that has not been utilised as at 31 December 2023. This Temporary Excess will cease when proceeds are received for the sale of Southern facility assets.
- (c) Existing debt arrangements have been modified after 31 December 2023, which includes:
 - a. Increase of Temporary Excess from \$1.5 million to \$1.9 million, with an expiry date of the earlier of 1 March 2024 and when proceeds are received for the sale of Southern assets.
 - b. Repayment of the Construction Facility to be deferred by 12 months from May 2024 to May 2025.
 - c. Amending the current 90-day interest period to 180 days.
- (d) The Group’s revenue continues to grow at a significant rate with the Group having already billed 146% or 1.5 times of the sales revenue recorded in prior corresponding period. Revenue growth has accelerated this half year across Cann’s portfolio, including large repeat orders for oil and flower products. This has been enabled through the continuous improvement of cultivation and manufacturing processes at the Mildura facility. Initiatives

are in place for both operations and business development that aim to further accelerate the trajectory of revenue over the coming year.

- (e) Streamlining of commercial operations, which includes centralising key activities at Mildura, are expected to continue this half year.
- (f) Demand for high quality dried flower products remains high in Australia. Continuous improvement in flavour profiles, bud aesthetics and terpenes, along with diversity in cultivars, are increasingly becoming priorities for customers. This represents a significant opportunity for Cann Group given the strong improvements the Group has made to its flower quality. Cann is also well placed to meet the growing demands for product exclusivity and consistent supply via its Mildura facility.
- (g) Cann's R&D facility has continued its successful in-house breeding program incorporating exclusively sourced, elite, modern, exotic varieties which is resulting in a pipeline of exciting new strains emerging from Mildura in 2024. With ongoing process improvements in the Mildura operations over the calendar year, most notably the introduction of hang-drying techniques for all crops from 1 January 2024, and increased capacity, Cann is strategically positioned to match or exceed the quality and variety of imported flowers. The introduction of new products expected in Q3 and beyond in 2024, combined with growth prospects from the relaunch of Botanitech, new GMP-packing agreements, and ongoing progress in multiple long-term supply arrangements, is expected to create significant business development opportunities for Cann.
- (h) The Group is in ongoing discussions with various parties regarding funding and/or refinancing options. A non-binding term sheet for a debt refinancing of the Group's existing facilities with access to further working capital has been signed on 6 February 2024 with a third party who are currently completing their due diligence.
- (i) Management in the period subsequent to 31 December 2023, is currently pursuing additional cash streams, including the sale of unused assets located at the Mildura facility. Management estimates the resale value of these assets is \$1.7m. Management is currently in discussions with an interested buyer.
- (j) Management is conducting a full review of expenditure and will commence an optimisation program imminently.

Management has prepared cash flow forecasts that indicate that the Consolidated Group will have sufficient cash flows to meet its commitments for a period of at least 12 months from the date of this report, provided that anticipated funding (or similar) per recent discussions is obtained.

Based on the cash flow forecast, which includes the anticipated funding outlined in (h), the points outlined above, and ongoing monitoring of operational costs going forward, the Directors are satisfied that the going concern basis of preparation is appropriate. Accordingly, the half year financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the settlement of liabilities in the ordinary course of business.

Authorised for release by the Board of Directors of Cann Group Limited.

For all media enquiries please contact:

Jackson Paine
Corporate Communications Manager
+61 439 492 955
jackson.paine@canngrouplimited.com

For all other information please contact:

Peter Koetsier
CEO
Cann Group Limited
+61 3 9095 7088
contact@canngrouplimited.com

Steven Notaro
Company Secretary
Cann Group Limited
+61 3 9095 7088
contact@canngrouplimited.com

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 research facilities and corporate headquarters in Melbourne and operates 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.canngrouplimited.com | www.satipharm.com