

ASX ANNOUNCEMENT

3 JUNE 2024

Cann Group Provides Financial Update to its 31 March 2024 Appendix 4C Quarterly Cash Flow Report

3 June 2024 – Cann Group Limited (ASX: CAN) (**Cann** or the **Company**) provides the following additional information to the Appendix 4C - Quarterly Cash Flow Report for the quarter ended 31 March 2024 (**Q3 Appendix 4C**) released to the ASX on 30 April 2024. This information is being provided to support the ASX's consideration of reinstatement of CAN securities to trading.

For the quarter ended 31 March 2024 (**Q3 FY2024**), the Company reported net cash outflows from operating activities of \$3.851 million. In addition, the Company reported cash on hand of \$0.753 million and \$0.474 million of unused finance facilities, together totalling \$1.227 million. This resulted in the Company reporting an estimated 0.3 quarters of funding available.

The Company now provides an updated response to Section 8.6 of the Q3 Appendix 4C incorporating recent events.

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?*

Quarter ending 30 June 2024 (Q4 FY2024)

Cann has incurred \$3.85 million of operating cash outflows for Q4 FY2024 to date (as at close of business, Monday 27 May 2024). This includes one-off payments totalling \$0.22 million for redundancies which will not repeat, and six month's (two quarter's) of interest paid of \$1.72 million on the NAB construction loan.

Cann expects to close Q4 FY2024 with operating net cash outflows in the range of \$5.52 million to \$5.06 million, or \$3.22 million to \$2.76 million when excluding the forecasted total interest paid of \$2.29 million for the quarter, representing a 16.4% - 28.5% improvement over operating net cash outflows before interest for Q3 FY2024.

Cann has generated \$5.46 million positive cash flows (after costs) via financing and asset sale activities so far this quarter. These funds, together with the \$1.23 million of available cash reserve at the beginning of the quarter, are sufficient to cover the quarter's net operating cash outflows described above, including the NAB interest

Next two quarters

Looking forward, the Director's believe Cann has sufficient funds on hand to support its normal level of net operating cash flow requirements for at least the next two quarters, such that Cann does not require any additional funding for this purpose. This assessment has been based on the following:

- Customer receipts based on the most recent quarter and uplifted for estimates for new product lines being launched in Q1 FY2025.
- Forecast supplier payments based on current run-rate (including allowing for cost savings achieved) plus increases necessary to support the launch of new product lines;
- Payroll post-restructure;
- Interest payments totalling approximately \$1.40 million per quarter;

Furthermore, Cann expects to boost its current cash reserves by an additional \$3.30 million in the next two quarters with the estimated receipt of \$1.80 million under the Australian R&D Tax Incentive program for the financial year ended 30 June 2024 and the final instalment of \$1.50 million to be received from the sale of surplus assets.

2025 Financial Year

Cann expects operational cash flows to improve in subsequent quarters (on average, noting that cash flows from quarter to quarter can be variable due to timing). The business has implemented a restructure and cost savings plan which will generate at least \$2.15 million savings per annum. These immediate savings have come from a restructure of its workforce (\$2.01 million p.a.) and vacation of its head office lease (\$0.14 million p.a.). In addition, Cann has embarked on a process efficiency program at its Mildura facility which has seen variable labour (casual staff and labour hire) fall by \$85k per month (\$1.02 million p.a.) on average since December 2023. Management is continuing to eliminate unnecessary expenditure leading to a leaner, more efficient operation.

In parallel to realising cost savings, Cann expects revenue growth to accelerate from Q2 FY2025 (quarter ending 31 December 2024) onwards from the following revenue generating initiatives:

- Cann's own label "Botanitech" will launch new ranges in September which are already in demand;
- An increase in bulk dried flower sales supported by production at Cann's flagship Mildura facility which has proven it can comfortably produce at least 6.5 tonnes (dried weight) of quality flower per annum with further scope to increase; and
- Expansion of our GMP contract packing services using the newly installed automated multi-head filler.

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?

As announced on 7th May 2024, Cann recently secured a \$5 million debt facility which has been drawn down in full.

Cann is also exploring further financing options so that it can structure the business in the most appropriate way to meet the Company's objectives over the medium term. These financing options include equity raise, sale and leaseback of its Mildura facility and a refinancing of existing debt.

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?

Cann expects to be able to continue its operations and meet its business objectives on the following basis:

New strategy

Over the past few months, the Cann team has been revising its strategy. The focus is now on the production of high quality, GMP medical cannabis products of various forms to meet market demands. This will the focus shift to more profitable product lines, which will increase our average revenue per gram.

Cann now has a clear strategy to becoming a profitable, successful business. We continue to develop high-quality cultivars and maximise the existing expertise within the Company across its state-of-the-art facilities. The Company will have a number of revenue streams through the production of high-quality, GMP produced medicinal cannabis products as well as leveraging its current infrastructure to provide services to the medical cannabis industry, such as finished product packing services and analytical testing services.

Cash flow forecasts

In support of its strategy above, Cann has produced detailed cash flow forecasts through to 31 August 2025 which demonstrate the Company has sufficient cash reserves to fund operations. These forecasts were recently reviewed by the Company's independent auditors as part of their second review of the Company's half year report, for which the auditors have issued an unmodified ("clean") review conclusion on 7th May 2024.

NAB Debt Facilities

Cann continues to have a strong relationship with its primary banker, NAB, who have supported the Company throughout this recent challenging period. Most notably, this support has been evidenced by the following events:

- extending expiry dates of both its main facilities (refer to the table below);
- waiving their right to any further action for gearing ratio historical breaches as at 31 December 2023 and 31 March 2024.
- replacing the gearing ratio covenant with the following covenants:
 - Actual Revenue for June 2024, September 2024, December 2024 and March 2025 quarters is to be at least 85% of forecast; and

- EBITDA is not to negatively exceed 10% of forecast for June 2024, September 2024, December 2024 and March 2025 quarters.

Cann expects to be able to meet these new covenants going forward.

Current NAB debt facility and terms are as follows:

Facility	Limit	Balance at 31 May 2024	Expiry Date	Interest Rate	Interest Payment Terms
Construction Facility	\$49.4 million	\$49.400 million	31 May 2025 ¹	BBSY + 2.64% (+0.35% facility fee) effective 24 May 2024	90 days in arrears
Working Capital Facility	\$15.6 million	\$13.578 million	31 May 2025 ²	BBSY + 2.34% (+0.35% facility fee) effective 1 June 2024	90 days in arrears

1. The previous expiry date of 31 May 2024 was extended to 31 May 2025 on 15 March 2024;
2. The previous expiry date of 30 November 2024 was firstly extended to 31 March on 2025 on 15 March 2024, and more recently to 31 May 2025 on 3 May 2024;

Going Concern

As of the date of this release, the Director's believe there are reasonable grounds to expect the Group will realise its assets and extinguish its liabilities in the normal course of business and continue as going concern.

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 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.canngrouponlimited.com | www.satipharm.com