



## ASX ANNOUNCEMENT

31 January 2020

### CANN GROUP DECEMBER QUARTERLY ACTIVITIES REPORT AND APPENDIX 4C

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#### Highlights

- **Staged approach announced for construction of Mildura production facility**
  - **Strategic reset in response to global demand-supply disruptions**
  - **Key commercial advancements announced with manufacturing partner IDT Australia**
  - **National distribution agreement executed with Symbion, supplier of healthcare services & products to more than 4000 retail pharmacies & 1300 hospitals throughout Australia**
  - **Board and management changes see Ms Geraldine Farrell appointed Company Secretary and Ms Reena Dahiya appointed Acting CFO**
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**31 January 2020** – Melbourne-based Cann Group is pleased to report on its activities for the quarter ended 31 December 2019.

Subsequent to the end of the quarter Cann provided further details of a revised, staged construction approach for its medicinal cannabis production facilities near Mildura. The first stage is expected to provide for the annual production of 25,000 kgs of dry flower with a target commissioning of Stage 1A (12,500 kg of dry flower) in late 2020, subject to obtaining all necessary funding and regulatory approvals, licences and permits. The timing for the completion of Stage 1B (the balance of the 12,500kg of dry flower) will be linked with volume demand growth.

The timetable for stages 2 and 3 will be determined based on an ongoing assessment of product demand. The decision to proceed on a staged basis will allow Cann to build capacity on a timetable that provides more certainty around capacity utilisation while reducing initial capital investment requirements. A review of the revised construction plan involving consultation with external design and engineering consultants is progressing well.

Works commenced on at the Mildura site during 2019, with the acquisition of the land, existing buildings and construction of the glasshouse structure all completed as part of \$50m expended on the project to date.

In conjunction with the revised approach, Cann Group provided an update with regard to its discussions regarding a loan facility from a tier 1 Australian bank to assist with funding of the Mildura project, with the staged approach requiring a resubmission to the lender detailing the revised timetable and associated costs.

The stage 1A funding package is now expected to be finalised before the end of Q1 CY2020 and is anticipated to involve both debt and equity. The final mix of debt and equity is yet to be determined but the extent of funding required to complete construction of Stage 1A is anticipated to be between \$65 million and \$75 million. Stage 1A is expected to generate near-term profitability and positive cash flows. The stage 1B expansion is expected to be funded from working capital and debt.

In further updates post quarter end, Cann announced a strategic reset given the demand-supply imbalance in global medicinal cannabis markets.

An updated business plan is being implemented that focuses on initially meeting Australian domestic demand while export markets continue to be developed. The Company is concurrently reducing operating expenses while it transitions to near-term profitability and positive cash flows.

The new business plan will see Cann develop and commercialise value-added GMP grade finished products, to be available starting late Q1 CY2020, to meet Australian domestic demand. This will include utilisation of the Company's distribution agreement with Symbion Health (details following). A range of imported products was also commercially launched late in CY2019.

Cann is also continuing to develop export pathways in addition to its existing pathway under the Aurora offtake agreement. Cann product will be manufactured to GMP standards, meeting European and other overseas market requirements.

In conjunction with the revised business plan, Cann has reduced headcount by 25%, and \$7 million in annualised costs have been either eliminated from the business or deferred.

Cann Group's product manufacturing validation program with IDT Australia Limited (ASX: IDT) took important strides during the quarter, with the parties announcing its first locally sourced and manufactured formulations are on track to launch in Q1 CY2020.

Medical cannabis dried flower, packed into 10g bottles in IDT's cGMP licensed manufacturing facilities, is undergoing stability testing with resulting data available soon. This will pave the way for commercial launch under the Special Access Scheme (SAS), with the potential for export of the product.

Subsequent to the end of the quarter Cann and IDT commenced GMP extraction activities for the first batches of medicinal cannabis resin, which will see it produce GMP medicinal cannabis oil products with a targeted commercial release of late March 2020. This represents the first commercial-scale resin extraction from Australian grown cultivars.

The extracted resin will be formulated into a full range of GMP medicinal cannabis finished dosage form products, including formulations featuring high THC, high CBD and balanced formulations. While this first commercial product will initially be utilised for Australian domestic requirements, Cann continues to develop export pathways.

In November, the Company also announced the execution of a distribution agreement with Symbion Pty Ltd as well as the launch of a range of imported medicinal cannabis products for supply to approved Special Access Scheme (SAS) patients. The distribution agreement with Symbion, which supplies healthcare services and products to more than 4000 retail pharmacies and 1300 hospitals throughout Australia, will see it carry Cann's full range of imported products, for supply to approved SAS patients in line with each state's legislative requirements. Symbion will also provide a key path to market for Cann's locally manufactured products.

## **Board & management**

During the period Aurora Cannabis' (Aurora) representative on the Cann Group board, Mr Neil Belot, resigned as Non-Executive Director in conjunction with his resignation from Aurora. A candidate to fill the vacancy left by Mr Belot will be nominated by Aurora in due course.

Cann made additional changes to the executive team with the appointment of Ms Geraldine Farrell as Company Secretary and Ms Reena Dahiya as Acting CFO. Mr Richard Baker resigned from the role of Company Secretary & CFO.

## **Outlook**

Looking ahead, the Company's near-term focus will be on finalising the funding package for the first stage of works at Mildura and preparing for a re-start of work at that site. In parallel with the expansion program, the Company will continue to progress finished dose formulation and product development work with IDT and support the successful launch of additional commercial products.

Cann continues to work with the regulatory authorities and other industry players to streamline patient access in Australia while also developing export pathways.

The Company's accelerated breeding program continues to make important headway and will be crucial to optimising production as the Mildura facility comes on-line.



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

**For further information please contact:**

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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. The company has established research and cultivation facilities in Melbourne and is developing a state-of-the-art cultivation facility near Mildura, Victoria. Cann Group has executed collaboration agreements that have enabled it to establish a leading position in plant genetics, breeding, extraction, analysis and production techniques required to facilitate the supply of medicinal cannabis for a range of diseases and medical conditions. The Company is commercialising a range of imported and locally sourced and manufactured medicinal cannabis products. **Learn more about Cann Group at [www.canngrouplimited.com](http://www.canngrouplimited.com)**

## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

CANN GROUP LIMITED

**ABN**

25 603 949 739

**Quarter ended ("current quarter")**

31 DECEMBER 2019

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	0	1,660
1.2 Payments for		
(a) research and development	(171)	(527)
(b) product manufacturing and operating costs	(1,163)	(1,936)
(c) advertising and marketing	(38)	(63)
(d) leased assets	-	-
(e) staff costs	(2,500)	(4,648)
(f) administration and corporate costs	(1,026)	(3,404)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	41	248
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (Co-operative Research Centre Project initial funding grant)	218	484
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(4,639)</b>	<b>(8,186)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(12,529)	(30,194)
(b) businesses (see item 10)	-	-
(c) investments	-	-

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
(d) intellectual property	-	-
(e) other non-current assets	-	-
<b>2.2 Proceeds from disposal of:</b>		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
<b>2.3 Cash flows from loans to other entities</b>	-	-
<b>2.4 Dividends received (see note 3)</b>	-	-
<b>2.5 Other (provide details if material)</b>	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>(12,529)</b>	<b>(30,194)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
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)	-	-
<b>3.10 Net cash from / (used in) financing activities</b>	<b>-</b>	<b>-</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of quarter/year to date	25,261	46,473
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(4,639)	(8,186)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(12,529)	(30,194)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	-

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>8,093</b>	<b>8,093</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	964	6,138
5.2	Call deposits	7,044	5,002
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	85	14,121
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>8,093</b>	<b>25,261</b>

**6. Payments to directors of the entity and their associates**

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

<b>Current quarter \$A'000</b>
83
-

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**7. Payments to related entities of the entity and their associates**

- 7.1 Aggregate amount of payments to these parties included in item 1.2
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<b>Current quarter \$A'000</b>
-
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8. <b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (corporate credit cards)	60	15
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9. <b>Estimated cash outflows for next quarter</b>	\$A'000
9.1 Research and development	80
9.2 Product manufacturing and operating costs	452
9.3 Advertising and marketing	126
9.4 Leased assets	0
9.5 Staff costs	1,862
9.6 Administration and corporate costs	1,206
9.7 Other (acquisitions of property, plant and equipment))	2,705
<b>9.8 Total estimated cash outflows</b>	<b>6,430</b>

10. <b>Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

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<b>Current quarter \$A'000</b>
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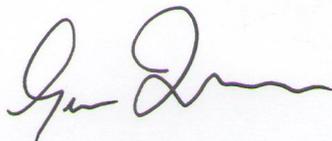
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10.4 Total net assets	-	-
10.5 Nature of business	-	-

### 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.



Sign here:

(Company secretary)

Date: **31 January 2020**

Print name: **Geraldine Farrell**

### Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.