



## ASX ANNOUNCEMENT

19 March 2019

### **Cann Group announces revised cultivation expansion plans and executes five-year offtake agreement**

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#### **Highlights**

- **Revised expansion plans reaffirm projected timeline to commissioning of large-scale production**
- **Initial state-of-the-art greenhouse to be constructed in the Mildura region.**
- **Offtake agreement covers Cann's current & future capacity subject to satisfaction of Australian domestic demand**
- **Underpins the investment in Cann's expansion program**
- **Revenue guidance reaffirmed of \$160m-\$200m once Mildura facility fully commissioned**

**19 March 2019** – Cann Group Limited (ASX:CAN, 'Cann' or 'Company') announced today that it has entered into a non-binding Heads of Agreement (HOA) to purchase a site located within the Mildura region, in North West Victoria, on which it intends to construct a state-of-the-art greenhouse for large scale cultivation and production of medicinal cannabis to service both domestic and export markets.

The Company also announced that it has entered into a five-year agreement with Aurora Cannabis Inc ('Aurora') for the offtake of medicinal cannabis produced by Cann at its existing and planned expansion facilities until 2024.

#### **Revised expansion plans**

Cann today announced that it entered into the HOA to purchase a site located within the Mildura Rural City Council, in North West Victoria, for \$10.75 million (plus GST) for the purpose of constructing a state-of-the-art greenhouse for large scale cultivation and production of medicinal cannabis to service both domestic and export markets.

Cann currently operates two medicinal cannabis facilities in Melbourne. The new greenhouse facility is expected to have a production capacity of up to 50,000 kilograms of dry flower per annum and is expected to be fully commissioned in the third quarter of calendar year 2020 with an estimated construction cost of approximately \$130 million. The project is being funded with a mix of debt and equity.

Cann had previously announced plans to construct its stage 3 expansion facilities at a site near Melbourne's Tullamarine Airport, leased from Australian Pacific Airports Pty Ltd (APAM). Following a detailed revision of those plans, including the latest estimates on timescales for various approvals,

provision of services and total build, the Company has opted to proceed with construction at the Mildura site.

Discussions will continue with APAM in relation to Tullamarine's potential as a future site for a full GMP manufacturing facility and greenhouse production expansion.

The Mildura site is ideally suited to the design and size of the greenhouse previously planned for Tullamarine, with all completed engineering and design plans able to be utilised. The site is also well serviced with power, gas and other necessary amenities, including provisions for waste water treatment. Existing buildings on the site can be readily repurposed as the necessary support facilities required alongside the cultivation and harvesting activity in the new greenhouse.

Cann CEO Peter Crock said the decision to secure and proceed with the Mildura site ensures the Company can maintain its projected timeline to large scale cultivation, with the new greenhouse expected to be fully commissioned in the third quarter of CY20.

"This is particularly important given the offtake agreement we have executed with our strategic partner, Aurora Cannabis, who has committed to purchase all of our production in excess of that required for patients here in Australia.

"The Mildura site offers other important advantages, including a lower total build cost and lower ongoing operating costs, due to the dryer climate and higher sunlight hours resulting in reduced power use."

Mr Crock said specialised components and materials are currently in transit to Australia, and site works are to begin immediately.

"This puts us on the same build start timing as was originally envisaged for Tullamarine and is consistent with our strategy to develop a 'hub and node' model of regional cultivation facilities and a central manufacturing hub."

When completed, it is expected that the new 34,000 square metre greenhouse will be the largest purpose-built medicinal cannabis production facility in Australia, with capacity to produce up to 50,000 kgs of dry flower. The raw cannabis flower produced at the Mildura site will be processed by Cann's manufacturing contractor IDT Australia (IDT) into downstream products ready for supply to Australian patients and export.

Cann is continuing progression toward establishment of its third-party GMP product manufacturing capability with IDT, enabling production of value-added formulations which can be supplied to Australian patients and under the offtake agreement with Aurora. Equipment is currently being installed and commissioned at IDT to facilitate full GMP manufacturing of these products.

IDT is an ASX-listed pharmaceutical manufacturing company based in Melbourne with extensive experience in the development and production of high potency and high containment pharmaceutical products. It is fully cGMP compliant with regular US FDA and Australian TGA audits.

## **Offtake Agreement**

The new offtake agreement will see Cann supply GMP processed dry flower, extracted resin and manufactured medicinal cannabis products to Aurora until 2024, covering Cann's full production capacity beyond that produced for domestic needs.

The offtake agreement includes a price review mechanism and allow for the inclusion of further product forms (subject to mutual agreement) as these products are developed by Cann. Supply under the offtake agreement is subject to Cann and Aurora obtaining all necessary regulatory approvals and strictly for medicinal purposes. The agreement also includes termination rights for either party in the event of a material breach by the other party which is not remedied within the prescribed time. Specific commercial terms and pricing of the offtake agreement will remain confidential.

Canada-based Aurora, which holds a strategic 22.9% equity interest in Cann, is one of the world's largest and fastest growing cannabis companies with funded capacity in excess of 500,000kg per annum and sales and operations in 24 countries across five continents.

This agreement is expected to underpin the investment risk and the value to be generated from Cann's large-scale cultivation expansion program, and is expected to assist Aurora in its endeavours with meeting the growing global demand for GMP grade medicinal cannabis products.

In the near term, Cann will continue its focus on the efficient production of medicinal cannabis at its existing Southern and Northern facilities in Melbourne for supply to Australian patients under the Victorian Government DHHS contract and the development of new product presentations.

The Company will also assess and test available export pathways for medicinal cannabis product. This is expected to allow the Company to continue to meet domestic demand and validate its supply chain and export procedures while the new Mildura facility is constructed and commissioned.

"Securing offtake with Aurora is a key milestone for the Company that is expected to both underpin the anticipated value generated with our expansion program and mitigate the risk associated with that investment. We remain firmly committed to satisfying the domestic market as a priority and the agreement with Aurora should enable us to meet this commitment," said Cann Group CEO Peter Crock.

"Setting up at scale is an important focus of Cann Group and developing export pathways such as this are vital to enabling us to achieve that scale."

As announced in October 2017, Cann has secured the necessary export licence from the Office of Drug Control (ODC), which will enable the export of medicinal cannabis products to Aurora. Export of Cann Group product to the growing Aurora global network requiring high quality GMP Certified products, will be subject to relevant permits being granted by the ODC for export shipments, and the appropriate import permits for the target market.

"Cann has demonstrated its commitment to research, product quality and safety and is a strong leader in the medicinal cannabis space in Australia. Our ability to source both dry flower and added value forms of cannabis from Cann strengthens our supply position and broadens our product portfolio to meet global demand," said Aurora Cannabis CEO Terry Booth.



Cann has reaffirmed previous guidance that, when fully operational, the expanded production capacity will generate annual revenues of approximately \$160 million to \$200 million based on the current wholesale price of cannabis dry flower. It is the Company's intention that some production will focus on value-added downstream formulations and products, which will generate higher margins and revenues.

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**About Cann Group**

Cann Group is building a world-class business focused on breeding, cultivating and manufacturing medicinal cannabis for sale and use within Australia. The company has established research and cultivation facilities in Melbourne and is striving to provide access to medicinal cannabis for Australian patients. Cann Group has executed collaboration agreements that will enable 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. It was issued with Australia's first medicinal cannabis research licence in February 2017, in addition to Australia's first medicinal cannabis cultivation licence in March 2017. Aurora Cannabis Inc – one of Canada's largest listed medicinal cannabis company – is a cornerstone investor in Cann, with a 22.9% shareholding.