CANN GROUP LIMITED

ASX ANNOUNCEMENT

28 January 2022

December 2021 Quarterly Activities Report and Appendix 4C

- **Sales revenue up 65% on previous quarter**
- **cGMP licence secured for Cann's Southern Facility**
- **New Mildura facility substantially complete with key regulatory licences now pending**
- **S3 registration program for Satipharm CBD product moves into pivotal phase 3 clinical trial**

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28 January 2022 – Cann Group Limited (ASX: CAN) (**Cann** or the **Company**) is pleased to provide its December 2021 Quarterly Activities Report and Appendix 4C.

Financials

Net cash outflows from operating activities for the quarter ending 31 December 2021 were $1.335 million. Key cashflow items for the quarter were:

- Cann collected $1.771 million in receipts from customers representing an increase of 20.5% on the prior quarter receipts as Cann continues to expand its customer base.
- Cann Group received $2.186 million R&D Tax Incentive rebate for the 2021 financial year.
- Cann Group received GST refunds of $2.220 million during the quarter.
- Staff and administration costs were consistent with the prior quarter while production and manufacturing costs increased to $2.80 million after the implementation of new consignment brands and various new customers saw a substantial increase in the number of formulations and bottles produced in November and December.
- Payments of $0.10 million were made to directors (being related parties) by way of salary payments.
- Research and development expenses of $0.18 million were incurred during the quarter as the Company continued with its research and development program.
- The Company raised $8.69 million (before costs) through a Share Purchase Plan with its existing shareholders.
- Cashflow from investing activities included $16.309 million in expenditure associated with the construction and development of Cann's new production facility near Mildura. An amount of $16.532 million was drawn down from the Company's NAB facility for this development.

Sales and production

Unaudited sales revenue for the quarter was $2.06 million, a 65% increase on the previous quarter. Sales growth was driven by strong demand in the domestic B2B business, with over 13,000 units shipped during the quarter, a near doubling of last quarter's shipments.

To further accelerate domestic sales of the Satipharm Gelpell capsules an agreement has been reached with MedLab Clinical Ltd (**Medlab**) to market these products direct to doctors. MedLab has an existing team of medical science liaison officers operating in Australia. The Satipharm capsules will be marketed with MedLab's range of CBD sprays, representing a leading offering of advanced delivery CBD products on the market.

International demand remains firm with follow-up orders shipped to Astral in the UK and good clearance rates being evidenced in Europe through our distribution partner iuvo Therapeutics.

Subsequent to the end of the quarter, Cann achieved an important regulatory milestone for the Company with the Therapeutic Goods Administration (**TGA**) in January granting to Cann a GMP licence to manufacture therapeutic goods for its Southern facility (**Southern GMP Licence**). The Southern GMP Licence enables Cann to manufacture Active Pharmaceutical Ingredient (**API**) and medicinal cannabis products under cGMP conditions at its Southern facility for supply in Australia and overseas. This follows a significant upgrade of that facility which was substantially funded by the Company's successful capital raise in July and August last year.

Dried cannabis flower products produced under the Southern GMP Licence are expected to be available for supply to patients under the TGA's Special Access Scheme (**SAS**) and Authorised Prescriber (**AP**) scheme within the next few weeks.

Over the last 12 months, demand for cGMP products has increased from both domestic and international customers, with pre-orders in place since late last year pending the granting of this licence. Cann is now able to service the needs of those customers.

Mildura facility

Construction of the state-of-the-art production facility at Mildura progressed during the quarter. Key parts of the facility are now substantially complete. Practical completion and hand-over from our construction partners, Qanstruct, is targeted for February, subject to a dynamic COVID environment.

There are two sets of licences and permits, one from each of the Office of Drug Control (**ODC**) and the TGA, required for all areas of the facility.

The ODC inspected the laboratory, extraction and manufacturing suites at Mildura in October 2021 and the issue of the ODC licence is pending. An ODC inspection of the cultivation facility will occur once the security systems have been installed. This is currently underway and it is anticipated to be completed in the coming weeks.

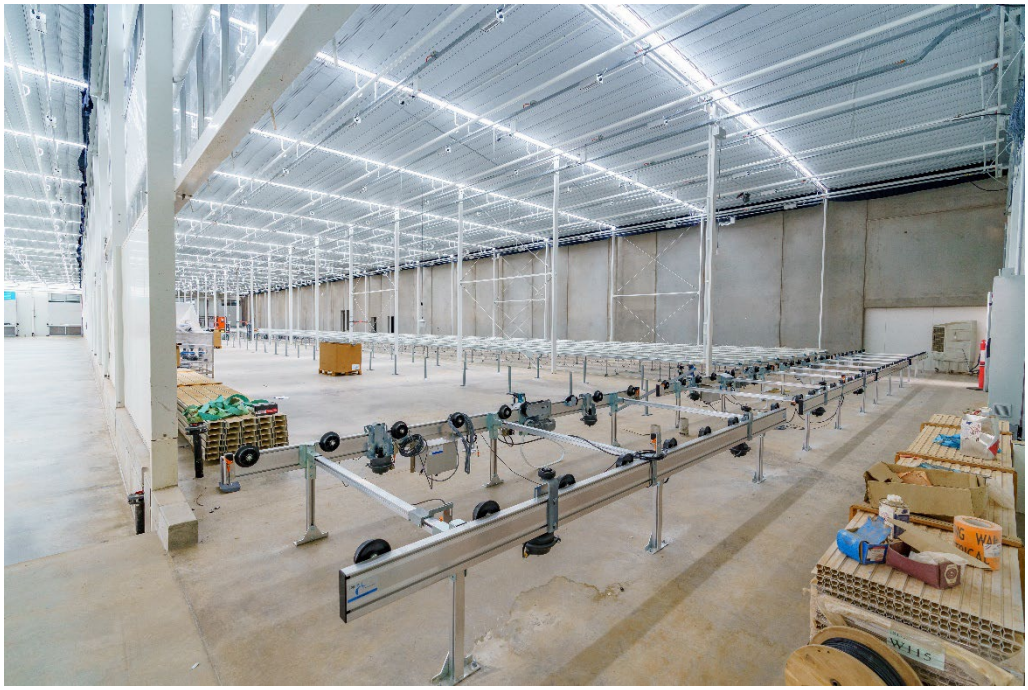
Right: Cann Group CEO, Peter Crock, onsite at Mildura's new cultivation facility

TGA audit of the laboratory, the resin extraction and the Satipharm manufacturing line was carried out in January 2022 and the Company is now working through the audit responses as part of the GMP licence process for Mildura.

ODC and TGA licencing/permitting are the last steps required before the Company will ramp-up production at its Mildura facility. In preparation for this activity the mother plants required to start that process are currently being grown at Cann's Southern facility.

Above: Cann's manufacturing suite at the Mildura facility, recently audited by the TGA for GMP compliance

Above: Fit-out is continuing in the mother plant room at Cann's Mildura facility



Above: Installation is continuing for the table-handling system in the vegetative and flowering areas at Cann's Mildura facility

S3 product registration

The Company is progressing with an S3 product registration program for the proprietary Satipharm CBD capsules. An S3 registration would allow for pharmacy-only, over-the-counter sales of Satipharm CBD products, consistent with the Commonwealth Government's announcement in February 2021. The Company has appointed a Clinical Research Organisation to assist in the clinical evaluation and registration process. The Company expects the proprietary Satipharm capsule technology will prove to be an important point of differentiation when CBD products are registered and available through pharmacies. Cann applied for Ethics Committee approval to conduct a phase 3 clinical trial from a recognised HREC (Human Research Ethics Committee) in December 2021. The feedback from the HREC's evaluation has been positive and the Company is in the process of finalising this approval, which should be completed early in 2022. After Ethics Committee approval, Cann and its CRO will finalise trial sites and begin the process of recruiting trial participants.

Research and Development highlights

Completion of a Phase 2 evaluation trial of 10 new genetic lines has identified five top performing, high THC cultivars. One of these cultivars has been selected to be grown commercially with the first crop due to be harvested in the first quarter of CY 2022. A second Phase 1 trial of new cannabis lines has been completed and chemotypic analysis has been performed by Agriculture Victoria. Top performing high THC lines and balanced lines have been identified and a selection will be assessed in a Phase 2 trial or used in our accelerated breeding program with Agriculture Victoria. A high CBD Phase 2 evaluation trial assessing five top lines identified by La Trobe University scientists as having good growing characteristics has resulted in high bud yields and harvesting of the crops will commence in the first quarter of CY 2022. The dried flower samples from this trial will be sent to our Mildura labs for analysis and we anticipate selecting premium CBD lines for commercial production from this trial. Agriculture Victoria has commenced breeding with the first set of cultivars sent from Cann and we expect seed from these first crosses to be delivered to Cann in the first quarter of CY 2022.

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 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. Cann also owns Satipharm, a Europe-based business exclusively licensed to manufacture, develop and market the proprietary Gelpell delivery system for cannabinoids. Cann has established research and cultivation facilities in Melbourne and is developing a state-of-the-art cultivation and manufacturing facility near Mildura, Victoria. Cann Group has established 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 at: www.canngrouplimited.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	**Quarter ended ("current quarter")**
25 603 949 739	31 December 2021

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (6 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	1,771	3,241
1.2	Payments for		
	(a) research and development	(186)	(685)
	(b) product manufacturing and operating costs	(2,823)	(4,788)
	(c) advertising and marketing	(2)	(4)
	(d) leased assets	-	-
	(e) staff costs	(2,895)	(4,836)
	(f) administration and corporate costs	(1,240)	(2,941)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	1	2
1.5	Interest and other costs of finance paid	(447)	(681)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	2,187	2,187
1.8	Other (provide details if material)	2,299	4,595
1.9	**Net cash from / (used in) operating activities**	**(1,335)**	**(3,910)**

Explanation to 1.8 Other: The amount is made up the Company's GST refund from capital purchases.

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(18,419)	(40,836)
	(d) investments	-	-
	(e) intellectual property	-	-

Consolidated statement of cash flows		Current quarter $A'000	Year to date (6 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**	**(18,419)**	**(40,836)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	8,696	18,696
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	(93)	(864)
3.5	Proceeds from borrowings	16,532	35,202
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)	-	(677)
3.10	**Net cash from / (used in) financing activities**	**25,135**	**52,357**

Explanation to 3.8 Other: This amount consists of Intercompany loans to overseas subsidiaries.

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	5,384	3,154
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,335)	(3,910)

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (6 months) $A'000**
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(18,419)	(40,836)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	25,135	52,357
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	**10,765**	**10,765**

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	10,680	5,299
5.2	Call deposits		-
5.3	Bank overdrafts		-
5.4	Other (provide details)	85	85
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**10,765**	**5,384**

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]	100
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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.

[1] Salary payments made to Directors during the quarter ending 31 December 2021.

7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	50,000	35,201
7.2	Credit standby arrangements	-	-
7.3	Other (Corporate Credit Cards)	115	2
7.4	**Total financing facilities**	50,115	35,203

7.5	**Unused financing facilities available at quarter end**	14,912

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 debt facility has been provided by the National Australia Bank. The base rate is BBSY and the drawn margin will be 3.20% p.a. The facility fee is 1.80%p.a. The term of the loan is 8 years and it is a secured facility.

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (item 1.9)	**(1,335)**
8.2	Cash and cash equivalents at quarter end (item 4.6)	**10,765**
8.3	Unused finance facilities available at quarter end (item 7.5)	**14,912**[1]
8.4	Total available funding (item 8.2 + item 8.3)	**24,342**
8.5	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	**18**

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.

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: Yes, the entity expects that it will continue to have the current level of net operating cash flows.

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 has not taken any steps at this time to raise further cash to fund its operations.

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 on the basis that it can draw on its loan facility to fund the construction of its Mildura facility.

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: ***28 January 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.