

CANN GLOBAL LIMITED
**QUARTERLY
REPORT**
30 JUNE 2020



CANN GLOBAL
LIMITED



APPENDIX 4C CASHFLOW & QUARTERLY ACTIVITIES REPORT

Cann Global Limited (ASX:CGB) (“Cann Global” or the “Company”) submits the following Activities report and Quarterly Cash Flow Statement (Appendix 4C) for the quarter ending 30 June 2020 (“Q4 FY2020”).

KEY HIGHLIGHTS:

- Cann Global continued to drive sales throughout the quarter resulting in cash receipts from customers of \$333k up 54.6% on the prior corresponding period, but lower than the prior quarter due to shipping delays and therefore delayed payment on contracted sales.
- Accrued revenue for the quarter including all contracted sales is \$545K up 42% on the previous quarter and an increase of 165% on the previous corresponding period.
- As at 30 June 2020, the Company had a healthy \$7.4m in cash.
- Receipt of funds from the recent rights issue upon completion will further increase the total cash available.
- During the quarter, management have implemented new strategies to develop new and existing income streams in the short to medium term in the T12 business establishing new distribution channels and growing product lines.
- Australian Parliament passed a bill which allows Australian hemp exporters to receive the Australian Government certification necessary for some export markets in which Cann Global operates, supporting greater export reach for the Company’s hemp food products.
- New plant-based product launch: Chia oil soft-gel capsules.

FINANCIAL PERFORMANCE OVERVIEW

Cash receipts from customers of \$333k were up 54.6% on the prior corresponding period, but lower than the prior quarter due to delayed shipping and therefore delayed payment for contracted sales. Accrued revenue for the quarter including contracted sales was \$545K up 42% on the previous quarter (Q3 FY20: \$382k) and up 165 % on the previous corresponding period (Q4 FY19: \$205k).

Extended payment terms following shipping delays of hemp and chia products to Vietnam resulted from the pending passing of the Export Control Amendment (Certificate of Narcotics Exports) Bill 2020. This Bill was passed in Parliament on 17 June 2020 facilitating the issuance of phytosanitary certificates on importation of hemp products to international markets allowing our first container of hemp to be shipped to Vietnam.

Production and manufacturing costs are up 12.6% on the previous corresponding quarter. In order to secure long-term customer contracts, T12 has made further investments to increase inventory this quarter which will continue to expand the Company's existing revenue streams and drive future income.

Management has implemented a new marketing and product development strategy throughout Q3/Q4 which will see funds committed over FY21 to develop our product distribution and new channels to market.

A rigorous review of staff and administration costs across the Company has resulted in a significant reduction in these costs during the past 12 months. Administration and corporate costs are \$464k for the quarter. This is a reduction of 30.5% on the previous quarter.

Payments from outstanding debtors to CGB during the quarter has resulted in an additional return of funds to CGB of approximately \$900K.

Pleasingly, net cash used in operating activities has shown a quarter on quarter trend of reducing over the past twelve months given increases in revenue from sales combined with a reduction in operating costs. This operating cash flow trend is positive and supports managements' efforts to drive the business towards profitability.

RIGHTS ISSUE UPDATE

As at 30 June 2020, the company had A\$7.4 million of corporate cash prior to rights issue launched in July 2020.

The company received applications for 440,149,594 New Shares from Eligible Shareholders under the Entitlement Offer, raising \$2,200,748.

Acceptances include amounts of \$241,997 in respect of the full entitlements for entities related to CGB's Executive Chair Pnina Feldman and Managing Director Sholom Feldman, as well as \$649,254 for the Company's largest shareholder LBT Corp.

Sholom Feldman, CGB's Managing Director, says: "The rights issue was well supported by CGB's largest shareholders and leaves us well placed for moving ahead with our business objectives. We are still receiving a lot of interest in the shortfall offer. An update to market will be released if the directors decide to place shares pursuant to the shortfall offer. We are very pleased with the results, especially considering the current climate of economic uncertainty. We are thankful for our shareholders continued support."



OPERATIONAL PERFORMANCE AND ACTIVITIES

1. FOOD DIVISION

Q4 FY2020 has provided a strong foundation for a robust 2020 | 2021 financial year ahead.

KEY HIGHLIGHTS:

- Increased marketing activities to assist T12 product & brand awareness
- Growth opportunity now available to international trade – due to Royal Assent being given to The Export Control Legislation Amendment (Certification of Narcotic Exports) Bill 2020. This allows hemp product to be exported with a phytosanitary certificate – a requisite in order for many countries to legally accept imported hemp which opens new markets.
- EPCO & other high-end Vietnamese stores now trialing T12's range of Hemp Products in addition to increasing Chia purchase orders - Vietnam is a country that required phytosanitary certificates on its imported goods.
- New sales sector – entering pet food market with hemp & chia products, partnering with existing companies to expand their offerings.
- New product launch – chia soft-gel capsules (nutraceuticals) have been completed by BioHealth and will begin sales in Q1 2021.
- Hemp harvest completed – 200MT crop secured for processing.

T12 completed its Strategic Business Review and Market study, largely focused on the Australian hemp category, which identified a multi-pronged action plan to see an uplift in sales of natural foods and hemp products. Growth drivers include a stronger direct to consumer/online channel and identification of relevant opportunities in the pharmacy, specialty health foods (with product formats and focus being on the therapeutic value in Hemp) and grocery/supermarket channels (where Hemp as a food component dominates). Plans are underway to grow into these channels with existing partners and new, while at the same time, continue to maintain and grow existing wholesale/distributor channels, locally and in international markets.



Chia sales in Vietnam continue to grow incrementally due to continued relationship building and effective marketing by distributors driving awareness and demand with purchase orders received for \$350,000 to be filled over the next 8 weeks.

On June 17 2020, Australian Parliament passed a bill which allows Australian Hemp exporters to receive the Australian Government certification necessary for some export markets, such as Vietnam. This is very important news for T12 as it allows greater export reach.

This change to Narcotic laws has allowed the first Hemp Food pallet orders to arrive in Vietnam after some delays, for trialing at major high-end grocery chains. The same distributors and on-ground marketing proving successful to drive demand for Chia in Vietnam will be utilized to drive Hemp food sales.

As part of the food division's strategy to identify niche wholesale/distributor channels, T12 is collaborating with a big Australian Natural Pet Food & Equine manufacturer to develop market-leading Chia & Hemp Foods, including Equine and plant-based recovery foods.

In addition, the development and market introduction of our new Chia Seed Oil and Chia Oil Soft-Gel Capsule started in the last quarter. These new products will bring real benefits to the customers and will see T12 be the first to market Chia products as high in omega content, with fast absorption. Production and manufacturing have begun and we expect these innovative products to be launched in Q1 of this financial year.

Early June 2020, T12 Tasmanian growers confirmed that new season contracted raw hemp seeds are ready for dispatch, in addition to reporting a very successful crop, exceeding the previous year yields.

2. HEMP OPERATIONS IN ASIA

KEY HIGHLIGHTS:

- Hemp R&D program with the Uttaradit Rajabhat University currently underway.
- Service revenue and light-capital model.
- CGB expects its 55% owned subsidiary to be operating at a net profit.

As advised in our announcement dated 15 June 2020, CGB through its 55% owned subsidiary have secured a contracting agreement with AA Bio Ltd, a company incorporated in Thailand, to undertake cultivation activities to conduct CBD hemp and hemp seeds operation, under the current hemp regulations in Thailand.

AA Bio is currently undertaking a hemp research & development program with the Uttaradit Rajabhat University which the cultivation and extraction services are supporting. Both our senior grower and senior engineer are currently in Phrae undertaking preparatory work.

Operating under a service revenue model will provide revenue almost immediately after signing each contracting agreement with a 10% up-front payment. At this stage, the company's subsidiary has secured 5 agreements with an associated first tranche of revenue of \$148,600 USD of which US\$24,300 has already been received in July to fund the preparatory work for the cultivation program. These amounts will be reflected in CGB's next consolidated cash-flow results.

Based on this service revenue and capital-light model, CGB anticipates a positive cash flow from its operating activities in Asia before the end of Q2 FY21, after which the service offer will be expanded further.

The subsidiary is also supporting AA Bio's application to obtain cultivation and processing licenses under Thailand's new CBD hemp regulations expected to be released in August 2020. AA Bio will apply for the licenses immediately after the regulations are released.

The revenue for service model will result in the venture being largely self-funded with very little further capital required to be invested by Cann Global.

By year end, CGB expects its 55% owned subsidiary to be operating at a net profit. When AA Bio receives its licenses, Cann Global will be well positioned to expand the quantity of services provided.

3. MEDICAL CANNABIS DIVISION: CANNTAB/TECHNION

The company is continuing its discussion with industry partners to develop protocols for randomised clinical trials (RCT) and Cannabinoid Medicine Observational Studies (CMOS) in Australia for the Canntab products and for the products that have been identified in the research being done in conjunction with the Technion in Israel. As more information becomes available, we will update the market.

During the quarter, CGB released a comprehensive announcement with the results to date of the research performed by the Technion in Israel.

This announcement can be found on the ASX website at the following location:

<https://www.asx.com.au/asx/statistics/displayAnnouncement.do?display=pdf&idsId=02244502>



4. SKIN-CARE DIVISION: PHARMOCANN

KEY HIGHLIGHTS:

- Appointment of key external agencies across PR, Web, Digital and Brand
- Launch of the pilot phase expected in Q1 FY21

During Q3 FY 2020 CGB initiated a primary market research for the pending launch of the first commercial imperative with its JV partner and Israeli medical cannabis company, Pharmocann, being the plant-based skincare products.

During Q4 FY2020, CGB has expanded its Key market research, both quantitative and qualitative, including significant category, consumer, competitor insights, and product, pricing & distribution analysis, across the relevant categories in Australia and global markets, such as Asia, which CGB through its 50% owned JV entity Pharmocann Global Pty Ltd, will expand into.

Following research phase 1 and 2, CGB continues to formalise its brand strategy and position, and go to market plans, enabling a smooth entry and with differentiated product offering for consumers.

To support this exciting commercialisation phase, CGB strengthened the Marketing department with the appointment of key external agencies across PR, Web, Digital and Brand.

As previously announced CGB has formulated with Australian-based industry partners a range of 100% plant-based skin care beauty products initially targeting women who value the therapeutic benefits derived from plants active constituents. The first batch of samples has been produced in Australia and sent out to our JV partners Pharmocann Israel for testing and approval. The company is expecting to launch the pilot phase where a limited volume of products is being produced to be sold to a limited number of venues to analyse the demand associated with the products in Q1 FY2021. This will provide the company with enough information to go to the next step of large-scale production. The pilot phase is expected to take 3 months.

As advised in our 15 June announcement, Israel has now approved the export of medical Cannabis. CGB is ready to take advantage of this opportunity via its 50% owned entity Pharmocann Global Pty Ltd and is currently reviewing and identifying relevant medical cannabis products from Pharmocann, Israel, ready for import to Australia to meet demand/consumers with varying ailments/conditions and as prescribed by GP's.



5. MINING DIVISION: BAUXITE PROJECTS

CGB is progressing with renewal applications and the preparation of the further programs together with the Department of Natural Resources to ensure the company maintains its assets in good standing.

CORPORATE OUTLOOK

Considering current uncertainty in our economy, CGB is in the right industry with investments in the healthcare, medical and wellbeing sectors which are of the most viable industries that are still experiencing growth.

CGB's growth strategy is well positioned with the global trend in plant-based products, having investments in plant-based foods, plant-based nutraceuticals, and plant-based cosmetics, ready to meet the expanding plant-based consumer demand.

The plant-based product market has grown significantly in recent years.

Three consumer macro trends are driving the category expansion:

- Personal health concerns
- Animal welfare
- Environmental sustainability

Demand for nutrient-rich foods and ingredients like chia and hemp have increased year on year, with more growth expected.

Pnina Feldman, CGB's Executive Chairperson says: "It is very exciting to be involved in these fast-growing sectors. Important changes in regulations surrounding hemp and medical Cannabis is underpinning Cann Global's increasing revenue and supports the Company's growth opportunities. The change in Australian Narcotic laws allowing greater export scope for high-quality Australian hemp, and the change in export laws on Medical Cannabis products allowing us to import ready-to-sell products from Canntab and Pharmocann, will play an important role in assisting CGB's revenue growth. Especially with the upcoming changes in Australian legislations with the Therapeutic Goods Administration's (TGA) proposed amendment to the scheduling of Cannabidiol (CBD) bodes well for additional product launch. The current proposal is to create a new Schedule 3 (Pharmacist Only Medicine) entry for cannabidiol (CBD) at doses up to 60 mg/day or less as opposed to the current classification of CBD as a schedule 4 substance and therefore only available with a prescription. CGB is well placed to take advantage of these regulatory changes which further strengthens our path to profitability."



Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

CANN GLOBAL LIMITED

ABN

18 124 873 507

Quarter ended ("current quarter")

30 June 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	333	1,346
1.2 Payments for		
(a) research and development	-30	-1,327
(b) product manufacturing and operating costs	-286	-2,548
(c) advertising and marketing	-28	-152
(d) leased assets	-5	-7
(e) staff costs	-257	-1,274
(f) administration and corporate costs	-464	-2,536
1.3 Dividends received (see note 3)		
1.4 Interest received	57	119
1.5 Interest and other costs of finance paid		5
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material) GST Refund	217	640
1.9 Net cash from / (used in) operating activities	-463	-5,734

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	-4	-80
(d) investments		
(e) intellectual property	-4	-15

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 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	-8	-95

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)		6,368
3.2 Proceeds from issue of convertible debt securities		3,083
3.3 Proceeds from exercise of options		
3.4 Transaction costs related to issues of equity securities or convertible debt securities		-81
3.5 Proceeds from borrowings	900	900
3.6 Repayment of borrowings		-2206
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (provide details if material)		
3.10 Net cash from / (used in) financing activities	900	8,064

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	6,988	5,228
4.2 Net cash from / (used in) operating activities (item 1.9 above)	-463	-5,734
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-8	-95

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	900	8,064
4.5	Effect of movement in exchange rates on cash held		-46
4.6	Cash and cash equivalents at end of period	7,417	7,417

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	7,417	6,988
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	7,417	6,988

6. Payments to related parties of the entity and their associates

6.1 Aggregate amount of payments to related parties and their associates included in item 1

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

**Current quarter
\$A'000**

215

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

Quarterly cash flow report for entities subject to Listing Rule 4.7B

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.

- 7.1 Loan facilities
- 7.2 Credit standby arrangements
- 7.3 Other (please specify)
- 7.4 **Total financing facilities**

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000

7.5 Unused financing facilities available at quarter end

- 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.

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8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	-463
8.2 Cash and cash equivalents at quarter end (Item 4.6)	7,417
8.3 Unused finance facilities available at quarter end (Item 7.5)	
8.4 Total available funding (Item 8.2 + Item 8.3)	7,417
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	16

- 8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

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: NA

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: NA

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: NA

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: ..31 July 2020.....

Authorised by:SHOLOM FELDMAN.....
(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.