



## ASX ANNOUNCEMENT

28 April 2020

### CANN GROUP MARCH 2020 QUARTERLY ACTIVITIES REPORT AND APPENDIX 4C

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#### Highlights

- **GMP products manufactured, tested and ready for commercial release**
  - **Strategic reset & changes to planned Mildura facility outlined**
  - **Development of funding options for planned Mildura facility continues to progress**
  - **\$8 million in working capital secured via issue of Convertible Notes**
  - **Operational changes implemented in response to COVID-19 pandemic**
  - **Greg Bullock appointed Cann Group's Chief Financial Officer**
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**28 April 2020** – Melbourne-based Cann Group is pleased to report on its activities for the quarter ended 31 March 2020.

GMP extraction activities were initiated in January 2020 for the first batches of medicinal cannabis resin with Cann's manufacturing partner IDT Australia, paving the way for formulation and packaging activities to produce a wide range of GMP medicinal cannabis finished dosage form products.

On 1 April 2020, Cann Group reported the first of its GMP manufactured product formulations, dried cannabis flower and cannabis oil from its Australian-grown cannabis, completed initial shelf life stability testing and was ready for release to the market to fill specific customer orders. Product has subsequently been supplied to Australian healthcare company Entoura in April 2020 for distribution to Australian patients.

In late January 2020, the Company outlined a strategic reset following demand-supply disruptions in the global medicinal cannabis market. The revised strategy focuses on initially meeting Australian demand as export markets continue to be developed, while also reducing operating expenses including a reduction in head count of 25% and elimination or deferment of \$7m in annualised costs.

As part of the strategy reset, Cann Group also announced it proposes to proceed with the first stage of the Mildura facility, which is expected to have an annual capacity of 25,000kg of cannabis dry flower. The first phase of this development is planned to have a capacity of 12,500kg per annum (Stage 1A), with the expected timeline being subject to design and construction review, funding and the necessary approvals. Stage 1B proposes a capacity increase to 25,000kg per annum, with timing being also subject to volume demand growth that provides confidence in capacity utilisation.

Cann Group continues to progress funding options relating to the planned Mildura facility. Several options are being pursued and developed with the objective of putting the Company in a position to proceed on a basis that represents a prudent outcome for shareholders, while supporting the continued growth of the business.

Given the current economic uncertainty and market volatility relating to the COVID-19 impacts, the Board announced it may delay a decision on funding until the end of the financial year. The Company currently believes sufficient working capital, including that received from the below mentioned capital raising, is in place to support current operations over that period.

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Previous timeline estimates regarding construction and commissioning of the Mildura facility may be impacted by COVID-19 related delays. Cann Group will regularly review these estimates and will provide an update when possible and in accordance with the Company's continuous disclosure obligations.

Cann Group implemented changes in order to comply with Government-imposed COVID-19 restrictions and guidelines during the quarter, safeguarding the Company's commitment to the health and welfare of its employees and business partners. Cann Group implemented a business continuity plan which included moving to a shift-based operation for its cultivation facilities and all other staff working from home. As a supplier of medical products to Australian patients, Cann Group's operations are an essential service and the Company expects to continue operating throughout the COVID-19 pandemic.

### **Working capital**

In February 2020, Cann successfully completed the offer and issue of convertible notes to raise \$8 million ("Offer"). The proceeds are for working capital purposes.

The Offer was made to sophisticated, professional and other investors who qualified under section 708 of the Corporations Act 2001 (Cth). The Convertible Notes are fully paid, unsecured, subordinated (to any senior debt) and convertible on or before 10 February 2022 at the lower of:

- \$0.70 cents per share; or
- the volume weighted average price of Cann's ordinary shares during the five trading days following the most recent capital raise of more than \$5 million; or
- the issue price of a capital raise of more than \$5 million, multiplied by 0.85, ("Conversion Price").

The Convertible Notes are not quoted or tradable on the Australian Securities Exchange ("ASX").

To the extent that the Convertible Notes issued to a holder have been converted between their issued date and up to 30 business days after a capital raise, or raises, in aggregate, of more than \$20 million, the Company will issue to the holder one option (to subscribe for one share) for each share issued on conversion. The options are exercisable on or before 31 March 2022 at an exercise price calculated at a 35% premium to the Conversion Price. The options will not be quoted on the ASX.

PAC Partners and E&P Corporate Advisory were Joint Lead Managers to the Offer.

### **Appointment of Chief Financial Officer**

Cann Group has appointed Greg Bullock as its Chief Financial Officer following the resignation of Reena Dahiya from the role. Mr Bullock will transition from his current short-term contract as Cann Group's Strategy and Planning Manager.

Mr Bullock is a senior executive and finance professional with extensive experience in consumer durables and commodity products. His experience includes Group Treasury Manager of Queensland-based sugar producer Wilmar Sugar Australia Limited. He has also held finance roles with Pacific Brands Holdings and P&O Maritime Services.

Ms Dahiya has accepted a new opportunity elsewhere and Cann Group's Board and management thank her for her excellent service to the Company.

## Outlook

The Board's immediate priority remains a thorough assessment of all available options for the funding of the planned Mildura capacity expansion, in the context of the current economic uncertainty and market volatility relating to the COVID-19 impacts. Professional advisers have been retained to assist the Board in that process.

Management, meanwhile, continues to pursue its growth strategy and seeks to progress potential supply agreements with a number of third parties, both in Australia and overseas.

Work will also continue on the Company's short-term capacity expansion strategy which is expected to ensure product is available to meet growing commercial demand in the period prior to the commissioning of the first stage of Mildura.

The Company continues to pay close attention to safeguarding the health and wellbeing of all employees and will continue to operate its business accordingly during the COVID-19 related restrictions.

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

**For further information please contact:**

Peter Crock  
CEO  
Cann Group Limited  
+61 3 9095 7088  
[contact@canngrouponlimited.com](mailto:contact@canngrouponlimited.com)

Clive Fanning  
Head of Investor Relations  
Cann Group Limited  
+61 498 000 762  
[clive.fanning@canngrouponlimited.com](mailto:clive.fanning@canngrouponlimited.com)

Matthew Wright  
NWR Communications  
+61 451 896 420  
[matt@nwrcommunications.com.au](mailto:matt@nwrcommunications.com.au)

## 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.canngrouponlimited.com](http://www.canngrouponlimited.com)**

## Appendix 4C

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

**Name of entity**

Cann Group Limited

**ABN**

25 603 949 739

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

31 March 2020

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (9 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	12	1,672
1.2 Payments for		
(a) research and development	(859)	(1,386)
(b) product manufacturing and operating costs	(1,670)	(3,607)
(c) advertising and marketing	(1)	(64)
(d) leased assets	-	-
(e) staff costs	(1,620)	(6,268)
(f) administration and corporate costs	(894)	(4,298)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	14	262
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	504	988
1.8 Other (provide details if material)	1,195	1,195
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(3,320)</b>	<b>(11,506)</b>

**Explanation to 1.8 Other:**

This amount mainly consists of GST refund from capital purchases. As the accounting standard requires investing activities to be shown exclusive of taxes, GST refund component has been classified in operating activities.

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(5,720)	(35,914)
	(d) investments	-	-
	(e) intellectual property	-	-
	(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)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(5,720)</b>	<b>(35,914)</b>
<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	8,000	8,000
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(487)	(487)
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</b>	<b>Net cash from / (used in) financing activities</b>	<b>7,513</b>	<b>7,513</b>

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
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<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	8,093	46,473
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,320)	(11,506)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(5,720)	(35,914)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	7,513	7,513
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>6,566</b>	<b>6,566</b>

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	6,481	16,168
5.2	Call deposits	-	9,008
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	85	85
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>6,566</b>	<b>25,261</b>

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 1.2	
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

**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	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (Corporate Credit Cards)	60	3
<b>7.4 Total financing facilities</b>	<b>60</b>	<b>3</b>

**7.5 Unused financing facilities available at quarter end**

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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.

N/A

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (Item 1.9)	<b>(3,320)</b>
8.2 Cash and cash equivalents at quarter end (Item 4.6)	<b>6,566</b>
8.3 Unused finance facilities available at quarter end (Item 7.5)	<b>57</b>
8.4 Total available funding (Item 8.2 + Item 8.3)	<b>6,623</b>
8.5 <b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	<b>2</b>

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:

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:

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:

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## 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 April 2020

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.