



## ASX ANNOUNCEMENT

29 April 2021

### Cann Group March 2021 Quarterly Activities Report and Appendix 4C

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#### Highlights

- Cann completes strategic acquisition of Satipharm
- Collaboration agreement executed with Emyria Limited to accelerate registration of unique low-dose CBD product in Australia
- Mildura construction proceeding to schedule
- Order of more than 20,000 units of medicinal cannabis product completed, invoiced and awaiting shipment (subsequent to end of quarter).

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**29 April 2021** – Melbourne-based Cann Group Limited (ASX:CAN) (**Cann**) is pleased to report on its activities for the quarter ended 31 March 2021.

#### Financials

Cann's quarterly cash flow report shows a \$3,988,000 improvement in cash flows compared to the previous quarter. The major component of this improvement was the payment received from the Australian Tax Office (**ATO**) for the R&D incentive scheme, but Cann also had a near 500% increase in receipts from customers and a further 23% reduction in manufacturing costs.

Cann received \$618,000 from customers. The increase in receipts has occurred from an increase in local supply to a growing number of domestic customers.

The key cashflows in Q3 were:

- Research and Development costs of \$554,000 covering contributions to various projects and research programs, highlights of which are outlined below.
- Product manufacturing costs and inventory build, at \$2.08m, were down from \$2.69m in the previous quarter and in-line with forecast.
- Staff, administration and corporate overheads, at \$2.83m, were down from \$2.99m last quarter.
- Receipt of \$3.3m from the ATO's R&D Tax Incentive scheme was \$2.7m higher than last quarter's \$0.5m.
- Acquisition of property, plant and equipment of \$7.2m relates to the recommencement of construction at Mildura with payments to contractors and purchase of equipment.
- A \$3.57m decrease in cash was due to the cyber security incident reported to the market on 8 Feb 2021. Legal action has been instigated by Cann and police to recover funds but an outcome is not expected before the September 2021 quarter.

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## **Production / Sales**

Local supply to various white label customers and compounding pharmacies continues to grow. This quarter saw a doubling of units supplied, rising from 1400 to 3000 over the quarter. The number of domestic customers also increased.

Production relating to an initial order from German distribution partner iuvo Therapeutics continued during the quarter (see **Subsequent events** commentary later in this report).

## **Strategic acquisition**

In February, Cann announced the all-scrip acquisition of the Satipharm business from Harvest One for a total consideration of CAD\$4 million. Satipharm is a European-based business exclusively licensed to develop and market the proprietary Gelpell® delivery system for cannabinoids. Data has been published that demonstrates the Satipharm product, which is based on a patented micro-sphere encapsulation technology, has improved stability and bioavailability of cannabinoids compared to other formulations. The acquisition will give Cann a platform to apply for registration in the rapidly growing low dose CBD market segment and will fast track development of new, novel THC-based medicinal cannabis formulations.

Cann plans to support the growth of Satipharm's existing European sales with further investment in marketing and distribution capability.

### *Satipharm acquisition consideration*

As noted above, the acquisition involved a total maximum consideration of CAD\$4.0m (including conditional deferred consideration of up to CAD\$1.5M).

The initial payment of CAD\$2.5m was completed on 10 March 2021 by the issue of 4,278,615 new fully-paid ordinary shares in Cann. The deferred consideration of up to CAD\$1.5m is payable by the issuance of further new Cann shares or cash (at the option of Cann), subject to the satisfaction of the certain conditions, the details of which are specified in Annexure A to this announcement.

The deferred consideration conditions have not yet been met but, as announced to the market on both 15 February 2021 and 10 March 2021, Cann expects that the final element of the conditional deferred consideration will be paid by September 2021.

## **Application for S3 Registration of Satipharm CBD capsules**

In March, Cann announced a collaboration agreement with Emyria Limited (ASX: EMD) (Emyria) which aims to accelerate the registration of a unique, low-dose, CBD-only capsule with Australia's Therapeutic Goods Administration (TGA). Successful registration as a Schedule 3 medicine would result in an over-the-counter, pharmacist-only CBD medicine. Under the agreement, Emyria's EMD-003 drug development program will use Cann Group's proprietary Gelpell microsphere technology as the basis for seeking a Schedule 3 registration for treating unmet needs in mental health. Cann anticipates there will be a large patient demand for a TGA registered CBD medicine that is convenient to patients and demonstrates the highest standards of quality, safety and efficacy.

Cann believes the collaboration with Emyria has the potential to significantly reduce both the time and costs associated with securing a product registration and will bring forward funding to support this initiative.

## Research and Development

In March, it was announced that Cann is partnering with the Olivia Newton-John Cancer Research Institute (ONJCRI), the La Trobe School of Cancer Medicine, and Austin Health, in a clinical trial to assess medicinal cannabis for symptom management in people with advanced cancer. The Phase I trial commenced in late September 2020 and trial outcomes are currently being reviewed, with patients having tolerated the treatment well to date. Phase I is focused on the titration and safety of administering this new formulation of medicinal cannabis in a controlled manner. Should the Phase I study demonstrate safety and tolerability of the drug, Phase II (a double blind, randomised, placebo-controlled trial) will see the enrolment of 108 participants with advanced cancers, subject to meeting trial specific eligibility criteria. The Phase II study will evaluate the efficacy of the drug by assessing global Quality of Life in these participants, as well as other domains including pain, anorexia, nausea, anxiety and sleep. Participants can only be referred to the study by their treating physician. Cann is supplying a locally grown and cultivated full spectrum cannabis extract that contains both cannabidiol (CBD) and tetrahydrocannabinol (THC) formulated into an oil that is taken up to three times a day. Cann Group CEO Peter Crock said the Company is pleased to be able to contribute to the ongoing clinical evaluation of medicinal cannabis as a potential therapy for cancer patients, through supply of the trial's investigational product.

In addition to the ONJCRI trial, Cann is also supporting a first of its kind study into severe Tourette's syndrome in children, which will be run out of the Royal Children's Hospital in Melbourne.

## Mildura update

Work has recommenced on site at Mildura, as Qanstruct (principle contractor) returned to site in late February. The Dutch specialist contractors (with particular expertise in the construction of glasshouses) arrived on site in early-mid March and began planning and works with Qanstruct. Digging and installation of major underground pipework began in March and has ramped-up in April with more overseas-based contractors arriving and more local contractors engaged. Materials continue to arrive from overseas as expected. The laboratory refurbishment is nearing completion with equipment installation commencing in mid-April. Powercor's work to increase power supply to the site is on target.

Cann is completing a detailed assessment of options relating to the inclusion of an extraction process capability in the new Mildura facility. The extraction facility will allow for the dried cannabis flower to undergo extraction to a concentrated viscous extract, or 'resin', for further processing. The addition of a cannabis extraction capability to the manufacturing facility will provide the Company with end-to-end direct control of its supply chain and manufacturing requirements and will significantly lower manufacturing costs.

Overall, the recommencement of construction at Mildura is going to plan.

### **Subsequent events**

An order of more than 20,000 bottles of cannabis extract has completed production, has been invoiced and is awaiting collection by German customer and partner iuvo Therapeutics' freight forwarding company. The product is expected to be shipped overseas within the next week and Cann will update the market at that time.

On 27 April 2021, Cann Group announced that Mr John Sharman has been appointed to the Board of Directors, with the appointment taking effect immediately. Mr Sharman's appointment will be confirmed by shareholders at the Company's AGM scheduled for November 2021. Mr Sharman has extensive international business experience as a Managing Director, CEO, CFO and non-executive director with public and private companies, including several ASX listed entities. He has a comprehensive understanding of the medical manufacturing industry as well as the pharmaceutical and nutraceutical sectors. He has led businesses with operations in Australia, the UK, Europe, Asia and the USA, building distribution, sales, marketing and manufacturing networks both locally and internationally.

On 29 April 2021, Cann announced it had received notice from one of its customers that the customer has commenced a class III recall in respect of 250 units of 50ml medicinal cannabis oil products recently released to the Australian market. A class III recall is not a safety-related recall and is undertaken where a deficient product is not likely to cause adverse health consequences. Cann understands that 11 units have been supplied to patients and the balance of the units are being retained by the customer's distributor. The products were manufactured and released by a third party GMP licensed manufacturer, engaged by Cann, using ingredients which included a starting material supplied by another third party. The recall follows the identification of particulate matter in a subsequent batch of the product by Cann's manufacturer, who then notified Cann of the issue.

In line with the Therapeutic Goods Administration's (**TGA**) processes, the sponsor of the product in Australia (the customer's distributor) is liaising with the TGA to coordinate the recall. Cann is working with its customer, manufacturer and supplier to identify the cause of the issues in relation to these products.

### **Outlook**

Management's focus remains on clearing regulatory pathways to facilitate overseas sales; supporting the development and marketing of the Satipharm products; progressing the construction of Mildura and de-risking the Company's supply chain.

It is expected that revenues will steadily build over coming months, driven by demand from both overseas offtake partners and a growing number of domestic supply opportunities in Australia.

**Annexure A – Details of Satipharm acquisition consideration**

Further details of the deferred consideration are provided below:

- CAD\$0.750 million following delivery of equipment in accordance with required specifications and satisfactory working conditions to Cann's nominated facility in Australia;
- first earn out payment of up to CAD\$0.250 million linked to an agreed revenue of the Satipharm business for the 6 months to 30 June 2021 (to be reduced to an agreed fraction of the revenue if the actual revenue is below that amount);
- second earn out payment of up to CAD\$0.250 million linked to gross profit of the Satipharm business for the financial year ended 30 June 2021 (to be reduced to an agreed multiple of the gross profit if the actual gross profit is below that amount);
- third earn out payment payable of up to CAD\$0.250 million linked to an agreed EBITDA loss of the Satipharm business for the 6 months to 30 June 2021 (to be reduced by CAD\$1 for every CAD\$1 that the actual EBITDA loss for that period is greater than the agreed EBITDA loss for that period).

If Cann does not elect to pay each element of the deferred consideration in cash but instead decides to issue new Cann shares, then the number of new Cann shares to be issued for each element of the deferred consideration will be determined as follows:

- following delivery of equipment, Cann will issue a number of new Cann shares to the value of the AUD\$ equivalent of CAD\$0.750 million at an issue price per share to be based on the VWAP of Cann's shares during the 30 full trading days on the ASX ending on the ASX trading day immediately prior to the date on which delivery of the equipment to the satisfaction of Cann occurs; and
- in respect of each of the three earn out payments, Cann will issue a number of new Cann shares up to the value of the AUD\$ equivalent of CAD\$0.250 million at an issue price per share to be based on the VWAP of Cann's shares during the 30 full trading days on the ASX ending on the ASX trading day immediately prior to 30 June 2021.

This release was authorised for release by the Board of Directors, 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.canngrouponlimited.com](http://www.canngrouponlimited.com) | [www.satipharm.com](http://www.satipharm.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 2021

<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	618	810
1.2 Payments for		
(a) research and development	(554)	(1,398)
(b) product manufacturing and operating costs	(2,084)	(8,375)
(c) advertising and marketing	-	(47)
(d) leased assets	-	-
(e) staff costs	(1,629)	(5,057)
(f) administration and corporate costs	(1,196)	(3,666)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	10	37
1.5 Interest and other costs of finance paid	(2)	(2)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	3,267	3,812
1.8 Other (provide details if material)	244	1,287
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,326)</b>	<b>(12,599)</b>

**Explanation to 1.7 Govt Grants:** This amount consists of R&D Tax Incentive received from ATO in January 21.

**Explanation to 1.8 Other:** The amount is GST refund from capital purchases. As the accounting standard requires investing activities to be shown exclusive of taxes, GST component has been classified in operating activities.

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(7,189)	(8,442)
(d) investments	(1,026)	(1,026)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
	(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	214	214
	(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)	(3,574)	(3,249)
2.6	<b>Net cash from / (used in) investing activities</b>	<b>(11,575)</b>	<b>(12,503)</b>

**Explanation to 2.5 Other:** This amount consists of fraudulent payments to an overseas contractor related to the cyber security incident announced to the market on 8th Feb 2021.

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	40,198
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	1,554	1,554
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(1,900)
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)	-	-
3.10	<b>Net cash from / (used in) financing activities</b>	<b>1,554</b>	<b>39,852</b>



Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
<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	27,736	1,639
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,326)	(12,599)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(11,575)	(12,503)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,554	39,852
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>16,389</b>	<b>16,389</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	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	16,304	27,651
5.2	Call deposits	-	-
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>16,389</b>	<b>27,736</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	Current quarter \$A'000
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	
<i>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.</i>		

<b>7. Financing facilities</b> <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
7.1 Loan facilities	50,000	-
7.2 Credit standby arrangements	-	-
7.3 Other (Corporate Credit Cards)	60	30
7.4 <b>Total financing facilities</b>	60	30
7.5 <b>Unused financing facilities available at quarter end</b>		50,030
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.  <div style="border: 1px solid black; padding: 5px;"> 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. </div>		

<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)	(1,326)
8.2 Cash and cash equivalents at quarter end (item 4.6)	16,389
8.3 Unused finance facilities available at quarter end (item 7.5)	50,030
8.4 Total available funding (item 8.2 + item 8.3)	66,419
8.5 <b>Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	50
<i>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.</i>	
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?  <div style="border: 1px solid black; padding: 5px;"> Answer: N/A </div>	
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?  <div style="border: 1px solid black; padding: 5px;"> Answer: N/A </div>	
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?  <div style="border: 1px solid black; padding: 5px;"> Answer: N/A </div>	
<i>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.</i>	

## 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: **29 April 2021**

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.