



ASX ANNOUNCEMENT

26 April 2019

CANN GROUP MARCH 2019 QUARTERLY ACTIVITIES REPORT AND APPENDIX 4C

26 April 2019 – Melbourne-based Cann Group is pleased to report on its activities for the quarter ended 31 March 2019.

During the quarter, Cann Group announced that it had 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 had 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 Group entered the HOA to purchase a site located within the Mildura Rural City Council, in North West Victoria, where it intends to construct a state-of-the-art greenhouse for large cultivation and production of medicinal cannabis to service both domestic and export markets.

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 existing cash reserves.

The Company opted to proceed with construction at the Mildura site following a detailed revision of its expansion plans, including estimates on timescale for various approvals, provision of services and total build.

The decision to secure and proceed with the Mildura site ensures the Company can maintain its projected timeline to large scale cultivation.

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 alongside the cultivation and harvesting activity in the new greenhouse.

When completed, it is expected that the 34,000 square metre greenhouse will be the largest purpose-built medicinal cannabis production facility in Australia. 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 has continued progression towards the 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.

Offtake agreement

The offtake agreement with Aurora Cannabis 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 allows 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. 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.

Cann Group is assessing and testing 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.

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 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.

Investment in Emerald Clinics

During the period Cann completed a \$250,000 investment in independent medicinal cannabis clinic group Emerald Clinics.

The investment formed part of a \$2.5 million capital raising completed by Emerald to support the ongoing national roll-out program of its clinics.

Emerald successfully opened its first clinic in Subiaco, Perth in December 2018, and second clinic in Woolloomooloo, Sydney in early February 2019. Emerald will continue expanding the network to other major cities and regional centres throughout 2019 to ensure Australians seeking a regulated supply of medicinal cannabis have access to highly-informed healthcare practitioners.

Emerald's primary focus is to provide high-quality care and improve clinical outcomes for patients who are seeking to manage conditions such as chronic neuropathic pain. Patients referred to Emerald's clinics undergo a thorough medical examination to assess their clinical history and suitability for use of medicinal cannabis. If deemed appropriate, the clinician will develop a cannabinoid treatment plan with the patient, who is then monitored in follow-up appointments to ensure the treatment plan achieves desired clinical outcomes. Patient access requires approval from Australia's national regulatory authority for therapeutic goods, the Therapeutic Goods Administration (TGA), and relevant State authorities.



Outlook

Cann Group's board and management expects numerous key news items during the current quarter and beyond.

The Company is progressing with its debt funding plans for the Mildura expansion facility and negotiations continue with prospective lenders. In parallel with this Cann continues to move forward with preparations for construction of the new facility, with the shipping date set for first construction materials currently being fabricated in The Netherlands.

Cann has started production of resin for Victoria's Department of Health as of April 2019 (see announcement 29 October 2018) and the Company expects regular orders under this agreement.

Cann's manufacturing partner IDT Australia has installed extraction equipment required for medicinal cannabis, which is currently being commissioned for full GMP compliance.

The Company is also maintaining a focus on its commercial strategy, with supply to Australian patients and involvement in clinical studies both key to this, as patient approvals in Australia continue to see rapid growth.

Overall Cann continues to focus on building a strong platform that will generate sustainable profits and shareholder value over the long term.

For further information please contact:

Peter Crock
Cann Group Limited
+61 (0)3 9095 7088
contact@canngrouponlimited.com

Matthew Wright
NWR Communications
+61 (0)451 896 420
matt@nwrcommunications.com.au

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 companies – is a cornerstone investor in Cann, with a 22.9% shareholding.

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

CANN GROUP LIMITED

ABN

25 603 949 739

Quarter ended ("current quarter")

31 MARCH 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (....9...months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	3
1.2 Payments for		
(a) research and development	(345)	(466)
(b) product manufacturing and operating costs	(892)	(2,195)
(c) advertising and marketing	(20)	(20)
(d) leased assets	(1)	(3)
(e) staff costs	(1,339)	(3,663)
(f) administration and corporate costs	(703)	(2,064)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	522	1,415
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	92
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(2,778)	(6,901)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(6,725)	(9,695)
(b) businesses (see item 10)	-	-
(c) investments	(250)	(250)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (.....9...months) \$A'000
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) 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	(6,975)	(9,945)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
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	Net cash from / (used in) financing activities	-	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	72,642	79,734
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,778)	(6,901)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(6,975)	(9,945)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (....9...months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	62,888	62,888

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	10,820	489
5.2	Call deposits	7,501	3,503
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	44,567	68,650
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	62,888	72,642

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A'000**

90

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Quarterly Director's remuneration

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$A'000**

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8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (corporate credit cards)	60	12
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		


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9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	400
9.2 Product manufacturing and operating costs	950
9.3 Advertising and marketing	5
9.4 Leased assets	1
9.5 Staff costs	1,400
9.6 Administration and corporate costs	700
9.7 Other (acquisitions of property, plant & equipment)	20,000
9.8 Total estimated cash outflows	23,456

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	N/a	N/a
10.2 Place of incorporation or registration	N/a	N/a
10.3 Consideration for acquisition or disposal	N/a	N/a
10.4 Total net assets	N/a	N/a
10.5 Nature of business	N/a	N/a

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.

Sign here:.....
(Company secretary)

Date:26 April 2019.....

Print name:Richard Baker.....

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.