



## ASX ANNOUNCEMENT

24 November 2020

### **Chairman's & CEO's addresses to Annual General Meeting**

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**24 November 2020** - Cann Group Limited (ASX: CAN) presents the Chairman's Address and CEO's Address to shareholder at the Annual General Meeting to be held at 10.00am today, Tuesday 24 November 2020.

#### **Chairman's address**

Good morning everyone. My name is Allan McCallum AO, and I am the Chairman of Cann Group Limited. I will be chairing today's Annual General Meeting.

Today we are very pleased to welcome you to our virtual AGM, held on a platform provided by our share registrar, Link Market Services Limited.

We hope that holding a virtual meeting will assist to curb the spread of the COVID-19 virus and encourage greater participation and engagement amongst our shareholders. Regardless of where you are, I hope all of you are staying well as we continue to navigate the challenges associated with COVID.

It has, without doubt, been an extraordinary 2020 for not only Cann Group – but for all of us, in both a business and personal context. COVID-related disruption and delay has impacted progress on several key fronts, including regulatory approvals, commercial activity and our planned debt financing. The business has also had to adapt work practices to ensure we safeguard the health and well-being of our employees, while continuing to progress some of our important R&D programs and maintain production and manufacturing schedules.

Despite these challenges, the Company has remained steadfast in its focus on continuing to position Cann Group as an industry leader in medicinal cannabis. We remain confident that our vertically integrated, business-to-business model will enable us to generate sustainable growth and strong shareholder returns.

Despite some delays in sales in the first part of this financial year, the company remains on track to achieve its forecast revenue target for FY21 and to establish itself as the leading producer in Australia of GMP certified product that meets international standards.

While the past year has seen some volatility in supply and demand on a global basis, there continues to be strong evidence of growing awareness, support and demand for safe, high quality medicinal cannabis treatments both here in Australia and in the expanding number of legal overseas markets. The number of prescribing medical professionals and patients continues to rise, and the body of medical evidence supporting the use of medicinal cannabis across a variety of indications continues to strengthen.



Cann Group's investment in producing product to the highest standards and navigating the complex and often changing regulatory frameworks that exist around the world places us in a strong position to successfully access markets and build commercial momentum with our distribution partners.

The support of shareholders, via the capital raising in July/August, also places the company in a strong financial position to execute on expansion plans, including the development of our state-of-the-art production facility near Mildura. Our announcement this week that National Australia Bank is supporting the Company with debt financing to assist with the construction of Mildura is a very significant milestone in terms of our growth plans.

Last month, we saw the sell-down and exit of Canada-based Aurora Cannabis, which had taken a cornerstone shareholding at the 2016 IPO. For any of you who have closely followed Aurora over the past 12 months, you will be aware of the considerable challenges they have faced and their stated objectives to focus on their own business. In that respect, their decision to exit the shareholding in Cann Group was not a surprise.

Importantly, the technical services agreement between the two companies remains in place and the work being undertaken at Mildura by greenhouse design firm, Aurora Larssen Projects, has not been impacted.

As with most developing industries, we expect to see some rationalisation and consolidation in the medicinal cannabis sector as markets continue to develop and various business models are tested. We will watch those moves closely with a view to identifying any opportunities that we believe will strengthen Cann Group's prospects.

It is important to note, however, that the company's prime focus will remain on executing the strategy we have in place and delivering on our revenue and growth projections.

The next 12 months is a critical period for the business, and one in which we have the opportunity to firmly establish Cann Group as an Australian industry leader.

On behalf of the Board I would like to thank Peter and his management team – and all Cann Group employees – for their efforts over the past 12 months. And I would again like to thank shareholders for your ongoing support.

I'll now hand over to Peter Crock, Cann Group's Chief Executive Officer.

### **CEO's address**

Thank you, Allan. And I would also like to add my welcome to those shareholders who are joining us for this AGM.

As Allan has said, the business has faced some unprecedented challenges during 2020 as we navigated the restrictions associated with a global pandemic while progressing our research and development programs, our production and manufacturing schedules, our global regulatory clearances, our commercial activity, and our debt financing objectives.

Pleasingly, we have made important progress on all of those fronts, while also ensuring the health and wellbeing of our people and taking measures to reduce our base operating costs.

The COVID-related impacts have been felt most significantly in the regulatory area, where delays have been experienced in securing the relevant approvals and clearances for exporting our oil-based products to overseas-based customers. This, in turn, has impacted the timing of some first half sales. It should be noted, however, that our projected revenues for the current year were always heavily weighted to the second half.

I'm pleased to report that we have made some important recent progress on the regulatory front that should allow us to start shipping to both Germany and the UK next month. In addition, we have lodged relevant regulatory applications in New Zealand that should be approved in time to allow the start of export sales to our NZ distribution partner Zalm Therapeutics early in the new year.

With the anticipated release of over 10,000 bottles for supply to our export customers in the next two months, this will be the largest export of Australian grown and manufactured GMP medicinal cannabis product to date.

This is an important milestone, demonstrating a proven capability to deliver at scale. Having achieved this milestone, the company will be able to fulfill the large orders forecast by our customers for the second half of FY21. We remain confident that we are on track to achieve our forecast \$15 million in revenues for the current financial year.

We have taken additional measures to streamline and grow our business in Europe.

We have developed a strategic collaboration with our German supply partner iuvo to create a single supply pathway into Europe. This partnership will streamline our access into European markets by leveraging iuvo's position as Germany's largest independent medical cannabis distributor.

iuvo will take the lead on business development activities as it continues its expansion into other European markets where medicinal cannabis programs are opening up. The establishment of a single point of entry into Europe via iuvo addresses the challenge of having to meet separate regulatory requirements for multiple customers in different markets.

We are now completing the process of consolidating our existing European offtake customers under the new arrangements with iuvo.

With the UK proceeding down a path of leaving the European Union, we will continue to maintain our important supply and distribution arrangements with LYPHE Group. The UK market is developing quickly, with the number of prescribing doctors and patients growing rapidly month on month.

Cann is supporting LYPHE Group's participation in Project Twenty21, which aims to recruit up to 20,000 medicinal cannabis patients by the end of 2021.

# CANN GROUP LIMITED

Project Twenty21 is a patient registry providing access to medical cannabis while simultaneously gathering data on treatment efficacy. Launched in November last year, it is the largest medicinal cannabis recruitment initiative in Europe and currently has enrolled more than 8,000 patients through clinics and independent prescribers.

Domestically we continue supply to our Australian partners with the volume ordered and prescribed to Australian patients growing steadily each month. Financial year to date we have shipped over 2000 bottles to our Australian partners.

As the Chairman has said, Cann Group has a clear vision to be Australia's leading producer of GMP certified product for both domestic and international supply.

Our strategy to initially focus on a business to business supply model ensures the quickest pathway to scaled supply and supports the business case for our planned Mildura expansion.

As we achieve a sustainable revenue base – and the efficiencies that come with larger scale production – we will have options to extend into direct-to-consumer markets. We have ongoing product development programs that will support that transition and we will be in a position to launch unique and proprietary formulations.

We announced yesterday that we have secured final credit approval for a \$50 million debt facility with the National Australia Bank. This is a standard construction draw-down facility which converts to an 8-year amortisation loan. We are currently finalising documentation and expect to have everything executed within the next month.

The approval of our debt funding clears the path for a re-start on our new facility at Mildura. We will remobilise construction at the site in February and we are targeting a commissioning of the first stage of Mildura – with an annual 12,500 kg production capacity – in November next year, with the first material to be processed and released by the end of the first quarter of calendar year 2022.

The Mildura facility will deliver substantial technology and efficiency gains; the scale and cost base to ensure Cann is globally competitive; and a substantial uplift in margins as we transition from using alternate source biomass to Cann's local cultivation.

I look forward to keeping shareholders updated on progress with this important project over coming months.

As I mentioned earlier, we have taken steps to reduce the base operating costs of the business as we transition to a sustainable revenue base.

Capital requirements and cashflow management remain a key focus at Cann. In the recent 4C cashflow statement for the September quarter we showed around \$2.4m per month in total costs. That included some one-off expenses and accumulated manufacturing costs from the first half of the year. Our current monthly expenditure is running at \$1.65m excluding capex.

This can be further broken down into three main buckets. Our monthly corporate/overhead costs are \$665,000. That number was substantially reduced when we restructured our workforce last year and has remained reasonably steady since. Our costs for producing product, which includes cultivation and 3rd party manufacturing is around \$865,000 per month. We are producing biomass, resin, and oil products to satisfy current orders and customer- led expectations for the rest of year. The third area of expense is R&D where we spend around \$112,000 per month.

Our R&D programs have been closely reviewed to ensure we are prioritising our investment in this area.

Over the past 12 months, these programs have yielded some important and exciting outcomes that will contribute significant value to our business and reinforce our position in plant-based precision medicines.

- In partnership with Agriculture Victoria, we are continuing to generate chemotypic, genotypic and phenotypic data on our genetics to optimise our accelerated breeding program. This will lead to the development of novel cultivars with improved yields and/or chemotypic profiles.
- As part of our involvement in the ARC Research Hub for Medicinal Agriculture at La Trobe University, valuable data is also being generated on how plant physiology and nutrient status impact on cannabinoid profiles, and on plant yield and disease resistance. Our key genetics have been maintained as sterile tissue cultures and novel methods of extracting cannabinoids and terpenes are under investigation. The projects will deliver Improvements in production costs, risk mitigation for our genetics and new IP.
- Our partnership with CSIRO is delivering improvements in cannabinoid analysis techniques and manufacturing processes, some of which have already been transferred into Cann's commercial operations, leading to improved cost of production and reduced footprint at our new Mildura facility.
- We have also been able to incorporate outcomes from the multi-disciplinary research program being undertaken by the NSW DPI Co-operative Research Centre Program (in which Cann is the lead commercial partner). These outcomes are being applied at our Northern production facility to achieve improvements in propagation, root establishment; shorter crop cycle times; and higher yields. Projects investigating diseases and pests of cannabis have commenced and will lead to effective Integrated Pest and Disease Management strategies for implementation in our commercial facilities.

- And our work with the Monash Medicines Innovation Centre on the development of novel formulations and new medicines is also progressing positively and will lead to the creation of pipeline assets and new IP.

These projects represent important investments in the future value of our business and help us establish competitive advantage.

I am also pleased to report on progress in a clinical trial to assess medicinal cannabis for symptom management in people with advanced cancer, in which Cann is partnering with the Olivia Newton John Cancer Research Institute and Austin Health. Phase I of the trial is focused on the titration and safety of administering a new formulation of medicinal cannabis which has been supplied by Cann Group in late September. The product is from a strain that was initially developed by Agriculture Victoria. It is a full spectrum cannabis extract that contains both CBD and THC formulated into an oil that is taken up to 3 times a day.

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.

We are pleased to be participating in this trial because it is important that we continue to build a solid body of evidence via rigorously controlled clinical trials that support the use of medicinal cannabis in cancer treatment and in other indications.

As the Chairman has noted, awareness of and demand for quality, GMP standard medicinal cannabis, continues to grow on a global basis. While further work is required to help streamline regulatory clearances and patient access, our confidence in the future growth and value of this industry continues to strengthen.

The next 12 months will be a critical period for the company as we look to deliver on our revenue targets; expand our supply agreements; proceed with the state-of-the-art Mildura facility and progress the product formulation programs that we have underway.

We have a dedicated team of capable people who will help ensure we achieve those objectives and I would like to acknowledge their steadfast commitment during this challenging period.

To close, I would like to also thank shareholders for their loyalty and support.



**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. 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)**