



## **ASX ANNOUNCEMENT**

**29 November 2019**

### **CHAIRMAN ADDRESS AND CEO ADDRESS**

#### **ANNUAL GENERAL MEETING**

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**29 November 2019** - Cann Group Limited (the **Company**) is presents the Chairman's Address and CEO's Address to shareholders and the Annual General Meeting to be held at 11am today.

#### **Chairman's Address**

Good morning and welcome to Cann Group's 2019 Annual General Meeting.

In the 12 months to the end of June, the company continued to execute on its strategy and, I believe, consolidated its position as the leading medicinal cannabis company in Australia.

We have continued to invest in important research that will underpin advancements in our genetics program; we have completed 51 successful harvests at our Northern and Southern facilities; we have secured an important manufacturing alliance with IDT Australia and we have taken significant steps towards the commercial launch of our first products.

Your Board's view on the medium to long term opportunity associated with the continued development of medicinal cannabis markets around the world has not changed. Nor has our conviction that we have a sound strategy in place to capitalise on that opportunity.

The most recent analysis continues to forecast a global medicinal cannabis industry that, by 2024, will have a market value of more than 60-billion-US-dollars.

Shareholders will be aware, however, that recent industry developments and our announced changes to the scheduling of our new production facility near Mildura have contributed to some uncertainty in the market and a substantial weakening of our share price.

This is clearly very disappointing and we are working hard to be in a position to provide some further detail around those plans and the associated funding implications involved.

Cann Group is not alone in being impacted by developments that are requiring many companies in our industry to review their expansion plans.

Current over-supply issues in Canada and some US states are being attributed to delays in the establishment of efficient distribution systems that can meet growth in demand for medicinal cannabis and for product to meet legalized recreational use. This is partly due to regulatory frameworks not keeping pace with patient and consumer demand.

In recent weeks we have seen a very dramatic and negative impact on cannabis stocks, particularly in Canada, as these issues play out.

Our strategic partner, Aurora Cannabis Inc, has announced that it is delaying the construction at two of its major expansion facilities in Canada and Denmark until market supply and demand is more balanced.

As you are aware, the economic case that supported the construction of our own 70,000 kilogram capacity facility near Mildura was underwritten by an offtake agreement with Aurora. That agreement provides Aurora with a first option to purchase product produced at Mildura which is in excess of that required to meet Cann's domestic market.

In light of Aurora's revised plans and the broader supply and demand imbalance across the industry, it is critically important that we adjust our expansion plans so that the investment we make in new capacity is aligned with our assessment of when that capacity can be profitably sold into both the domestic and global markets.

We are therefore undertaking a detailed review of the Mildura project with an objective to stage its construction and progressively increase production capacity over time. Given the engineering and design complexities of the project, this review will take some time.

The review process will also take account of the costs of pursuing various options so as to ensure the responsible and prudent investment of shareholders' funds, and an appropriate and timely return on that investment.

We want to be in a position to clarify the revised construction schedule for Mildura and associated funding requirements as quickly as possible, but it is important that we do the analysis necessary to arrive at the best option.

As we announced to the market earlier this month, negotiations on the provision of a bank loan facility had progressed to the point of a credit approved term sheet. Those negotiations were predicated on the original construction schedule for Mildura and we are now in further discussions with that same bank – a Tier 1 Australian lender – in relation to our revised funding needs. Of course, we won't be able to conclude those discussions until we are further progressed with our assessment of the options associated with a staged build.

I remain very confident, however, of continued support from the bank and our ability to put an appropriate loan facility in place.

Until such time as these matters are clarified, we will continue to run our operations in a way that conserves cash and other resources. This includes the temporary suspension of works at Mildura and associated expenditure.

Irrespective of the revised timetabling for Mildura, it will represent a state-of-the-art production facility that will generate strategic value for Cann Group over the long term. As I said earlier, the medicinal cannabis industry continues to develop at a fast pace and there continues to be a broad consensus that current supply and demand issues will resolve over time.

Our ongoing research effort; our product development and manufacturing capabilities; our distribution channels and market development programs will all ensure that Cann is in a very strong position to capitalise on the opportunity associated with both growth in the Australian domestic medicinal cannabis market and growth in overseas markets which will continue to expand and come on-line over the next few years.

I'll now hand over to CEO Peter Crock to provide some additional detail on how we have progressed Cann's position in those and other areas over the past year.

## **CEO's Address**

Thank you, Mr Chairman. And I would like to add my welcome to shareholders who have joined us here this morning.

As the Chairman has said, Cann Group achieved important progress across all areas of our operations during the 2019 financial year.

We are Australia's only fully integrated medicinal cannabis company and we are pursuing a growth strategy that will ensure we are able to successfully compete in global markets.

Our research and product development programs continue to generate valuable outcomes; we remain convinced that large scale production capacity – over time – will yield important cost efficiencies; we have commenced manufacture of GMP grade products; and we have put in place commercial distribution channels to get those products to patients.

We have a fundamental commitment to utilise our quickly developing internal capabilities – and to leverage our valuable partnerships – to produce and supply innovative, high quality medicinal cannabis products that can assist in the treatment of a range of illnesses and conditions.

Our leadership role in the Australian industry – and the support we are providing to research programs being undertaken by other parties - is enabling a greater understanding of the benefits of medicinal cannabis and how best to deliver those benefits to patients.

And – over this past 12 months – we have led industry efforts to improve standards and support better regulation and more streamlined patient access via our role in a new industry body which I now chair.

While recent industry developments have required a reset in terms of our production expansion plans, it is important we remain focused on our longer-term strategic goals and the building blocks we continue to put in place to achieve those goals.

Our international genetics program draws from a base of 24 imported varieties of cannabis, allowing us to test and identify strains that offer the most beneficial treatment attributes and perform most reliably under commercial scale production.

To date, we have completed 51 successful harvests at our Southern and Northern facilities.

We have secured the necessary regulatory licences and permits to undertake ongoing research and cultivation, to manufacture our commercial products, and to supply those products to both the domestic market and for export.

As we continue to assess the most appropriate construction schedule for the new facilities at Mildura, we remain confident of the long-term strategic value of that project.

Our recently executed national distribution agreement with Symbion gives us access to patients via a network of more than 4000 retail pharmacies and 1300 hospitals throughout Australia. And our export activity will continue to focus on the offtake agreement we have in place with Aurora, together with our own market development efforts.

As we work towards a revised plan for the Mildura facility, I want to reinforce the importance of proceeding with this project.

This facility delivers a capability to produce medicinal cannabis, utilising the latest in design and cultivation technology.

Pending the outcome of our review and subject to having an appropriate funding package and necessary approvals in place, our preliminary target is to develop an initial stage with up to 25,000 kilograms in capacity, with commissioning to start by the end of next year.

We have expended some \$47 million to date at the site and it is already looking impressive: The original buildings are being repurposed, the glasshouse structure is erected and the glass has been installed.

Our current review process is complex in that it involves a large number of relevant experts involved in the project. This includes equipment and services providers; design engineers and a range of contractors.

The Chairman has provided some context to the decision to delay the full commissioning of Mildura. Given that context, it is only prudent that we carefully assess the appropriate staging of construction to help ensure capacity is aligned to global demand and is delivered on a basis that reflects a responsible use of shareholders' capital.

We need to ensure our investment in this facility generates appropriate returns within an acceptable timeframe.

In the meantime, we will continue to utilise capacity at our existing Southern and Northern facilities.

Over the past 12 months, we have gained considerable experience in cultivation.

Harvested material at the Southern facility is being supplied for manufacture of resin for reformulating into commercial products that we expect to launch in the first quarter of next calendar year.

Last month, the Victorian Health Minister announced the Victorian Government would step back from manufacturing medicinal cannabis products, acknowledging the positive development of the local industry. Cann Group had entered into an agreement to supply resin to the Victorian Government for manufacture into treatments for children with intractable epilepsy. Given the Minister's announcement, that supply has now ceased, but we are working to clear regulatory pathways to allow Cann to step in and accelerate patient access to Australian grown product via the Special Access Scheme, suitable for a range of conditions beyond paediatric epilepsy.

Harvested material from our Northern facility supports several research programs being conducted by Cann both independently and with third party research organisations.

During August 2018, Cann and IDT Australia executed a manufacturing agreement that involves IDT providing manufacturing support in relation to medicinal cannabis-based product formulations intended for supply to patients in Australia and overseas.

IDT received its manufacturing license from the Office of Drug Control (ODC) in May and has installed Cann's supercritical CO<sub>2</sub> extraction equipment which is used in the processing of medicinal cannabis. The Therapeutics Goods Administration (TGA) has completed a successful audit of those facilities.

IDT is an experienced pharmaceutical manufacturer and is ideally placed to support Cann in this area. We are now well progressed with validation works relating to our initial range of commercial products.

As I have mentioned, we anticipate launching the first of our locally produced products in the first quarter of next year.

In early November we released the first of a new range of Aurora products – a high THC oil – which is used mostly to assist with sleep onset and reduction in anxiety in the management of people with conditions like chronic pain. Our Medical Science Liaison team has received its first orders from Symbion. We are expanding on the range of imported products from Aurora in the coming months, once permits are issued by Health Canada and Australia's Office of Drug Control and the Drug Control Section of the TGA.

In addition to the distribution arrangements we have put in place with Symbion, we continue to evaluate other options that will help streamline patient access to our products.

Cann completed a small strategic investment in independent medicinal cannabis clinic group Emerald Clinics during the financial year. 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's focus is to provide high-quality care and improve clinical outcomes for patients who are seeking to manage conditions such as chronic neuropathic pain. Emerald opened its first clinic in Subiaco, Perth in December 2018, followed by Woolloomooloo, Sydney in February and Richmond, Melbourne in August 2019.

Cann benefited from several important updates to its regulatory position during the year.

Shortly after year end, the ODC approved manufacturing licenses for Cann Group's existing Northern and Southern medicinal cannabis facilities in Melbourne. The licenses relate to the manufacturing, packaging, storage, transport and disposal of medicinal cannabis in final dose and intermediate forms. Cann Group now holds all cultivation, production and manufacturing licenses under the Narcotics Drug Act, along with import and export licenses under the Customs Act.

In May it was also announced that IDT had been granted a medicinal cannabis manufacturing licence by the ODC, which was another key step given the manufacturing arrangement Cann established with IDT. In early November the ODC issued permits to both IDT and Cann that now allows the manufacturing process to get underway in earnest. Navigating the pathway through this process has been a difficult "first" for both the regulator and the company, but a real achievement for Cann which secures an end-to-end clear pathway to market.

In late June Aurora Cannabis received an import permit from Health Canada for cannabis cultivated by Cann Group. Cann has exported medicinal cannabis material for process validation purposes to Aurora Canada, and it is currently in Vancouver awaiting clearance by Health Canada.

While our strategic partner Aurora has encountered some recent challenges due to demand and supply imbalances, particularly in Canada, it is important we do not lose sight of the importance of this relationship.

We are continuing to liaise closely with Aurora to determine their anticipated offtake needs and this will help inform our decisions around the timetabling of our expansion plans.

But on many levels, our close association with Aurora – an acknowledged global industry leader – is generating value for Cann Group.

We are exchanging technical information in relation to our genetics programs and cultivation activity; they are contributing valuable insight as we develop our manufacturing capability; they are



helping us test export pathways; and they are a source of product for our commercial activity here in Australia.

Despite the need to reassess our production expansion program, it is encouraging to note the continued growth in patient numbers in Australia over the past 12 months, and continued projections for strong growth in the medicinal cannabis market on a worldwide basis.

Recent market disruptions are somewhat typical of an industry that is in its early stages of development. We need to be flexible enough to adapt to those challenges and regularly revisit the assumptions on which we base our future investment plans.

I have no doubt that the ongoing global interest in and support for expanded use of medicinal cannabis ensures a bright future for companies that are positioned to meet that need.

I believe we will continue to make important and valuable progress over the next 12 months and I look forward to your continued interest and support.

**For further information please contact:**

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**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 22.5% shareholding.