



## ASX ANNOUNCEMENT

15 February 2021

### Cann Group executes Share Sale Agreement to acquire Satipharm

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- Cann Group has agreed to acquire the Satipharm business from Harvest One Cannabis Inc in an all-scrip deal involving a total maximum consideration of CAD\$4 million (including conditional deferred consideration of up to CAD\$1.5 million)
  - Satipharm is a Europe-based business exclusively licensed to develop and market the proprietary Gelpell® delivery system for cannabinoids
  - The proposed acquisition, when completed, will give Cann an immediate position 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 proceed with a TGA submission to have CBD Gelpell® capsules approved for sale in Australia, following the implementation this month of regulatory changes which enable low dose CBD products to be sold by pharmacies on an over-the-counter basis
  - The Satipharm business includes existing commercial supply agreements with retail channels in United Kingdom, Ireland and Eastern Europe
  - Satipharm is expected to generate ~\$1m in revenue for the six months to 30 June 2021, with a material ramp up in sales anticipated thereafter
  - Gelpell® pharmaceutical GMP manufacturing line to be installed in Cann's new Mildura production facility
  - Acquisition is expected to accelerate revenues, expand market access and strengthen product pipeline
  - Acquisition structure includes the issue of new Cann shares to the value of CAD\$2.5 million at completion; and deferred consideration of up to CAD\$1.5 million based on achieving agreed operational and financial results to be paid in new Cann shares or cash, at Cann's election
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**15 February 2021** - Cann Group Limited (ASX: CAN) today announced that it has signed a Share Sale Agreement (SSA) to acquire the Satipharm business ('Satipharm') from Canada-based Harvest One Cannabis Inc. ('Harvest One') for a total maximum consideration of CAD\$4.0 million (including conditional deferred consideration of up to CAD\$1.5 million).

The acquisition will provide Cann Group with rights to proprietary and differentiated cannabinoid delivery technology and immediate entry into the Cannabidiol (CBD) market in Europe where Satipharm has existing distribution agreements in place in the UK, Ireland and Eastern Europe.

The transaction is by way of acquisition of the relevant wholly-owned subsidiaries of Harvest One that collectively own and carry on the Satipharm business. The acquisition comprises the Satipharm business including its intellectual property; marketing and distribution rights; exclusive manufacturing rights in respect of products containing THC and/or a combination of THC and CBD and contract manufacturing arrangements for exclusive supply of CBD products manufactured by Gelpell AG to Satipharm. Cann Group is separately purchasing specialised manufacturing equipment from Gelpell AG to enable Cann's manufacture of the Gelpell® products.

Harvest One is a Canada-based global cannabis company servicing both the medicinal and recreational cannabis markets in Canada and internationally and is listed on the TSX Venture Exchange (TSXV: HVT). Satipharm was established in 2015 as the medicinal and wellbeing division of Harvest One and is exclusively licensed worldwide to develop and distribute cannabis-based products utilising proprietary Gelpell® micro-encapsulation technology.

Gelpell® capsules are manufactured by Swiss-based GMP manufacturer Gelpell AG which, with Satipharm, jointly owns patented delivery technology. Satipharm has generated data in support of its claims that this patented delivery technology exhibits improved stability and bioavailability of cannabinoids compared to other formulations.

Satipharm currently markets CBD products in Gelpell® capsules to the over-the-counter (OTC) and on-line market segments in the UK and Ireland and has distribution arrangements in place with a number of major UK-based pharmacy chains. Additional distribution arrangements have been put in place in several Eastern European markets. In November 2020, the Court of Justice of the European Union ruled that cannabidiol (CBD), the active ingredient used in the CBD Product, is not a narcotic drug. This landmark ruling provides certainty in respect of the regulatory pathways available to supply CBD based Gelpell® products within European Union markets.

Satipharm is forecast to generate approximately \$1m in revenues for the 6 months to 30 June 2021 with a material ramp up in sales thereafter. The timing of these revenues however is subject to the phased roll out of Gelpell products to pharmacy chains in Europe.

This month, Australian regulatory authorities approved the down scheduling of CBD, which permits low dose CBD products to be sold at pharmacies on an OTC basis, subject to a full review and approval by the Therapeutic Goods Administration (TGA). This represents a

significant opportunity for Cann, which plans to proceed with a submission to the TGA for CBD Gelpell® capsules to be approved for sale in Australia.

Cann Group is also in discussions with Harvest One in relation to potential distribution arrangements in North America. US regulatory authorities are currently reviewing the regulatory status of CBD products.

Whilst Gelpell AG will continue to manufacture CBD products for Satipharm (exclusively) in Switzerland, Cann will seek a TGA Licence to manufacture therapeutic goods in order to manufacture Tetrahydrocannabinol (THC) and THC:CBD balanced Gelpell® products within Australia using specialised Gelpell® manufacturing equipment at the Company's state-of-the-art Mildura production facility, which is currently under construction. This will allow Cann to utilise the Gelpell® micro-encapsulation technology across the full spectrum of cannabis formulations, including THC.

Cann CEO, Peter Crock, said Gelpell® capsules have been clinically proven to improve the body's absorption of CBD and other cannabinoids.

*"The technology will allow us to develop more targeted and effective dosage forms of both low dose CBD and differentiated THC prescription formulations of medicinal cannabis. We believe the Satipharm product offers superior efficacy, delivery and stability qualities compared to other products and we expect these unique features, coupled with its presentation in a more familiar capsule form expected of pharmaceuticals, to generate greater confidence from prescribing doctors.*

*"The Satipharm acquisition provides an opportunity to accelerate both short-term and longer-term revenues. Over time, we believe we can expand the number of markets into which these products are sold and expand the range of formulations to be targeted at both the OTC and prescription segments," said Mr Crock.*

Harvest One's CEO Gord Davey commented on the transaction, highlighting the significant opportunity available in North America.

*"We view Cann Group as the preeminent integrated cannabis operator in Australia, with the capability to continue the innovation, production and marketing of the Satipharm-Gelpell line of products.*

*"We will be pursuing with Cann Group the opportunity for Harvest One to continue to represent and distribute Satipharm's products in the legal cannabis market throughout North America."*

### **Acquisition terms**

In addition to customary terms for a transaction of this nature, the acquisition terms include the satisfaction of certain conditions precedent (including obtaining all necessary regulatory and third-party approvals and consents); the issue to Harvest One of new Cann shares to the value of CAD\$2.5 million at completion; and conditional deferred consideration of up to

CAD\$1.5 million based on achieving agreed operational and financial results and to be paid in new Cann shares or cash at the election of Cann.

The number of new Cann shares to be issued to Harvest One at completion will be based on the value of the AUD\$ equivalent of CAD\$2.5 million at Completion at an issue price per share to be based on the VWAP of Cann's shares during the 5 full trading days on the ASX ending on the ASX trading day immediately prior to the date on which completion occurs.

A key summary of the arrangements relating to the conditional deferred consideration is included in this announcement as Annexure 1.

The transaction is expected to be completed in March, with the final element of the conditional deferred consideration expected to be paid by September 2021.

### **Advisers**

Cann was advised by Moelis Australia and William Ross Lawyers & Advisers.

**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 3 9095 7088  
[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)**

### ***Annexure 1 – Summary of deferred consideration arrangements***

The deferred consideration is up to CAD\$1.5 million and its elements and payment is subject to the satisfaction of the following conditions:

- CAD\$0.750 million following delivery of the Gelpell Manufacturing Equipment in accordance with the 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 set out in the transaction document – if the actual Revenue for the 6 months to 30 June 2021 is below the agreed Revenue for that period, the first earn out payment will be effectively reduced to an amount equal to an agreed fraction of the actual Revenue for that period set out in the transaction document;
- 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 set out in the transaction document – if the actual Gross Profit for the financial year ended 30 June 2021 is below the agreed Gross Profit for that period, the second earn out payment will be effectively reduced to an amount equal to an agreed multiple of the actual Gross Profit for that period set out in the transaction document;
- 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 set out in the transaction document – if the actual EBITDA loss for the 6 months to 30 June 2021 is greater than the agreed EBITDA loss for that period, the third earn out payment will be effectively 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.

The three financial earn out elements of the conditional deferred consideration described above incentivise revenue outperformance and the minimisation of the EBITDA loss of the Satipharm business for the 6 months to 30 June 2021. The vendor's entitlement to receive each of these earn out elements of the conditional deferred consideration, whether in scrip or cash at the election of Cann, is limited to the conditions or milestones applicable to that earn out element being met (or partly met, in which case the earn out amount for that element will be reduced) during the condition or milestone period applicable to that earn out element.

Each element of the conditional deferred consideration described above is to be paid in new Cann shares or cash at the election of Cann. If Cann elects to pay any element (or all elements) of the deferred consideration in cash, Harvest One has no right to be issued new Cann shares in respect of that element of deferred consideration.

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 the Gelpell Manufacturing 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 Gelpell Manufacturing Equipment to the satisfaction of Cann occurs; and
- in respect of each of the three earn out amounts, 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.