

AusCann 4C Quarterly Cash Flow Report and Market Update for March 2021 Quarter

Key Highlights

- Well funded with over \$14.8m net cash as at March 31 plus an additional \$1.56m received post the quarter from the R&D Tax Incentive Program;
- Successfully completed the acquisition of CannPal Animal Therapeutics Pty Ltd (CannPal), by way of Scheme of Arrangement;
- Reduction in cash outflow in all administrative areas of the business as the Company continues to streamline its operations and leverage synergies from the CannPal acquisition;
- Finalised the sale of the Company's interest in its 50% owned Chilean joint venture, DayaCann SpA (DayaCann), receiving the first payment instalment associated with the sale;
- Submitted first registration dossier for the approval of DermaCann® with the South African Department of Agriculture, Forestry and Fisheries (DAFF), as an approved herbal supplement for inflammation associated with Atopic Dermatitis in dogs.

30 April 2021 - AusCann Group Holdings Limited (ASX: AC8) ('AusCann' or 'the Company') is pleased to update the market on its progress in the March 2021 quarter and attaches its Appendix 4C Quarterly Cash Flow report for the period.

Financial Update

The Company remains well funded with \$14.8m net cash as at March 31, 2021 with reduced cash outflows in the quarter across all areas of operations, significantly extending the runway for the business. Cash used in operations in the current quarter was \$1.5m, down 13% from the previous period, and 36% down on the average of the last 4 quarters (\$2.4m).

This strong capital position supports the continued progress for the Company as it focuses on leveraging operational efficiencies from the CannPal acquisition and looks to execute on a more focused growth strategy with its product portfolio.

Staff costs were down 18% in the current quarter as the group focuses on optimising its organisational structure, and ongoing cost control in all areas of administration and corporate expenditure. This is expected to result in a reduction in ongoing cash outflows in this area of the group.

The Company was pleased to report that post the quarter it received a refund from the Australian Taxation Office of \$1.56m in accordance with the Australian Government's Research and Development Tax Incentive Program, which will be reflected in the June 21 Quarterly Cash Flow Report.

There were no related party payments for the period except for Directors' fees of \$71k paid from the pool of fees approved by shareholders.

AusCann Operational Update

Acquisition of CannPal Animal Therapeutics Ltd

On 16 November 2020, AusCann announced it had entered into a scheme implementation deed (Scheme) to acquire 100% of the issued share capital of CannPal Animal Therapeutics Ltd.

The Scheme was successfully implemented on 18 March 2021 after being approved by CannPal shareholders and the courts. Mr Layton Mills commenced as the CEO of the combined entity following the completion of the acquisition.

Sale of Dayacann Joint Venture

On 22 March 2021, AusCann announced it had finalised the sale of the Company's right, title and interest in its 50% owned Chilean joint venture, DayaCann SpA (DayaCann), and the transfer of the Company's loan. Details of the sale were previously announced on 10 November 2020.

During the quarter, the consideration for the sale of the DayaCann shares and the first instalment of US\$500,000 for the transfer of the loan were received. Auscann expects to receive further receipts totalling US\$1,000,000 over the next two years.

Neuvis®

Cash receipts from AusCann's proprietary hard-shell capsules, a 1:1 ratio of THC:CBD under the Neuvis® brand, increased 77% in the period. The product is available to Australian patients under the special access scheme and remains in the early phases of commercialisation.

Revenues are not expected to be material in the near-term as the Company focuses on optimising the manufacturing processes and reducing production costs. However the continued uptake from clinicians is a positive indication for the long term success of the product.

The commencement of the 60-patient Investigator-led study of the THC:CBD hard-shell capsules using the Neuvis® platform for the treatment of neuropathic pain has been temporarily delayed to allow for amendments to be made to the protocol. These revisions are designed to align the study protocol with the positive observations seen by clinicians using Neuvis® for specific age groups and sub-populations. Ethics approval for the improved study design is expected to be granted in mid-2021.

CannPal Operational Update

DermaCann

The Company is pleased to announce that CannPal has submitted its first registration dossier for the approval of DermaCann® with the South African Department of Agriculture, Forestry and Fisheries (DAFF), as an approved herbal supplement for inflammation associated with Atopic Dermatitis in dogs.

Australia and New Zealand registration dossiers are expected to follow the South African submission in the coming weeks, and the Company is in advanced discussions with animal health partners for the commercialisation of DermaCann® across the SANZA region (South Africa, New Zealand and Australia).

During the quarter CannPal commenced the acclimatisation phase for a 15 dog, 90 day Target Animal Safety (TAS) study in the United States to complement the Company's manufacturing, toxicological and clinical efficacy data pack. The live phase of the TAS study is expected to be completed in H2 2021 and will be used to help support widespread adoption for DermaCann® in the veterinary community.

The global canine skin and dermatitis market is worth over US\$1b globally, and the launch of DermaCann® will provide veterinarians with a safe and clinically validated, first-in-class CBD-derived veterinary medicine to be used as a beneficial therapy in a canine atopic dermatitis management regimen.

MicroMAX

During the quarter, CannPal completed a small-scale commercial trial for a Joint Health Supplement for dogs using its proprietary MicroMAX® encapsulation technology in the U.S via the Amazon platform.

MicroMAX® is a patented encapsulation technology platform designed by CSIRO to encapsulate microscopic droplets of oil in a special food grade material, to protect bioactive ingredients from oxidation, and help deliver them to the gastrointestinal (GI) tract. In December 2020, CannPal was granted an exclusive, global licence to the patented technology for use in the field of Animal Therapeutics.

During the trial period the product was well received by customers with repeat sales increasing from 22% in the first 3 months of sale, to 42% in the last quarter with an average approval rating of 4.3 stars during the period.

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CannPal is now in the process of transferring from pilot scale production to a commercial manufacturing partner to enable the Company to manufacture novel microencapsulated ingredients using its MicroMAX® technology, for the development of animal health products at scale.

Revenues for the product are not expected in the second half of the calendar year while the Company completes its manufacturing technical transfer, however the customer response during the period is a strong validation for the Company's MicroMAX® technology.

Outlook

AusCann has a number of initiatives which are being reviewed by Management to ensure the Company is allocating its resources to core projects which are expected to provide the greatest return on investment, while maximising the use of shareholder capital and improving its operational efficiencies.

In the near term, focus is expected to be placed on progressing the development program for CPAT-01; Optimising the product manufacturing processes to reduce costs for the development of Neuvis®; and finalising its product registrations for DermaCann® to shift focus from R&D to commercialisation.

ENDS

This ASX announcement was authorised for release by the Board of AusCann.

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ABOUT AUSCANN

AusCann Group Holdings Limited (ASX:AC8) is an Australian-based company focused on the development and commercialisation of cannabinoid-derived therapeutic products to address unmet needs for humans and animals within Australia and internationally. Our key difference is the commitment to rigorous product development, focused on providing reliable, stable and standardised cannabinoid-derived therapeutics products, whilst generating robust safety, quality assurance and efficacy data to support market access in various regulatory environments around the world.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

AusCann Group Holdings Limited

ABN

72 008 095 207

Quarter ended

31 March 2021

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	23	42
1.2 Payments for		
(a) research and development	(387)	(1,582)
(b) product manufacturing and operating costs	(115)	(485)
(c) advertising and marketing	-	-
(d) leased assets	(27)	(37)
(e) staff costs	(455)	(1,672)
(f) administration and corporate costs	(603)	(2,008)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	12	65
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	18
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(1,552)	(5,659)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities (net of cash acquired)	721	721
(b) businesses	-	-
(c) property, plant and equipment	(6)	(17)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	384	654
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	(46)
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	1,099	1,312

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings & acquisition cost	15	(23)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	15	(23)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	15,234	19,166
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,552)	(5,659)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	1,099	1,312

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	15	(23)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	14,796	14,796

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	1,376	326
5.2	Call deposits	13,421	14,908
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	14,796	15,234

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	66
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
Explanation of payments to related parties.		
- Payment of remuneration to directors for director services.		
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		

Quarterly cash flow report for entities subject to Listing Rule 4.7B

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	-	-
7.5 Unused financing facilities available at quarter end		-
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.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9) (excluded one off grant)	1,552
8.2 Cash and cash equivalents at quarter end (item 4.6)	14,796
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	14,796
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	10
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	
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?	
Answer: N/A	
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?	
Answer: N/A	
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?	
Answer: N/A	
Note where item 8.5 is less than 2 quarters, all of the questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.	

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: 30 April 2021

Authorised by: The Board of Directors of AusCann Group Holdings Ltd
(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.