

Quarterly Cash Flow Report and Market Update for March 2023 Quarter

28 April 2023 - AusCann Group Holdings Limited (ASX: AC8) ('AusCann' or 'the Company') is pleased to update the market on its progress in the March 2023 quarter and attaches its Appendix 4C Quarterly Cash Flow report for the period.

Financial Update

Operating inflows totalled \$778k for the quarter, with \$167k related to research and development costs.

The Company had \$2.401 million cash at bank as at 31 March 2023.

The Company received a \$1 million principal repayment during the quarter in respect to the loan to Eurocann in accordance with the terms of the loan facility. **[ASX:AC8 April 29, 2022]**.

During the quarter, the Company was pleased to receive its AusIndustry Research and Development tax refund of approximately \$1.2 million.

The Company continues to reduce operating expenses and expects outflows to reduce further in the coming quarters due to the partial divestment of the animal health assets and associated reduction in staffing and office costs.

Related party payments for the period were for Directors' fees of \$36k (December 2022 \$59k) paid from the pool of fees approved by shareholders.

Operational Update

Proposed Transaction and Trading Suspension

The fully paid ordinary shares ('Shares') of AusCann were suspended from quotation at the request of ASX on 31 August 2022, pending the release of an announcement of a proposed transaction under Listing Rule 11.1 (**'Proposed Transaction'**).

The ASX has exercised its discretion under Listing Rule 11.1.2 to require the Proposed Transaction to be conditional on approval by AusCann's ordinary security holders and under Listing Rule 11.1.3 to require AusCann to re-comply with Chapters 1 and 2 of the ASX Listing Rules.

It is expected that AusCann's Shares will remain suspended until AusCann has recompiled with Chapters 1 and 2 of the Listing Rules.

The Proposed Transaction relates to a potential material acquisition that would enable AusCann to benefit from regulatory changes to the European and Australian cannabis markets. Specifically, as of July 1 2023, imported finished cannabis products must be manufactured in a facility that meets an 'equivalent' GMP code accredited by the national authority of origin.

Changes to TGO93 are expected to restrict a number of current international manufacturers and exporters, that had not previously been required to comply with TGO93 or equivalent GMP codes, from supplying the Australian market with finished cannabis products. The proposed transaction would give AusCann significant access to EU-GMP certified medicinal cannabis products for the Australian market.

In addition, the Proposed Transaction is also intended to enable AusCann to benefit from changes in the European market, with a focus on Germany. Specifically, discussions commenced in relation to the Proposed Transaction following the commencement of expert hearings at the Federal Ministry of Health to prepare for Germany's introduction of adult use legalisation for cannabis.

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However, since discussions commenced, there have been changes to the proposed legislation in Germany, which has resulted in slower than expected due diligence. AusCann remains active in the due diligence process and will provide the market with further updates in relation to the Proposed Transaction in due course.

While the Company remains active in ongoing discussions relating to a Potential Transaction, it is exploring all options for commercialising Neuvis without placing burden on the Company's focus and capital resources. The Board will continue to update the market as it progresses through these developments.

Wangara Facility Sale

In September 2022, the Company announced its wholly-owned subsidiary, AusCann Operations Pty Ltd ('AusCann Ops') had entered into a conditional contract for the sale of the property held by AusCann Ops at 11 Excellence Drive, Wangara, Western Australia. However, the conditional contract lapsed as a result of incomplete due diligence within the allocated timeline. **[ASX:AC8 29 September, 2022]**.

The Company is pleased to advise that post the quarter, AusCann entered into a new conditional contract for the sale of its premises. The purchase price is \$6,750,000 to Optral Pty Ltd and is expected to settle on 8 June 2023.

The contract will terminate if the Finance Condition or the Due Diligence Condition are not satisfied. The Company advises that the Due Diligence condition has been completed. AusCann intends to use the funds from the sale of the facility for a proposed material acquisition and working capital. **[ASX:AC8 4 April, 2023]**.

Review of Development Programs

In light of changing market conditions, the Company has been actively reviewing its research and development portfolio, with a view to undertake a transaction or a series of transactions which may involve strategic acquisitions and disposals **[ASX:AC8 29 July, 2022]**.

During the quarter, the Company was pleased to announce that it had entered into a Share Sale Agreement with Animal Health Holdings Pty Ltd ('AHH') to divest a 52% interest in its animal health business, CannPal Animal Therapeutics Pty Ltd ('CannPal').

AusCann implemented a scheme of arrangement to acquire all of the shares in CannPal on 10 March 2021, following the approval of AusCann shareholders **[ASX:AC8 March 18, 2021]**. The transaction was expected to create a combined entity better able to accelerate the commercialisation of regulatory approved human and animal health products to offset headwinds resulting from the slower than expected uptake of the Special Access Scheme (SAS-B).

However, following a downturn in the market as a result of COVID-19, the Global Cannabis Stock Index fell by over 85% from the time of the transaction to current lows, significantly impacting the capital markets for Companies exposed to the Australian cannabis sector.

Impacts to the macro-economic environment also slowed the development and commercialisation of the Company's animal health assets. This collectively led to an internal review of AusCann's initiatives, including a strategic review of its animal health programs **[ASX:AC8 March 18, 2021]**.

A formal process commenced in April 2022, to explore opportunities to monetise its animal health assets through divestment or development and commercialisation partnerships while also retaining the upside should the research and development activities prove successful. A data-room was established with an overview of AusCann's core animal health assets, and some of largest animal health companies globally, were invited to participate in a targeted due diligence process. The process did not provide the AusCann Board with an acceptable proposal to maximise the value of the CannPal assets.

The Board believes that the partial divestment presented AusCann and its shareholders with the most upside, in light of an unavailing formal process, to unlock the future value of the CannPal assets while reducing the significant ongoing expenses and liabilities associated with the animal health business. Specifically, AusCann believes that a privately held and focused animal health company is better

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positioned to attract, secure and maintain strategic partnerships and resources required for the continued development and commercialisation of AusCann's animal health assets with no further research and development spend required by AusCann. **[ASX:AC8 March 10, 2023]**.

Neuvis Hard Shell capsule

AusCann has also been focused on making commercial improvements to the Company's Self-Emulsifying Drug Delivery Technology ('SEDDS') in order to realise value of prior capital investment.

AusCann launched its own Neuvis® hard-shell capsules using its patented SEDDS formulation under the Special Access Pathway (SAS-B) and was pleased with the initial endorsement of the product by healthcare practitioners and patients.

However, the Company made the decision to pause the production of its 1:1 Oral capsules to focus on the completion of process development activities which were intended to significantly reduce manufacturing costs to an economic level, while improving consistency of supply and enabling a better variety of product formats for local and export markets **[ASX:AC8 April 29, 2022]**.

During the period, the Company completed two additional engineering batches at a new manufacturing location and received interim results confirming improvements in the intermediary bulk cannabinoid powder, including an increase in shelf life by reducing the degradation of THC. Additionally, the Company has been able to reduce the manufacturing time which is expected to significantly reduce the cost of production making the cost of goods economical. Collectively, these improvements could greatly enhance the business case for Neuvis. These changes now enable Auscann to explore opportunities to realise value in Neuvis.

Corporate

Resignation of Chief Executive Officer

Chief Executive Officer Layton Mills finished full time employment during the quarter. As part of Mr Mills exit agreement he will assist the Company on closing out the Neuvis project and will assume the role of CEO of the entity controlling CannPal. **[ASX:AC8 13 September, 2022]**.

ENDS

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

For more information, please contact:

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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 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) research and development	(167)	(800)
(b) product manufacturing and operating costs	(41)	(199)
(c) advertising and marketing	-	(31)
(d) leased assets	(10)	(14)
(e) staff costs	(315)	(687)
(f) administration and corporate costs	(84)	(523)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	4
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	1,224	1,224
1.8 Property Rental and outgoings income	171	469
1.9 Net cash from / (used in) operating activities	778	(557)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities (net of cash acquired)	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	(6)	(40)
(f) other non-current assets	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Cash flows from loans to other entities	1,000	(2,750)
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	994	(2,790)

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	-	-
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 period	629	5,748
4.2 Net cash from / (used in) operating activities (item 1.9 above)	778	(557)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	994	(2,790)

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,401	2,401

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	2,236	164
5.2	Call deposits	165	465
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)	2,401	629

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	36
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 Overdraft (refer below)	-	-
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 Government grants and tax incentives)	(446)
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,401
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	2,401
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	5.38
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:	
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:	
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:	
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: 28 April 2023

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.