ASX RELEASE

AusCann advances hard shell capsules and product development facility during September Quarter

Highlights

- Conducted Investor Webinar communicating AusCann's strategic and operational objectives for the coming quarters that have been set in motion.
- On track for release of market leading hard-shell capsules for clinical trials by the end of 2019.
- Construction of product development and R&D facility remains on budget and on schedule, with practical completion anticipated by the end of 2019.
- Appointment of Dr Marcel Bonn-Miller to the AusCann Board as a Non-Executive Director - a renowned cannabinoid clinical research expert.

25 October 2019 – Leading cannabinoids-based pharmaceutical company **AusCann Group Holdings Limited** (ASX:AC8) (AusCann or 'the Company') is pleased to provide an overview of its activities for the three months ended 30 September 2019.

Investor Webinar outlined strategic and operational objectives

During the Quarter AusCann conducted an Investor Webinar where the Company's CEO, Mr Ido Kanyon, outlined AusCann's strategic and operational objectives for the current and coming quarters in 2020. Key objectives communicated to shareholders and currently underway include:

1. Finalise the production and packaging of AusCann's Pharmaceutical cannabinoid-based products with a release to clinical trials by the end of 2019.
2. Select and educate prominent physicians and medical opinion leaders in Australia regarding the unique and consistent characteristics of AusCann's Pharmaceutical cannabinoid-based product on the many unmet needs for which cannabinoid-based products are being considered.
3. Provide selected physicians with AusCann's capsules for prescription to a controlled body of patients with an initial focus on chronic pain.
4. Obtain detailed, data driven results from trials and selected physicians regarding the health outcomes of AusCann's pharmaceutical treatment. Use these results to build the clinical evidence supporting the unique benefits of AusCann's capsules necessary to open a large and potentially highly profitable market for the Company.
5. Ensure financial rigour, discipline, and accountability in the execution of AusCann's business strategy, capital investments and operations, for the long term benefit of AusCann shareholders.

These highly defined and specific objectives have been set to provide reassurance to shareholders and company employees alike that a highly detailed and fiscally responsible program has been put in place for the coming few quarters. AusCann intends using its

financial assets in the most targeted and efficient way thereby providing the greatest chance of market penetration and success.

Operational

Operational activities during the quarter focused on progressing the development of the Company's hard-shell capsules, its new product development facility, and on continuing to optimise its supply chain.

Hard-shell pharmaceutical-grade cannabinoid capsules are on track for release to clinical trials by the end of 2019

AusCann's hard-shell capsules are designed to provide doctors with a stable cannabinoid-based medicine for the treatment of chronic pain. They are unique in that they have a consistent dosage and do not degrade over time. The capsules are tested to ensure they perform consistently throughout the shelf life of the product. They provide AusCann with a market penetrating and unique message in the generalised and fragmented medical cannabis environment. The focus during the current quarter has been on refining and optimising the strict quality control procedures required to achieve this as the manufacturing process is scaled up to commercial levels.

AusCann has been working closely with its manufacturing partner, PCI Pharma Services, regarding production and quality testing. Producing commercial quantities of pharmaceutical products in a Good Manufacturing Practice (GMP) environment requires a rigorous development process that the Company is now executing diligently. AusCann remains on track for the release of the capsules for clinical trials by the end of 2019. GMP processes are put in place to also ensure a minimum of fiscal and material waste, and to provide the market with a Pharmaceutical Grade product with no fewer quality standards than any other medicinal product taken by the patient or prescribed by doctors.

Construction of the Advanced Product Development Facility is on schedule and within budget

Construction of AusCann's product development site in Perth is now at an advanced stage with structural works largely completed during the Quarter. The focus of site activity is now moving towards internal fit out. The project remains within budget and on schedule, with practical completion anticipated by the end of 2019.

This facility is key to AusCann's ability to create a differentiated, targeted and effective product pipeline to accompany and subsequently improve its Cannabinoid-based pharmaceutical capsules. Competition is rapidly increasing in the cultivation, extraction, and sale of existing cannabinoid products. AusCann's strategy focuses the company on the higher value end of the medicinal cannabis supply chain – cannabinoid-based pharmaceutical products. Proprietary product development is a key part of this strategy, and an inhouse product development capability will be critical for this. This is being accomplished with efficient capital expenditure management through the use and conversion of existing buildings and facilities on site.

New raw material supply agreement with TasAlk

As referred to in AusCann's June Quarterly report, the Company announced a new supply agreement with Tasmanian Alkaloids (TasAlk) at the start of the current Quarter. The new agreement supersedes the May 2017 alliance between the companies, and the key elements include:

- TasAlk to supply AusCann with a minimum of 30% of its raw material resin supply requirements
- This agreement will remain effective for a three-year period
- A renewability clause is included should the parties wish to extend the agreement for an additional three-year term.

This revised agreement is further progress along AusCann's strategy to de-risk, and provide geographical diversity in its supply chain with a core number of pharmaceutical GMP suppliers. It provides AusCann with a guaranteed supply of high-quality, cost-competitive medical cannabis resin.

AusCann CEO, Mr Ido Kanyon, commented: "The September Quarter has seen important progress for AusCann as we approach the completion of key milestones. Our operational execution to date puts us in a very good position to commence commercial production of our Pharmaceutical cannabinoid-based hard-shell capsules within our budget and timelines.

"We are on track to release our capsules for clinical trials by the end of 2019. The trials are intended to provide AusCann with medical acceptance, which in turn will be crucial for product differentiation and building a sustainable long-term demand from both physicians and patients.

"These highly limited trials are the most efficient and effective method to provide the medical and patient population with convincing evidence that AusCann's product is unique, consistent and well-controlled. The trials are also designed in a manner that provides the greatest amount of quality data for a relatively modest investment of the company's funds. It is an economically responsible investment.

"We are also progressing on budget and on time with the construction of our product development facility, and we continue to pursue partnerships with key players in the supply chain. A key part of our strategy is deploying AusCann's capital to where it will deliver the best returns in an increasingly competitive new industry. Proprietary pharmaceutical product development supported by clinical evidence, will drive our future growth as we build medical acceptance."

Corporate

During the Quarter Dr Marcel Bonn-Miller was appointed to the AusCann Board as a Non-Executive Director. The appointment replaced Mr Bruce Linton who resigned from the AusCann board shortly after he ceased his role as CEO of Canopy Growth Corporation.

Dr Bonn-Miller is Global Senior Director of Clinical Science at Spectrum Therapeutics, the medical division of Canopy Growth Corporation that specialises in the development and commercialisation of validated cannabis medicines. Dr Bonn-Miller is a renowned cannabinoid expert with over 18 years of clinical research experience in medicinal cannabis. This clinical research experience is particularly relevant for AusCann as the Company progresses its clinical trials to support medical acceptance of its cannabinoid-based medicines.

ENDS

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ABOUT AUSCANN

AusCann Group Holdings Limited (ASX:AC8) is an Australian-based Pharmaceutical Company focused on the development, production, and marketing of cannabinoids-based pharmaceuticals within Australia and internationally. AusCann:

- **transforms** the way Medical Cannabis is dispensed today by making Cannabinoids-based Pharmaceutical dose forms accessible to patients, physicians and healthcare providers worldwide.
- **enables** physicians to treat their patients with a reliable, stable, well-characterized pharmaceutical product, monitor treatment results and adjust treatment algorithm using a portfolio of products and formulations.
- **holds** all required Medical Cannabis licenses to operate in Australia following its incorporation in 2014.
- **is targeting** the treatment of chronic pain in Australia initially, whilst exploring global export opportunities and expansion into additional medical areas.

+Rule 4.7B

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

AusCann Group Holdings Limited

ABN	**Quarter ended ("current quarter")**
72 008 095 207	30 September 2019

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (3 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	-	-
	Receipts from Grants	-	-
1.2	Payments for		
	(a) research and development	(851)	(851)
	(b) product manufacturing and operating costs	-	-
	(c) advertising and marketing	-	-
	(d) leased assets	(37)	(37)
	(e) staff costs	(584)	(584)
	(f) administration and corporate costs	(739)	(739)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	150	150
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
1.9	**Net cash from / (used in) operating activities**	**(2,061)**	**(2,061)**

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(721)	(721)
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	(53)	(53)
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	**Net cash from / (used in) investing activities**	**(774)**	**(774)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	11	11
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	**Net cash from / (used in) financing activities**	**11**	**11**

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (3 months) $A'000**
4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of quarter/year to date	35,307	35,307
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,061)	(2,061)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(774)	(774)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	11	11
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of quarter**	**32,484**	**32,484**

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	4,346	7,212
5.2	Call deposits	28,138	28,095
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)**	**32,484**	**35,307**

6.	**Payments to directors of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to these parties included in item 1.2	114
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Payment of Directors' fees and expenses.

7.	Payments to related entities of the entity and their associates	Current quarter $A'000
7.1	Aggregate amount of payments to these parties included in item 1.2	-
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

8.	Financing facilities available *Add notes as necessary for an understanding of the position*	Total facility amount at quarter end $A'000	Amount drawn at quarter end $A'000
8.1	Loan facilities	-	-
8.2	Credit standby arrangements	-	-
8.3	Other (please specify)	-	-

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

9.	Estimated cash outflows for next quarter	$A'000
9.1	Research and development	(873)
9.2	Product manufacturing and operating costs	(478)
9.3	Advertising and marketing	(116)
9.4	Leased assets	(26)
9.5	Staff costs	(761)
9.6	Administration and corporate costs	(839)
9.7	Other – planned capital expenditure for the quarter	(2,432)
9.8	**Total estimated cash outflows**	**(5,525)**

10.	Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1	Name of entity	N/A	N/A
10.2	Place of incorporation or registration	N/A	N/A
10.3	Consideration for acquisition or disposal	N/A	N/A
10.4	Total net assets	N/A	N/A
10.5	Nature of business	N/A	N/A

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.

Sign here: ..... Date: . 25/10/2019.....
(~~Director~~/Company secretary)

Print name: Quentin Megson

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position.

2. This quarterly 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. This quarterly 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.