

CORPORATE UPDATE - NON-BINDING TERM SHEET SIGNED WITH ECCPHARM

17 May 2024 - AusCann Group Holdings Limited (ASX: AC8) ('AusCann' or 'the Company') is pleased to provide this corporate update to shareholders, and announce its intention to merge with European based cannabis manufacturer ECCPharm, subject to the execution of a binding scheme implementation deed.

AC8 has today signed a non-binding term sheet to acquire 100% of the shares in ECC Pharm Limited ('ECCPharm') (formerly European Cannabis Corporation Ltd), an Australian incorporated unlisted public company, in script, on a 1:1 ratio by way of a scheme of arrangement pursuant to Part 5.1 of the Corporations Act 2001 (Cth).

ECCPharm and its 100% owned subsidiaries; ECCPharm DOOEL and RH Pharma hold all licences for the production and sale of medical cannabis into Europe, and operate a fully integrated German GMP cannabis cultivation and extraction facilities that it has built in Macedonia over the past 5 years.

AC8 has over the last two years been funding ECCPharm business via a secured loan arrangement with a view to potentially acquire the business, and is pleased to announce that based on the German government passing of the new legislation on April 1st 2024, the path and regulatory environment is now clear for ECCPharm to scale up to meet the anticipated medical cannabis demand coming from Germany, and broader Europe.

Background on ECCPharm Operations

ECCPharm owns one of the largest fully EU German GMP certified production and extraction facilities in Europe. The facilities are strategically located in Northern Macedonia which is a well known cannabis growing region with excellent soil, moderate temperature and rainfall, and on average 300 days per annum of sunshine. Combine this with first world education standards, low wage cost and geographical proximity to the EU, Northern Macedonia is expected to be known as the premium growing jurisdiction for Europe.

ECCPharm was the first company in Northern Macedonia to receive EU German GMP Status across both the growing and extraction facilities and has just recently (March 2024) had these licenses renewed for another 3 years by the local authorities.

ECCPharm's 100% owned facilities are capable in their current form, of producing up to 8 tonne of GMP grade medical flower and in excess of 250,000 bottles of GMP grade extract per annum. With additional capital or organic growth, ECCPharm on company owned land, has the capacity to expand the growing operation up to 30 tonne of flower and with one of the lowest in class growing economics, ECCPharm anticipates getting to cash flow positive and substantial profitability, imminently.

With no debt, the combined capital structure of the group is anticipated to be reflective of the table below:

	Shares
AusCann	440,547,110
ECCPharm	1,209,729,762

Total Shares	1,650,276,872
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As part of this process and noted in the AC8 quarterly, AC8 provided additional working capital to ECCPharma of AUD \$500,000 in April 2024.

We anticipate that post the most recent regulatory announcements in Germany, the German market will be one of, if not the, largest medical cannabis market in the world and ECCPharm is perfectly positioned to produce high quality medical grade product at a very competitive price and to scale up the facilities to meet the growing demand that is anticipated not only in Germany, but the whole of Europe.

Summary of proposed transaction

The Company has signed a non-binding term sheet with ECCPharm under which it is proposed that AusCann will acquire 100% of the shares in ECCPharm by way of a scheme of arrangement to be undertaken between ECCPharm and its shareholders ('Scheme').

The Scheme will be subject to shareholder and Court approval in accordance with the requirements of Part 5.1 of the Corporations Act 2001 (Cth), as well as the satisfaction of various other conditions which are considered standard for transactions of this nature.

Under the Scheme, should it proceed, AusCann will issue one (1) AusCann share for every one (1) ECCPharm share held by ECCPharm shareholders.

The composition of the AusCann board following implementation of the Scheme has not yet been determined.

Due diligence and indicative timetable

The Company is now progressing negotiations with ECCPharm on the formal terms of the Scheme and AusCann and ECCPharm will undertake due diligence on each other's assets.

If due diligence investigations are satisfactory, the parties intend to enter into a formal Scheme Implementation Deed.

The Scheme will then proceed in accordance with a standard timeline, with dates for the relevant Court hearings and shareholder meeting to be finalised in due course.

Upon implementation of the Scheme, the merged entity will seek quotation of its securities on the ASX. However, it is not a condition of the Scheme that the merged entity is listed on ASX.

ECCPharm board intention

Based on current information, the directors of ECCPharm have indicated their intention to recommend that ECCPharm shareholders vote in favour of the Scheme, subject to entry into an acceptable Scheme Implementation Deed, no superior proposal being received and an Independent Expert concluding (and continuing to conclude) that the Scheme is in the best interests of shareholders.

The Company notes that, until due diligence is completed and a binding Scheme Implementation Deed is executed by the parties, there is no certainty that the acquisition of ECCPharm will proceed.

ENDS

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

For more information, please contact AusCann:

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