

AusCann to Partially Divest Animal Health Assets

Key Highlights

- AusCann has entered into a share sale agreement ('**Share Sale Agreement**' or '**SSA**') with Animal Health Holdings Pty Ltd ('**AHH**') to privatise its animal health business, CannPal Animal Therapeutics Pty Ltd ('**CannPal**'), by divesting 52% of CannPal to AHH ('**Partial Divestment**').
- AHH is a Special Purpose Vehicle ('**SPV**') which will assume the responsibility for all current and future expenses for the development and commercialisation of the animal health assets of CannPal.
- AHH will be controlled by AusCann's outgoing Chief Executive Officer, Mr Layton Mills, and the outgoing Chief Scientific Officer of AusCann, Dr Margaret Curtis.
- AusCann will retain a 48% free-carried interest in CannPal and has no obligation to fund CannPal.
- AusCann retains the right to re-acquire the shares in CannPal upon the failure of CannPal to reach agreed development and commercialisation milestones.
- The Partial Divestment enables CannPal to operate as an unencumbered and private animal health company better positioned to attract, secure and maintain strategic partnerships and resources for the continued development and commercialisation of AusCann's animal health assets.
- The Partial Divestment is a separate and independent transaction from the proposed transaction under Listing Rule 11.1, the subject of AusCann's suspension from trading.

10 March 2023 - AusCann Group Holdings Limited (ASX: AC8) ('AusCann' or 'the Company') has 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**') ('**Partial Divestment**').

The Partial Divestment is a separate and independent transaction from the proposed transaction under Listing Rule 11.1 which is the subject of AusCann's suspension from trading [**ASX:AC8 August 31, 2022 and November 30, 2022**].

Background

AusCann implemented a scheme of arrangement to acquire all of the shares in CannPal on the 10th of 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). SAS-B is a distribution channel that was designed for low volume, and revenues by companies operating in the SAS-B channel are expected to remain small and unsustainable until the regulatory framework improves.

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. 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.

Partial Divestment Overview and Rationale

The AusCann Board believes that the proposed structure presents 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 any ongoing expenses and liabilities associated with the animal health business.

Specifically, AusCann believes that a privately held and focused animal health company is better positioned to attract, secure and maintain strategic partnerships and resources required for the continued development and commercialisation of AusCann's animal health assets. More specifically:

- the proposed structure is expected to enable quicker progress through R&D and helps retain key animal health consultants and employees to continue executing on milestones;
- a private corporate structure significantly reduces overheads and better enables CannPal to benefit from alternative funding sources such as government grants, which are often not available to public companies;
- AusCann removes itself of all current and future expenses for the development and commercialisation of the animal health assets, while retaining a 48% free carried interest in CannPal; and
- AusCann retains certain beneficial rights, including a pre-emptive right to supply raw cannabis materials to CannPal for its products, and options to re-acquire the shares in CannPal upon the failure of the CannPal to reach agreed development and commercialisation milestones.

The ASX has confirmed to AusCann that no shareholder approvals are required for the Partial Divestment.

Funding of CannPal Post Completion of the CannPal Partial Divestment

AusCann has no obligation to provide any further funding for the continued development or commercialisation of the CannPal animal health assets. This responsibility is borne by the SPV, and the ongoing operational and administrative costs will initially be provided by the Directors of AHH.

AHH is in confidential discussions with potential partners and other providers in relation to procuring funding to complete pre-agreed research and development milestones, post-completion of the CannPal Partial Divestment. This may be through debt or equity (or a combination of both), or through marketing, commercialisation and co-development agreements for the Company's lead animal health assets - noting that AusCann may retain a free-carried interest of 48% in CannPal and so, any equity dilution would be borne by the SPV.

It's expected that once the CannPal Partial Divestment has been completed and the structure finalised, then the Company will be in a better position to finalise these discussions which remain confidential and incomplete.

Additionally, AHH will be able to apply for certain Government grants on behalf of CannPal which were not previously available to the Company on the basis that its ultimate holding company was listed on the ASX.

AusCann also retains the right to re-acquire the shares in CannPal for nominal consideration (\$1) upon the failure of the SPV to fund and complete the agreed development and commercialisation milestones.

Material Terms and Conditions of the Share Sale Agreement

The material terms and conditions of the Share Sale Agreement are set out below.

Detail	Comment
Information about CannPal	CannPal is a leader in the development of innovative, plant-based therapeutic products to provide veterinarians and pet owners with clinically validated and standardised therapeutics to treat animals in a safe and more natural way.

	<p>Presently, CannPal is developing products containing Cannabidiol (CBD), Tetrahydrocannabinol (THC), and other active ingredients for registration and commercialisation as veterinary medicines and nutraceuticals in the areas of pain, inflammation, mood and dermatological skin conditions.</p>
Information about Animal Health Holdings Pty Ltd	<p>AHH is a Special Purpose Vehicle ('SPV') which will assume the responsibility for all current and future expenses for the development and commercialisation of the animal health assets. The SPV is to be controlled by the outgoing Chief Executive Officer of AusCann, Mr Layton Mills, and the Chief Scientific Officer of AusCann and Head of Research and Development of CannPal, Dr Margaret Curtis.</p>
Consideration	<p>AusCann has agreed to undertake the Partial Divestment for nominal consideration (\$1.00) (subject to the entry into the Shareholders Agreement - the key terms of which are summarised below).</p> <p>AusCann believes that the consideration is fair and reasonable because the new structure removes AusCann from all current and future expenses for the development and commercialisation of the animal health assets, while retaining a 48% free carried interest in CannPal.</p> <p>As discussed further below, the Shareholders Agreement that will be entered into between AHH and AusCann in respect of CannPal contains obligations on CannPal to achieve certain agreed development and commercialisation milestones by certain dates. The success of the agreed milestones is expected to increase the value of the CannPal assets, of which AusCann will financially benefit through potential dividends, or a future trade sale of the Company. In the event that CannPal does not achieve these milestones within the relevant timeframes, AusCann has the right to re-acquire the shares in CannPal for nominal consideration.</p> <p>The AusCann Board believes that in the current market conditions, a privately held and focused animal health company is better positioned to attract, secure and maintain strategic partnerships and resources that will be required to complete the development of the animal health programs and commence commercialisation efforts, while enabling AusCann to focus its resources on other corporate opportunities that may be of benefit to shareholders, in light of a challenging market environment.</p>
Conditions Precedent	<p>Completion under the SSA is conditional on:</p> <ul style="list-style-type: none"> the parties having entered into the Shareholders Agreement; AusCann having obtained any shareholder approvals if required by ASX. <p>The ASX has confirmed to AusCann that no shareholder approvals are required for the Partial Divestment.</p>
Expected Timetable for Completion	<p>The SSA contains a sunset date of 31 March 2023.</p>
Shareholders Agreement (Key Terms)	<p>On and from completion under the SSA, AusCann and AHH will have entered into a shareholders agreement in respect of CannPal (Shareholders Agreement).</p> <p>The Shareholders Agreement is favourable to AusCann, notwithstanding it is not the controlling shareholder.</p>

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	<p>Under the Shareholders Agreement:</p> <ul style="list-style-type: none"> • AusCann will retain a 48% free-carried interest, with no obligation to contribute to debt or equity funding; • AusCann has a pre-emptive right to supply CannPal with raw cannabis materials if any such materials are required by CannPal; • AusCann has the right to appoint 1 out of the 3 directors to the CannPal Board; • AHH will be permitted to appoint 2 out of the 3 directors to the CannPal Board (and the Chair – whom does not have a casting vote); • there are significant matters that require a ¾ majority approval by the Board (meaning the AusCann director has a veto right over any such decisions); • AusCann has the right to reacquire the animal health assets in the event that AHH fails to meet agreed milestones through options - which are discussed further below. <p>The Shareholders Agreement contains other terms and conditions that are typical for a document of this nature.</p>
Options granted by Serocann	<p>Under the Shareholders Agreement, AHH has agreed to grant 2 separate options to AusCann to reacquire shares in CannPal.</p> <p>If CannPal:</p> <ul style="list-style-type: none"> • has not met the First Milestone to the reasonable satisfaction of AusCann on or before the date that is 12 months after the Agreement Date, AusCann can elect to purchase half of the shares held by AHH in CannPal for nominal consideration (\$1.00); and • if CannPal has not met the Second Milestone to the reasonable satisfaction of AusCann on or before the date that is 24 months after the Agreement Date, AusCann can elect to purchase the other half of the shares held by AHH in CannPal for nominal consideration (\$1.00). <p>The First Milestone is defined as:</p> <ul style="list-style-type: none"> • the registration of Dermacann as an approved veterinary medicine for sale in Australia by the Australian Pesticides and Veterinary Authority; or • the registration of Dermacann as an Agricultural Compound or Veterinary Medicine (ACVM) for sale in New Zealand from the Ministry of Primary Industries, <p>where registration means the receipt of a registration number from the APVMA or ACVM (as applicable) confirming market authorisation.</p> <p>The Second Milestone is defined as</p> <ul style="list-style-type: none"> • CannPal having signed a research agreement with a clinical research organisation (CRO) for the commencement of a Phase 2C or Phase 2D study for CPAT-01; • and the payment of an initial deposit to the CRO in connection with that research agreement <p>where Phase 2C or 2D means a study protocol which is to the reasonable satisfaction of AusCann and has an estimated monetary value between USD \$300,000 to USD \$600,000</p>

The effect of this is that if AusCann exercises both options, it will be able to re-acquire all of the shares in CannPal it sold to AHH for a nominal value (\$2).

Market Update on ASX Suspension

The Partial Divestment is a separate and independent transaction from the proposed transaction under Listing Rule 11.1 the subject of AusCann's suspension from trading ('**Proposed Transaction**') [**ASX:AC8 August 31, 2022 and November 30, 2022**].

AusCann continues to progress discussions in relation to the Proposed Transaction and will provide an update to the market in due course.

ENDS

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

For more information, please contact:

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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.