

Ag & Vet Weekly



Monday March 8 - Friday March 12, 2021

All the news on ASX-listed agriculture and veterinary companies

- * **ASX, AVW-44 UP: MGC UP 23.5%; TASFOODS DOWN 11.5%**
- * **DR BOREHAM'S CRUCIBLE: AUSCANN + CANNPAL MERGER**
- * **FEDERAL \$6.5m FOR INNOVATIVE FARMING PROJECTS**
- * **'ENGINEERING ISSUE' DELAYS MEMPHASYS FELIX SPERM SEPARATOR**
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- * **WASHINGTON H SOUL PATTINSON TAKES 20% OF CLOVER**
- * **OCEAN GROWN: ROB JORDEN CEO ON \$225k, M-D BRAD ADAMS DIRECTOR**
- * **EPSILON (THC) LOSES DIRECTOR GARY RADCLIFF**

MARKET REPORT

The Australian stock market was up 0.79 percent on Friday March 12, 2021, with the ASX200 up 52.9 points to 6,766.8 points. Twenty-three of the AVW-44 stocks were up, 11 fell, six traded unchanged and four were untraded.

MGC was the best, up 1.6 cents or 23.5 percent to 8.4 cents, with 41.4 million shares traded. Avecho climbed 15.8 percent; Apiam was up 7.25 percent; Nanollose, Opyl and Wide Open improved more than five percent; Clover and Terragen were up more than four percent; Auscann, Palla Pharma and Memphasys climbed more than three percent; Bubs, Epsilon, Food Revolution, Murray Cod and Select Harvests rose more than two percent; Cann Group, Nufarm, Ocean Grown Abalone and Synlait were up more than one percent with Clean Seas, Ecofibre and Ridley up by less than one percent.

Tasfoods led the falls, down 0.5 cents or 4.2 percent to 11.5 cents, with 4,131 shares traded. Pharmaust and Tassal lost more than three percent; Costa and Fonterra shed more than two percent; A2 Milk, Althea, AP Hemp, Huon and Next Science lost one percent or more; with Bega Cheese down by 0.8 percent.

DR BOREHAM'S CRUCIBLE: AUSCANN + CANNPAL

By TIM BOREHAM

ASX codes: AC8 (Auscann), CP1 (Cannpal)

Share prices: Auscann 15 cents; Cannpal 17 cents (Cannpal ceased trading March 11)

Market caps: \$47.6 million (Auscann), \$16.15 million Cannpal (at the close on March 12, combined entity about \$66.7 million)

Shares on issue: Auscann 317,047,357; Cannpal 95,000,000

Shares on issue (post-merger): 440,547,357 (123,500,000 to be issued to Cannpal holders)

Chief executive officer (merged entity): Layton Mills

Board (proposed for merged entity): Max Johnston (chair), Chris Mews, Krista Bates, Bruce McHarrie, Geoff Starr*, Robert Clifford*, Dr Kathryn Adams* (*Cannpal directors)

Finances (December half 2020):

Auscann: sales \$39,364 (previously nil), loss of \$4.6 million (previously \$3.4 million deficit), cash of \$15.23 million (down 20%)

Cannpal: sales \$16,655 (previously nil), loss of \$273,000 (previously a \$512,000 deficit), cash of \$1.4 million (down 26%)

Substantial shareholders (merged entity): Merchant Opportunities 15 percent, Layton Mills 2.3%, Tania Vidovic 2%, Mal Washer Nominees 1.6%.

After years of talk about a pending rationalization of the underachieving ASX-listed cannabis sector, the first full-blown merger of two locally listed pot stocks has been duly implemented.

At a virtual meeting on Monday, Cannpal shareholders agreed to a scheme of arrangement that sees the company subsumed by Auscann.

Given the tight nature of the Cannpal register the union was never really in doubt and was duly approved by holders accounting for 99.9 percent of the shares and 94 per cent of the participating investors.

(Schemes of arrangement require consent from at least 50 percent of voting holders by numbers and 75 percent of shares by value).

The scrip-based deal melds Cannpal's veterinary drug program with Auscann's two-legged one.

As well as generating the usual cost benefits, the proponents argue the union will imbue greater liquidity, attract more institutional investors and meld two complementary product portfolios.

The union is also expected to expand the company's presence not just locally, but in the US, the Middle East, Asia and Germany.

While Cannpal has more advanced programs, Auscann delivers a crucial element - cash - to the table.

A key aspect is that while Cannpal disappears from the ASX boards, the new Auscann will be headed up by Cannpal founder and CEO Layton Mills.

Auscann chief Nick Woolf handed in his resignation in early January, but committed to keep running the show until the merger is complete.

What Auscann brings to the table

The greater Auscann will have two products on market and two to be launched in the next 12 months.

On the Auscann side, Neuvis, is a hard-shell capsule containing a controlled dose of cannabidiols (CBD) and the psychoactive tetrahydrocannabinol (THC) in equal parts.

Neuvis has been available under the local Therapeutic Goods Administration's special access scheme and the network of approved prescribing doctors.

The company recently completed a phase I study of 28 volunteers and plans a phase IIa trial for chronic neuropathic pain. This 60-patient effort is expected to start at local sites this year.

Meanwhile, what Auscann isn't bringing is its joint venture with Chilean grower Dayacann, entered into in 2016.

After the Chilean government last year banned the export of cannabis products, Auscann sold its stake to two offshore parties in November last year, for \$US1.5 million (\$A1.9 million). Of this, Auscann received \$US200,000 upfront.

And Cannpal?

Cannpal brings along CPAT-01, a liquid medication for canine inflammation. The company carried out a phase I study that enrolled 100 dogs, including 46 with osteoarthritis.

Cannpal has lodged an investigational new drug application with the US vet regulator, the Food and Drug Administration's Centre for Veterinary Medicine. This is something to crow (or howl) about, given no other drug company has this status for a CBD-related application.

But Cannpal's closest path to commercialization is with Dermacann, a CBD derived food additive to promote healthy skin and immune functions. A liquid oral version has been tested on some willing hounds = or at least their owners consented on their behalf - for atopic dermatitis.

Cannpal intends to seek regulatory approval for Dermacann in “key markets”, with first sales targeted for this year in the US and South Africa.

“We are in the final stages of working through a distribution agreement with a major partner in South Africa.” Mr Mills says.

The US approach harnesses the recent liberalization of products containing CBD derived from hemp, which makes getting to market easier in at least some states. The regulatory framework is still complex, but in effect the company can market Dermacann as a food additive if it makes the right claims (and does not over reach).

If approved in Australia, Dermacann would be the only approved veterinary cannabis therapy and only the third approved cannabis drug overall (the others are Epidiolex for epilepsy and Sativex for multiple sclerosis).

Cannpal also has Micromax, a canine food additive based on encapsulation technology developed by the venerable CSIRO (Cannpal acquired the rights to the tech in 2019).

Cannpal plans a pilot launch in the US of a non-prescription dietary supplement for hip and joint health.

A pot-ted history of Cannpal

Cannpal was founded by Mr Mills and listed in October 23, 2017, raising \$6 million at 20 cents a pop.

It was - and remains - the world’s only listed, pure-play, pet, pot stock.

In early 2017 Cannpal entered a term sheet with the then Zelda Therapeutics to bestow Zelda with the first use of its clinical data for human purposes. But the deal lapsed after Zelda merged with Ilera Therapeutics of the US and became Zelira Therapeutics.

Earlier on, Cannpal and Auscann had a chat about the latter taking on the former’s human health research and development, but nothing eventuated.

With a background in consumer goods, Mr Mills zeroed-in on the work on alternative health therapies spearheaded by Californian researchers. In the pain space, that meant alternatives to opioids.

“In the animal space there hadn’t been so much innovation,” he says.

As a result, non-steroidal anti-inflammatory drugs remain the key treatment for canine osteo, despite myriad side effects.

Initially Cannpal targetted an alternative therapy for doggy bone cancer, but accessing the beasts proved to be difficult.

Lest we be seen as specie-ist, Cannpal is also interested in cats, but as we all know they are more finicky and have trickier metabolisms.

The full dope on Auscann

Auscann listed on February 3, 2017, by way of a reverse takeover of TW Holdings and a \$5 million capital raising at 20 cents apiece. Auscann wasn't the first ASX pot stock - that honor went to Perth based peer Phytotech, now owned by Canada's Harvest One - Auscann was a fast follower.

Initially, Auscann was run by the 'A-team' of Dr Stewart Washer and Elaine Darby, the son and daughter of former Federal MP Dr Mal Washer (who not only chaired the Joint House Committee on Environment and Climate Change, but later chaired Auscann).

The company's plans first focused on growing the stuff in Chile and producing pharmaceutical grade product, but things never quite clicked.

Ms Darby resigned in September 2018, to be replaced by former Teva executive Ido Kanyon on an eye watering base salary of \$420,000 a year. Mr Kanyon lasted less than a year and the board then decided it was time for Mr Woolf.

The movers and shakers behind the deal

Under the deal, Cannpal holders receive 1.3 Auscann shares for each Cannpal shares. At the time of the November 16, 2020 announcement, the implied valuation of 18.4 cents per Cannpal share and was a 54 percent premium over the weighted average price of Cannpal shares (11.95 cents) for the previous five trading days.

A key driver of the merger was the assent of the ubiquitous Merchant Funds, which held 19.88 percent of Cannpal and 13.6 percent of Auscann, a stake acquired in 2019 from original Auscann investor Canopy Growth (a leading Canadian pot stock).

Post-merger Merchant will own 15 percent of the entity.

As an aside, Merchant was also a common shareholder of cancer diagnostic houses Bard1 and Sienna, which merged last year.

The odds of a 'yes' vote were also enhanced because Mr Mills owns 8.4 percent of Cannpal and Tania Vidovic, another friendly party and former Cannpal director accounts for another 7.4 percent.

Finances and performance

Both companies could be politely described as pre-revenue: Auscann managed \$13,000 of receipts in the December quarter, while Cannpal chalked up \$11,000. The companies lost \$1.8 million and \$553,000 respectively.

As of December 30, Auscann had \$16.8 million of cash, with a further \$US1.5 million to flow from the Dayacann divestment. Cannpal had \$1.4 million in the kitty (or doggy, if you prefer) with an R&D Tax Incentive to come, but still copped a 'going concern' comment from audit firm BDO.

Auscann's loot is courtesy of a \$33 million placement in a July 2018 placement. Earlier, in May 2017, the company pocketed \$15 million from a placement to poppy grower Tasmanian Alkaloids.

Auscann shares are well off their January 2018 peak of \$1.74, while Cannpal shares hit their high of 21 cents in early December last year.

Elsewhere ...

The merger is in keeping with the popular trend of cannabis 'vet' plays seeking human cannabis exposures, or vice versa.

For example, hemp play Ecofibre has been focused on food additives but is expanding into pet care markets.

The owner of vitamins giant Suisse, the Hong Kong based Health & Happiness Group (H&H Health) owns 17 percent of ASX pot stock BOD Australia. H&H has acquired the Solid Gold pet nutrition brand and will access CBD formulations from BOD.

Creso Pharma plays in both the human and fur-clad sectors with Anibidiol, a hemp-based CBD complementary feed for companion animals.

Mr Mills notes that it makes perfect sense to leverage the veterinary trial data with the human side of things, given human drug development also requires animal-based studies.

Dr Boreham's diagnosis:

Generally speaking, mergers have a habit of disappointing, at least initially. But at the very least, we can't see this one doing any harm.

We won't know for some time whether one plus one equals more than two, and the union is a howling success. But at the very least the merger looks like it will do no harm and save money at corporate HQ level, as well as in the labs (laboratories, not the golden or tan varieties).

Personally, we're more excited about the veterinary side, given the near-term promise for Dermacann and the longer-term prospects for CPAT-01.

The local human medical cannabis sector is growing, but from a low base and, if anything, there's an oversupply.

What's really paws for thought is the veterinary sector, given the lower regulatory hurdles and the ever-expanding market as our fur-babies work their way up the evolutionary chain to true household dominance.

Disclosure: Dr Boreham is not a qualified medical practitioner. He does not possess a doctorate of any sort but does own a dopey hound who has never inhaled.

FEDERAL GOVERNMENT

The Federal Government says 84 agriculture projects had received a share of \$6.48 million from the fourth rounds of its 'Smart Farms Small Grants' funding initiative.

A media release from the Minister for Agriculture David Littleproud said that the funding initiative supported "Australian farmers to adopt innovative practices that increase farm productivity, profitability and protection of natural resources".

Mr Littleproud said that 84 farmers, fishers and community groups had been awarded between \$5,000 and \$100,000 each for their projects.

The media release said recipients included groups such as Birchip Cropping, which was investigating the use of multi-species cover crops in low rainfall broadacre mixed farming and Mallee Sustainable Farming which aimed to establish industry-led digital extension research and development hubs across Victoria, South Australia and New South Wales.

Mr Littleproud said the \$6.48 million round of funding was part of the National Landcare Program initiative and "part of the government's commitment to helping industry towards its target of growing the sector to \$100 billion by 2030".

The media release said that, including this fourth funding round, Smart Farms Small Grants has funded 384 projects to the value of \$25.5 million, with an additional two rounds of grants expected with funding up-to \$18 million.

The full list of recipients is at: <https://www.communitygrants.gov.au/grants/smart-farms>.

MEMPHASYS

Memphasys says an engineering flaw in its Felix sperm separation device was found in the validation process and will delay its production and commercial sales.

Memphasys said it was undertaking a verification and validation process on the Felix console and cartridges and hoped to complete the process by the end of March 2021.

The company said that the schedule would need to be extended and "commercial sales of the device will be delayed".

Memphasys said the Felix kit needed to pass the validation process, which would include additional validation testing by the University of Newcastle and Monash IVF (in-vitro fertilization), with further testing on by key opinion leaders and possibly other potential customers in the initial, low regulatory regime markets.

The company said that an engineering issue had "a solution" and was not an issue with the Felix core technology or science.

Memphasys executive chair Alison Coutts said the company was "clearly disappointed that this issue has arisen, especially as it came so late in the validation process".

"However, that we were able to uncover the issue is testament to the robustness of our verification and validation process," Ms Coutts said.

"We are now working on resolving the issue as expeditiously as possible," Ms Coutts said.

Memphasys was up 0.2 cents or 3.3 percent to 6.2 cents with 4.3 million shares traded.

CANNPAL ANIMAL THERAPEUTICS, AUSCANN

Cannpal says investors voted overwhelmingly (99.91%) in favor of the Auscann merger and the Supreme Court of Western Australia has approved the scheme of arrangement.

Cannpal said it would cease trading on the ASX at the close of market on March 11, 2021.

The company said that shareholders at the scheme record date of March 15 would receive 1.3 Auscann shares for every Cannpal share, on March 18, 2021.

Auscann was up 0.5 cents or 3.45 percent to 15.0 cents.

Cannpal last traded at 17 cents.

THE FOOD REVOLUTION GROUP

Food Revolution says Juice Lab Super Shots sales at Coles supermarkets has “exceeded expectations” by 200 percent from two units to up-to seven units per store per week.

Food Revolution said that three of its nine variants of the plant-based meal and beverage alternative Juice Lab shots were available at 160 Coles supermarkets and would be rolled out at Metcash, IGA, Drakes and Foodland from March 20, 2021 and it hoped to sell them through petrol stations and convenience outlets.

Food Revolution was up 0.1 cents or 2.9 percent to 3.5 cents with 9.3 million shares traded.

CANN GROUP

Cann says it is involved in a 108-patient, phase I/II trial of its marijuana oil for pain and quality of life in advanced cancer patients.

Cann said it would supply marijuana oil for the trial at Melbourne’s Olivia Newton-John Cancer Research Institute (ONJCRI), with Austin Health.

The company said its phase I trial began in late September 2020 and outcomes were being reviewed, but did not announce the start of the trial in September.

Today, Cann Group said the randomized, placebo-controlled phase II trial depended on results from the phase I trial and would evaluate the efficacy of the drug by assessing the patient’s quality of life, pain, anorexia, nausea, anxiety and sleep.

The company said its “full spectrum cannabis strain” was developed by Agriculture Victoria and the formulated oil extract contained cannabidiol (CBD) and tetrahydrocannabinol (THC) and was to be taken up to three times a day.

The ONJCRI director Prof Matthias Ernst said the trial was “a first-of-its-kind clinical trial in Victoria and one of only a few being conducted world-wide”.

“As with all of our other research efforts, we are focussed on finding new options for people impacted by cancer,” Prof Ernst said.

Cann Group was up one cent or 1.7 percent to 60.5 cents with 1.1 million shares traded.

CANN GROUP

Cann says it has completed its \$C4 million (\$A4.1 million) acquisition of Satipharm from Harvest One Cannabis Inc, paying \$C2.5 million (\$A2.56 million) upfront.

Last month, Cann said it would buy Satipharm for \$C4 million in scrip, with the acquisition to provide “immediate entry into the cannabidiol market” as Satipharm held distribution rights in UK, Ireland and Eastern Europe (AVW: Feb 19, 2021).

Today, the company said the \$C1.5 million balance was payable in cash or scrip, at its discretion, and would be paid “on achieving agreed operational and financial results”.

Cann said it expected to complete the payments by September 2021.

CRESO PHARMA

Creso says it has a non-binding agreement with Impactive for the distribution of its marijuana-based products in the US and Canada.

Creso said the Kanata, Ontario-based Impactive would distribute Cannadol and Cannaqix products and Creso would distribute Impactive’s product range in Switzerland and Europe.

The company said Impactive focused on cannabidiol products that reduced muscle and joint inflammation and it expected the agreement would be formalized by April 1, 2021

Creso was unchanged at 21 cents with 5.6 million shares traded.

CANN GLOBAL

Cann Global says the Australian Patent Office has granted its joint venture partner, Canntab Therapeutics, a patent for immediate release cannabidiol tablets.

Cann Global said the patent, titled 'Immediate release cannabidiol formulations' would protect the formulations in hard pill form as a medical marijuana delivery method for therapeutic applications until January 22, 2038.

Last year, the company said the 50-50 joint venture with the Toronto-based Canntab had launched the medical marijuana tablets in Australia (BD: Oct 26, 2020).

Today, Cann Global said it was confident in the demand for these products and placed an initial order worth \$C406,200 (\$A418,000) order for six products from the Canntab range including two tetrahydrocannabinol (THC) only products, two cannabidiol (CBD) only products and two THC and CBD blends.

The company said it had its import permit for these products and Canntab would fill the order when it received a Health Canada export permit.

Cann Global said the tablets would be available through the special access scheme B and authorized prescriber schemes.

Cann Global was unchanged at 0.8 cents with 18.7 million shares traded.

MURRAY COD AUSTRALIA

Murray Cod says shareholders will vote to approve the issue of 2,000,000 incentive options to director David Crow, exercisable at 25 cents each.

Last month, Murray Cod said it had appointed Mr Crow as a non-executive director, and pending shareholder approval, Mr Crow would be issued 2,000,000 options exercisable at 25 cents each by January 3, 2025, vesting in four equal tranches from July 1, 2021 to July 1, 2024 (AVW: Feb 12, 2021).

The online meeting will be held on April 12, 2021 at 2pm AEDT.

Murray Cod was up 0.5 cents or two percent to 25 cents.

ELIXINOL GLOBAL

Elixinol has requested a voluntary suspension to follow the trading halt requested last week "an announcement in relation to a potential transaction" (AVW: Mar 5, 2021).

Elixinol last traded at 19.5 cents.

COSTA GROUP HOLDINGS

Sydney's ECP Asset Management Pty Ltd says it has ceased its substantial shareholding in Costa.

ECP said that between November 23, 2020 and March 10, 2021 it bought and sold shares with the single largest sale 1,211,513 shares for \$5,534,148 or \$4.57 a share.

According to Costa's most recent Appendix 2A new shares issue, the company had 400,830,387 shares on offer and Ag & Vet Weekly calculates that ECP retains 19,093,656 Costa shares or 4.76 percent of the company.

Costa fell 12 cents or 2.65 percent to \$4.41 with 1.9 million shares traded.

SELECT HARVESTS

Vanguard Group says it has become a substantial shareholder in Select Harvests with 6,023,558 shares or 5.01 percent.

The substantial shareholder notice said that Valley Forge, Pennsylvania-based Vanguard Group and its entities bought and sold shares between November 17, 2020 and February 26, 2021, at prices ranging from \$5.21 to \$6.29 a share.

Vanguard group said the shares were held by Brown Brothers Harriman, Bank of New York Mellon, JP Morgan Chase, State Street Bank and Trust Company and various others.

Select Harvests was up 14 cents or 2.6 percent to \$5.49.

CLOVER CORP

Washington H Soul Pattinson says it has increased its substantial shareholding in Clover from 33,713,035 shares (20.27%) to 33,926,867 shares (20.40%).

The Sydney-based Washington H Soul Pattinson said that between January 12 and March 5, 2021 it bought 213,832 shares for \$314,207 or \$1.47 a share.

The company said it held a derivative titled "long cash settled forward" of 820,000 shares at \$1.1991 with the option to increase to 1,640,000 shares.

Clover was up 5.5 cents or 4.3 percent to \$1.345.

OCEAN GROWN ABALONE

Ocean Grown says it has appointed Rob Jorden as chief executive officer, with managing-directors Brad Adams moved to executive director of corporate development.

Ocean Grown said Mr Adams had been the managing director since before the company was listed on the ASX in November 2017.

The company said Mr Jorden had more than 30 years of experience as a management consultant.

Ocean Grown said Mr Jorden would be paid \$225,000 a year, plus superannuation, would have the use of a car for business purposes and would be paid reasonable relocation costs from Queensland to Western Australia.

The company said it would provide Mr Jorden's short-term and long-term incentives to the ASX following the completion of his probation period which would be six months from the commencement date on March 9, 2021.

Ocean Grown was up 0.1 cents or 1.1 percent to nine cents.

EPSILON HEALTHCARE (FORMERLY THC, THE HYDROPONICS COMPANY)

Epsilon says that Gary Radcliff has resigned as a non-executive director, effective from March 5, 2021.

Epsilon was up 0.5 cents or 2.1 percent to 24.5 cents.