

ASX Announcement | 25 July 2019
Althea Group Holdings (ASX:AGH)

Acquisition and Capital Raising

Investment Highlights:

- Althea agrees to acquire Canadian extraction and contract manufacturing company Peak Processing Solutions, founded by four former senior personnel from Aphria Inc.
- Althea has opened one of the UK's first cannabis destination clinics in central London and plans to open two further clinics in Q3 CY2019
- In July 2019, Althea received a UK import licence for the first shipment of medicinal cannabis products from Australia
- Althea is in advanced negotiations regarding a 50/50 joint venture to establish cultivation, extraction and manufacturing (EU GMP) facilities in Portugal
- Althea has received commitments for a A\$30m capital raising to fund the acquisition and further growth initiatives

25 July 2019: **Australian medicinal cannabis company Althea Group Holdings Limited (ASX:AGH) ('Althea' or 'the Company')** is pleased to announce that it has agreed to acquire Canadian extraction and contract manufacturing company Peak Processing Solutions (including its freehold interest in a facility in Tecumseh, Ontario Canada) (**Peak**).

The Company has also launched one of the UK's first cannabis destination clinics (MyAccess Clinics) in Belgravia, Central London and intends to open two further clinics under the "MyAccess Clinics" umbrella in Q3 2019.

The Company received a UK import licence in July 2019 for the first shipment of medicinal cannabis products from Australia. This comes in addition to further patient assessments which are now being conducted within a clearly defined patient access pathway and the proposed sale of products through Boots Pharmacy (approx. 2,500 outlets in the UK).

Althea has received commitments in a heavily oversubscribed A\$30m capital raising from new and existing Institutional shareholders to fund the Peak acquisition and further growth initiatives.

Peak expected to be a first mover in the cannabis-infused market

From October 2019, new Canadian cannabis regulations will allow the distribution and sale of cannabis-infused products including edibles, topicals and beverages.

Peak is an early-stage business set up to operate under the new Canadian regulations and to specialise in extraction, toll processing, and contract manufacturing of cannabis-infused edibles, drinks, nutraceuticals and cosmetics products. In support of its strategy, Peak has applied for one of the industry's first large-scale (infused) cannabis processor licences (**Licence**).

Peak brings with it market leading expertise with four former senior personnel from Aphria Inc (TSX:APHA; NYSE:APHA) who have successfully coordinated the build

out of multiple Health Canada approved extraction and manufacturing facilities. The combined cannabis industry experience of the existing Peak team is expected to allow Peak to operate independently of Althea's existing businesses. The expertise of the Peak personnel will also assist in the growth and expansion of Althea's medicinal cannabis operations globally.

Althea considers that Peak is well-positioned to become a leading contract manufacturer for consumer brands looking to launch recreational cannabis and cannabidiol (**CBD**) wellness products. In addition, expected developments in Peak's operations (such as product delivery systems and EU-GMP certification) have the potential to enable its facilities to be utilised in the future as part of the Company's medicinal cannabis products globally.

Production Capabilities

Peak's proposed extraction capabilities span raw cannabis extraction; cannabis extract refinement; cannabinoid isolation of tetrahydrocannabinol (**THC**), cannabidiol (**CBD**) and minor cannabinoids; finished goods packaging; cannabinoid potency and quality testing; nano-emulsification; and spray drying. Althea intends that Peak's facility will be developed and fitted out to include EU-GMP-certified extraction and manufacturing for medicinal cannabis production.

Acquisition consideration and structure

Althea's acquisition of Peak is proposed to proceed by way of Althea (through its wholly owned Canadian subsidiary) acquiring 100% of Peak from Gregg Battersby, a former director of the Company, and 8 employee shareholders of Peak.

Consideration for the acquisition will predominantly comprise shares in Althea Group Holdings Limited (**Shares**) with a majority of those shares to be subject to a three-stage performance milestone earn-out. The performance milestones include a combination of consolidated revenue and EBITDA targets.

On completion of the acquisition, Althea will provide C\$4.1m cash (less the amount of any third-party debt held by Peak)¹ and 1,331,384 shares to the employee shareholders and 5,502,455 shares to Gregg Battersby².

A further 19,018,007 shares will be issued to Gregg Battersby and the employee shareholders subject to the following performance targets:

- 1) Performance Target 1 – 5,705,402 Shares upon granting of the Licence.
- 2) Performance Target 2 – 5,705,402 Shares if the below conditions are satisfied within 12 months of achieving Performance Target 1:
 - C\$7.0m revenue, and
 - C\$2.0m EBITDA

¹ Althea will provide Peak with sufficient funds to pay to Gregg Battersby C\$973,713.06 of shareholder loans currently owing by Peak of which approximately C\$819,000 relate to the acquisition of Peak's facility.

² Shares issued to Gregg Battersby will be subject to a mandatory 12-month escrow period under the ASX Listing Rules.

- 3) Performance Target 3 - 7,607,203 Shares if the below conditions are satisfied within 18 months of achieving Performance Target 1:
- C\$25.0m revenue, and
 - C\$12.5m EBITDA

Total consideration if all performance targets are met is C\$4.1m cash (*less* the amount of third-party debt) plus 25,851,846 Shares.

To assist in progressing the Peak business before completion, Althea has provided Peak with a secured C\$1.5m working capital facility.

Conditions and shareholder approval

Althea's acquisition of Peak is expected to complete in Q3 CY19 and is conditional on the approval of the Company's shareholders (including in connection with Gregg Battersby being considered a related party due to his former directorship of the Company), the Company receiving all required ASX or other regulatory waivers and approvals, and the Company receiving from Peak an environmental assessment report regarding its facility in Canada (and the results of that report being acceptable to the Company).

The Company proposes to issue a Notice of Meeting convening a meeting of the Company's shareholders for the purposes of seeking the required approvals for the transaction shortly. The notice of meeting will include a report from an Independent Expert in relation to the transaction.

Placement

The cash component of the consideration to be paid by Althea on its acquisition of Peak will be funded via a A\$30m placement. The placement will be conducted at A\$1.00 per new share under our capacity in listing rule 7.1. Total Shares on issue post-transaction will be approximately 233.3million, including the 30million new Shares that will be issued under the placement.

If the acquisition proceeds, Althea intends to use the funds raised under the placement as follows:

Peak Acquisition (Q3 CY19) ^{3,4}	A\$5,800,000
Funding of Peak Plant Buildout (Q4 CY19) ⁵	A\$8,320,000
EU GMP Certification expenses	A\$2,000,000
Growth Funding for Althea's existing business (Aust & UK)	A\$8,219,000
Establishment of MyAccess Clinics	A\$1,555,000
International Expansion Opportunities	A\$2,606,000
Fees	A\$1,500,000
Total	A\$30,000,000

³ Comprises cash consideration to be paid to employee shareholders and amounts required to fund Peak to repay shareholder loans immediately after closing.

^{4,5} Should the acquisition of Peak not complete these funds will be used by Althea for working capital purposes and any other complementary acquisitions.

Indicative project timetable

Announcement of capital raising	25 th July 2019
Settlement of capital raising	8 th August 2019
Issue of new Shares under capital raising	9 th August 2019
Trading of new Shares issued under capital raising	12 th August 2019
General meeting to seek shareholder approvals of Peak acquisition	Early September 2019
Peak acquisition expected to complete	Mid-September 2019

Althea Chief Executive Officer Josh Fegan said: “We are very pleased to have entered into this agreement to acquire Peak Processing Solutions, including their team of tremendously experienced cannabis operators. We see huge potential in the cannabis-infused segment and on top of delivering great value to our shareholders, Peak provides Althea access to innovative technologies and cannabis delivery systems which we can utilise to enhance our range of medicinal cannabis product offerings.”

Althea’s other growth initiatives continue

Further strategic growth initiatives and general business activities being undertaken by the Company, include:

UK/Europe

- Investment of approximately A\$1.5m to fund and open two further MyAccess Clinics over the next two years
- Providing product on commercial terms for Drug Science’s ‘Project TWENTY21’, the UK’s first national pilot for medical cannabis which aims to enrol 20,000 patients by the end of 2021
- Negotiating a potential 50/50 joint venture to establish cultivation, extraction and manufacturing (EU GMP) facilities in Portugal

Australia

- Increase Medical Science Liaison sales force to onboard Healthcare Professionals (**HCPs**) at an increased rate
- Enhance advertising budget to HCPs
- Promotion of *Althea Concierge* to the general public to drive patient demand

Additional information

Further details of the acquisition, capital raising, and Althea’s growth initiatives are set out in the Investor Presentation also lodged with the ASX today. The Investor Presentation contains important information including key risks specific to Althea and foreign selling restrictions.

-ENDS-

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Althea Group Holdings Limited (ASX:AGH)

Althea is an Australian licensed producer, supplier and exporter of pharmaceutical grade medicinal cannabis and is listed publicly on the Australian Securities Exchange (ASX:AGH). Althea also offers a range of education, access and management services to support eligible patients and healthcare professionals in navigating medicinal cannabis treatment pathways.

Althea currently operates within highly regulated medicinal cannabis markets including Australia and the United Kingdom, with plans to expand into emerging markets throughout Asia and Europe.

To learn more, please visit: www.althea.life