

ASX Announcement | 31 January 2023
Althea Group Holdings (ASX:AGH)

Quarterly Results and Highlights for the period ending 31 December 2022

*AGH records \$14.76 million in receipts from customers in first half FY23;
Remains on track to become cash flow positive during March 2023*

Financial Highlights:

Group

- Receipts from customers for the first half of FY23 reached a record \$14.76 million – an increase of 33% from the previous corresponding period
- AGH recorded \$6.64 million in receipts from customers for the quarter ending 31 December 2022 – an increase of 18% from the previous corresponding period
- Net cash outflows reduced by 21% during the Quarter, supported by record gross profit margins and cost reduction initiatives
- Net cash flow from financing activities during the Quarter was \$2.08 million, with a further \$2.12 million of funding secured in January 2023
- The Company remains fully funded and anticipates achieving cashflow breakeven and operating profitability during March 2023

Division

- **Recreational cannabis** - AGH's wholly owned subsidiary, Peak Processing Solutions ('Peak'), achieved \$3.27 million in receipts from customers for the Reporting Period
- Peak is expected to benefit significantly from the recent relaxing of Health Canada regulations, with adults in Canada now able to purchase and possess up to 48 x 355ml cans of cannabis-infused beverages up from the previous limit equal to 5 x 355ml cans
- **Pharmaceutical cannabis** - AGH's global cannabis-based medicines business, ('Althea'), achieved \$3.37 million in receipts from customers for the Quarter
- Althea gross profit margins reached an all time high of 61% during the Quarter, a result of falling biomass (cannabis flower) prices and the Company's increased purchasing power

31 January 2023: **Althea Group Holdings Limited (ASX:AGH) ('AGH', or 'the Company')**, a global leader in the manufacturing, sales and distribution of cannabis-based medicines and recreational cannabis products, is pleased to present its Appendix 4C cash flow statement and operational update for the quarter ended 31 December 2022 ('Quarter', 'Reporting Period').

Financial update for the Quarter

AGH recorded \$6.64 million in receipts from customers for the quarter ending 31 December 2022, an increase of 18% from the previous corresponding period.



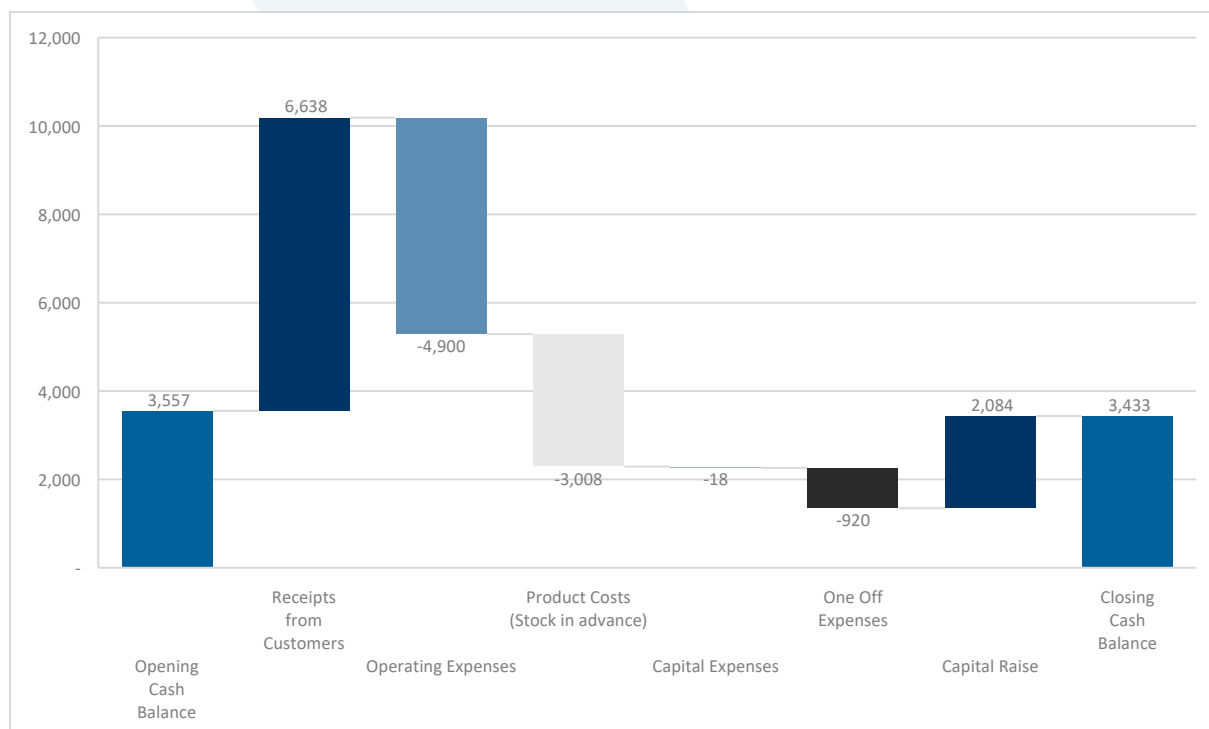
Net cash outflows reduced by 21%, or \$585,000, during the Quarter, down from \$2.74 million in the prior quarter.

Further highlights for the Quarter include:

- Althea achieved \$3.37 million in receipts from customers for the Reporting Period - an increase of 3% from the prior quarter
- Althea implemented some price reductions during the Reporting Period that are likely to result in incremental sales moving forward
- Althea gross profit margins reached an all time high of 61% during the Quarter, a result of falling biomass (cannabis flower) prices and the Company's increased purchasing power
- Peak achieved \$3.27 million in receipts from customers for the Reporting Period, a decrease of 32% from the prior quarter. Receipts from customers for the Quarter were impacted negatively by winter seasonality and the cessation of one of its beverage customers supply agreements

The chart below summarises cash inflows and outflows during the Quarter.

Chart 1: Bridging chart for quarter ended 31 December 2022 ('000)



Below is a summary of the notable movement in expenses in the Quarter:

Operating Expenses –

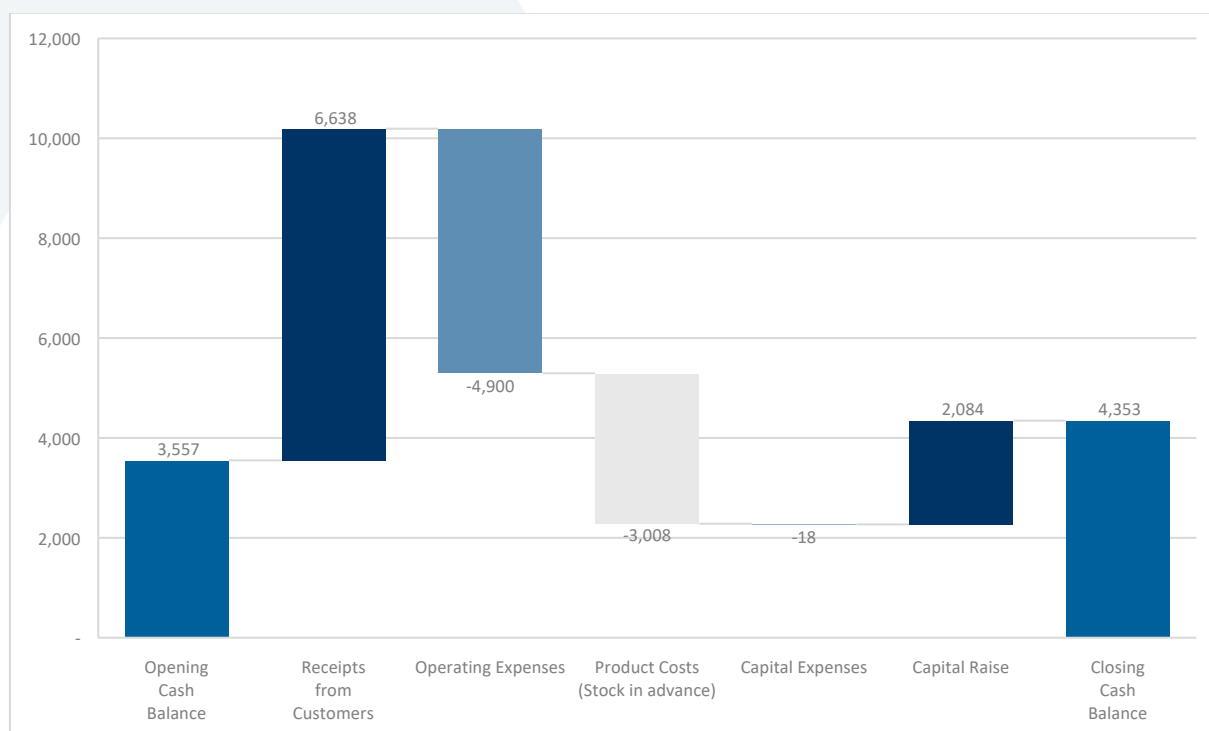


- Cost saving measures implemented during the Quarter also required one off operating expenses, including but not limited to, staff severance payments

Adjusted net cash outflows –

- Adjusted net cash outflow for the Reporting Period was \$920,000. Management views some expenses listed above as situational and have thus provided an adjusted net cash outflow bridging chart (see below) that reflects a normalised view of operational expenditure for the Quarter

Chart 2: Adjusted bridging chart for the quarter ended 31 December 2022 ('000)



Approaching Profitability –

- The Company continues to expect to achieve cash flow breakeven and operating profitability during March 2023

Operational update for the Quarter

Recreational cannabis - Peak Processing Solutions

New Managing Director role update

The Company previously announced the appointment of Barry Katzman as Managing Director of Peak Processing Solutions, effective October 1, 2022.

Mr Katzman is an accomplished senior executive with a strong background in the alcohol beverage and cannabis sectors. After a successful decade at Molson Breweries where he oversaw sales for



four districts in Eastern Ontario, Mr Katzman entered the Canadian wine industry when the industry was rapidly moving to quality and estate-based entries.

In addition to working closely with Boston Beer Company and attracting further high profile customers to Peak's cannabis beverage business to fuel future growth, Mr Katzman will focus on maximising the utilisation of Peak's other production lines, including solventless extraction services, as well as expanding Peak's range of in-house brands, set to launch from early 2023.

Anticipated increase in cannabis beverage sales

On 30 January 2023, the Company announced that Peak is expected to benefit significantly from the recent relaxing of Health Canada regulations, with adults in Canada now able to purchase and possess up to 48 x 355ml cans of cannabis-infused beverages.

Consumers in Canada are now able to possess up to 17.1 litres (equal to 48 x 355ml cans) of infused-cannabis beverages in public for recreational purposes, which is up from the previous limit of approximately 2.1 litres (equal to 5 x 355ml cans).

This recent change brings the cannabis beverage market more in line with the alcohol market, where consumers are accustomed to being able to purchase beverages in packs of 6, 12, 24 or 48.

The enhanced value proposition for customers is likely to lead to an increase in sales in an already rapidly growing cannabis-infused beverage category.

Pharmaceutical cannabis - Althea

Althea gross profit margins soar to record high

Althea completed a pricing review in the first quarter of the current financial year for both the Australian and UK markets which resulted in some pricing reductions being implemented during the Reporting Period.

Notwithstanding the recent price adjustments, Althea's gross profit margins reached an all time high of 61% during the Quarter, a result of falling biomass (cannabis flower) prices and the Company's increased purchasing power.

Althea expects its new pricing leadership to create long term sales growth opportunities and combined with its innovative new products (including soft gel capsules) and high margins, Althea is in a prime position to continue to dominate the cannabis oil (extracts) category.

Althea reported last quarter its entry into the fast growing cannabis dried flower product category, with the launch of Althea THC25 in Australia and the UK.

Althea THC25 has had an exceptional launch selling 7,057 units during the Reporting Period, witnessing rapid growth month-over-month.

Capital raise and Loan facility

On 3 November 2022, the Company announced that it had received firm commitments to raise \$1.5 million (before fees) via a placement from new and existing institutional and sophisticated investors, including commitments of \$140,000 from the Company's Board.



On 15 December 2022, the Company also announced that its Share Purchase Plan had closed with applications of \$873,136 (before fees) received from shareholders, resulting in a combined \$2.08 million of net cash from financing activities for the Quarter.

Subsequent to the Quarter end, AGH announced on 30 January 2023 that it had secured a CAD\$2 million loan facility from lenders in Canada. The Company is currently in advanced and confidential negotiations for an additional transaction, that if successful, will further improve its financial position.

As a result of the financing activities during the Quarter (\$2.08 million), along with a further \$2.12 million of funding secured in January 2023, the Company remains fully funded and is anticipating achieving cashflow breakeven and operating profitability during March 2023.

AGH CEO, Joshua Fegan said: “AGH has delivered 33% growth for the first half of FY23 versus the prior corresponding period, under very challenging circumstances. We have also exited Q2FY23 with our strongest margins to date. Althea delivered a strong result once again and the appointment of Barry Katzman, as a tried and tested CPG executive, is key to unlocking Peak’s full potential. Barry will work closely with Peak’s customers, including key accounts such as Boston Beer Company, to further grow sales and has already implemented improved customer retention programs. Barry will also focus on maximising the utilisation of Peak’s other production lines as well as expanding Peak’s range of in-house brands set to launch from early 2023. Peak is also expected to benefit significantly from the recent relaxing of Health Canada regulations, with adults in Canada now able to purchase and possess up to 48 x 355ml cans of cannabis beverages, so we are confident in its growth and margin potential for the year. AGH is on the verge of becoming cash flow positive and the Company is well positioned to realise its financial and operational goals and objectives in FY23.”

In item 6 of the Appendix 4C cash flow report for the Quarter, payments to Related Parties of \$201,000 comprised of salary paid to Chief Executive Officer and fees paid to Non-Executive Directors.

-ENDS-

Authorised by: Robert Meissner, Company Secretary

For further information, please contact:

Althea Group Holdings Ltd
Joshua Fegan
CEO & Managing Director
M: 1300 70 20 20
E: contact@althea.life

Media & Investor Enquiries
Media & Investor Relations
P: +613 9650 5096
E: investors@althea.life

Althea Group Holdings Limited (ASX:AGH)

Althea Group Holdings Ltd ('AGH') is a global leader in the manufacturing, sales and distribution of cannabis-based medicines and recreational cannabis products. AGH services these sectors via two



distinct business units. Althea, the company's pharmaceutical business, offers a comprehensive range of cannabis-based medicines which are made available to patients via prescription. Peak Processing Solutions, AGH's recreational cannabis business, produces legal cannabis products purchased by adult consumers in retail stores.

AGH operates in highly regulated and legal cannabis markets across the world with burgeoning operations in Europe, North America, Australia and Africa.

To learn more about Althea Group Holdings, please visit: www.altheagroupholdings.com

For more information on Peak, please visit: www.peakprocessing.com

For more information on Althea, please visit: www.althea.life



Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Althea Group Holdings Limited

ABN

78 626 966 943

Quarter ended ("current quarter")

31 December 2022

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities			
1.1 Receipts from customers		6,638	14,758
1.2 Payments for			
(a) research and development			(10)
(b) product manufacturing and operating costs		(3,465)	(8,140)
(c) advertising and marketing		(150)	(471)
(d) leased assets		(64)	(216)
(e) staff costs		(3,766)	(7,683)
(f) administration and corporate costs		(1,369)	(3,157)
1.3 Dividends received (see note 3)			
1.4 Interest received		8	20
1.5 Interest and other costs of finance paid		(20)	(33)
1.6 Income taxes paid			
1.7 Government grants and tax incentives		34	39
1.8 Other (provide details if material)			
1.9 Net cash from / (used in) operating activities		(2,154)	(4,893)
2. Cash flows from investing activities			
2.1 Payments to acquire or for:			
(a) entities			
(b) businesses			
(c) property, plant and equipment		(18)	(277)
(d) investments			
(e) intellectual property			
(f) other non-current assets			

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment		
	(d) investments		
	(e) intellectual property		
	(f) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	(18)	(277)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	2,193	2,193
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities		
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings	(105)	(110)
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	(2,084)	(2,074)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,557	6,569
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,154)	(4,893)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(18)	(277)

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,084	2,074
4.5	Effect of movement in exchange rates on cash held	(36)	(40)
4.6	Cash and cash equivalents at end of period	3,433	3,433

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	3,021	2,979
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (Term Deposits)	412	578
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,433	3,557

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(201)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities		
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	Total financing facilities		
7.5	Unused financing facilities available at quarter end		
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(2,154)
8.2	Cash and cash equivalents at quarter end (item 4.6)	3,433
8.3	Unused finance facilities available at quarter end (item 7.5)	
8.4	Total available funding (item 8.2 + item 8.3)	3,433
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.6
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
	8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer: No, the Company expects a continuing reduction in operating expenses as part of its ongoing cost saving measures.	
	8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	Answer: Subsequent to 31 December 2022, the Company announced on 30 January 2023 that it had secured a CAD\$2 million (approx. AUD\$2.12 million) loan facility from lenders in Canada. The Company is currently in advanced and confidential negotiations for an additional transaction, that if successful, will further improve its financial position.	

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: The Company has a strong track record of raising capital and expects to be able to continue its operations and to meet its strategic business objectives.

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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.

Date: 31 January 2023

Authorised by: Robert Meissner – Company Secretary

(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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. If this quarterly cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.