



ASX Announcement | 14 September 2020
Althea Group Holdings (ASX:AGH)

Althea subsidiary Peak Processing to immediately commence operations following granting of Canadian cannabis licence

Second manufacturing and distribution agreement signed

Investment Highlights:

- Althea's wholly-owned subsidiary Peak Processing Solutions will immediately commence commercial operations having successfully obtained its Standard Processing Licence from Health Canada
- Peak will manufacture Cannabis 2.0 products on behalf of third parties as well as supply medicinal products to Althea's pharmaceutical operations, greatly reducing Althea's cost of goods sold
- Peak has also signed a manufacturing and distribution agreement with a second beverage customer and is advancing a rapidly growing pipeline of potential customers
- Peak is ideally positioned to capitalise on the Canadian boom in Cannabis 2.0 products including cannabis-infused beverages, edibles, concentrates and topicals
- Recent research by Deloitte estimates that the Cannabis 2.0 market for edibles and alternative cannabis products is currently worth C\$2.7bn per annum with significant growth forecast¹

14 September 2020: **Australian pharmaceutical company Althea Group Holdings Limited (ASX:AGH) ('Althea' or 'the Company')** is pleased to announce that its wholly-owned subsidiary, Canada-based Peak Processing Solutions ('**Peak**'), has obtained its Standard Processing Licence ('**the Licence**') from Health Canada. This is a major milestone for Althea and it means that commercial operations can immediately commence in Canada.

Commencement of commercial operations in a world-class facility

The Licence allows operations to commence at the recently completed 3,716 sqm facility in Tecumseh, Ontario. The facility is one of the first large-scale independent processing facilities of its kind, specialising in the manufacturing and distribution of cannabis-infused beverages, concentrates and topicals ('**Cannabis 2.0 products**').

Peak will manufacture Cannabis 2.0 products on behalf of third parties as well as supply medicinal products to Althea Company Pty Ltd, greatly reducing the company's cost of goods sold. Peak aims to achieve C\$25 million revenue within 18 months.

Specifically, the licence provides Peak with the ability to:

- Extract fresh and dried cannabis material for its own use and as a service on behalf of third parties
- Produce and package cannabis-derived beverages/extracts/topicals for sale on behalf of third parties
- Package dried flower for medical and recreational markets

¹ Deloitte. *Nurturing new growth: Canada gets ready for Cannabis 2.0*, p.6. Available at: <https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/c-and-ip/ca-en-consumer-nurturing-new-growth-en-aoda-may31.pdf>



Further detail on the facility and its production capacity was included in the Company's ASX Announcement dated 7 April 2020.



Image 1 – The Peak Processing team at the Canada Facility

Second agreement signed and rapidly growing pipeline of potential customers

In addition to obtaining the Licence, Peak has signed an agreement with Blum Beverage Company Inc. ('Blum'), a Canadian non-alcoholic beverages company.

Under the agreement, Blum will be able to place orders for Peak to manufacture and distribute cannabis beverages containing 5mg of tetrahydrocannabinol (THC) on behalf of Blum. Commercial terms of the agreement are confidential.

The agreement with Blum follows the previously announced binding production agreement with Collective Project Limited, the cannabis-focused sister company of Collective Arts Brewing Limited ('Collective Project') [ASX Announcement: 22 June 2020]. Under the binding agreement Peak will manufacture and distribute cannabis-infused canned beverages on behalf of Collective Project.

The Company expects that the granting of the Licence will help accelerate negotiations with various other customers who are now aware that Peak has cleared the regulatory hurdles required to serve them.

In addition, Peak will now be included on Health Canada's list of Licensed Producers, a highly monitored list within the industry.

Commenting on the granting of the licence Althea CEO, Josh Fegan, said: "We are very pleased that Health Canada has issued our processing licence. This is a major milestone and will allow Peak to immediately commence production of cannabis-infused canned beverages for Collective Project and Blum, sign further customers who were waiting for the licence to be granted, and start supplying our own pharmaceutical operations with finished (Althea) products at a drastically lower cost than we currently pay to third party suppliers. We are excited by the potential to serve the burgeoning Cannabis 2.0 market and look forward to providing updates on our progress."



Image 2 – Canned beverages equipment at the Peak Processing facility

Capitalizing on the Canadian Cannabis 2.0 boom

The Company believes that the Cannabis 2.0 market is greatly underserved. Cannabis 2.0 products, which yield a substantial price premium in the Canadian adult-use cannabis market compared to dried flower and cannabis oils, were only regulated for sale from January 2020 and retailers are currently suffering from stock shortages across product segments.

Recent research by Deloitte² estimates that the Cannabis 2.0 market is currently worth C\$2.7bn annually, with cannabis extract-based products accounting for C\$1.6bn. C\$1.07bn per annum is spread across cannabis-infused beverages (C\$529m), topicals (C\$174m), concentrates (C\$140m), tinctures (C\$116m), and capsules (C\$114m).

Peak's extraction capabilities span; raw cannabis extraction; cannabis extract refinement; cannabinoid isolation of tetrahydrocannabinol (THC), cannabidiol (CBD) and minor cannabinoids; finished goods packaging; cannabinoid potency quality testing; nano-emulsification; and spray drying.

Peak estimates that its annual production capability in year one is up to:

- Canned beverages: 37m units
- Nano emulsified powder: 15m units
- Cosmetics & topical creams: 22m units
- Small liquid & cannabis oil products: 18m units
- Vaporizer pens: 12m units

² *ibid*, p.6.



According to Deloitte's study, almost one in four Canadians are either consuming or likely to consume Cannabis 2.0 products.³ This is mainly because Cannabis 2.0 products offer a more discreet and accessible way to enjoy cannabis without the social stigma and adverse effects of smoking.

Deloitte estimates that 11% of Canadians already consume Cannabis 2.0 products and another 13% are expected to buy them as they become more readily available.

As an independent processor, Peak is ideally placed to capitalize on the demand in the Cannabis 2.0 space. Most existing cannabis facilities in Canada were designed and built specifically to produce cannabis dried flower products and basic cannabis extracts, whereas Peak's facility has been purpose-built to manufacture Cannabis 2.0 products including ready-to-drink beverages, topicals, hydrocarbon extracts, pre-filled vaporizers and cannabis oils as well as final dose form medicinal cannabis products.

-ENDS-

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Althea Group Holdings Limited (ASX:AGH)

Althea Group Holdings Ltd (ASX:AGH) is a global pharmaceutical company and supplier of medicinal cannabis. 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, United Kingdom and Germany, with plans to expand into emerging markets throughout Asia and Europe.

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

³ *Ibid*, p.2.