

ASX Announcement | 31 October 2022
Althea Group Holdings (ASX:AGH)

Quarterly Results and Highlights for the period ending 30 September 2022

AGH achieves record quarter with \$8.12 million in receipts from customers, Representing an annualised run rate of \$32.5 million (excluding further growth)

Financial Highlights:

Group

- AGH achieved a record quarter with \$8.12 million in receipts from customers for the period ending 30 September 2022 – an increase of 180% from the previous corresponding period
- Cash receipts represent an annualised run rate of \$32.5 million (excluding further growth)
- Adjusted for one off expenses, net cash used in core operating activities decreased by a further 29% during the Quarter, down to \$784,000, as sales continue to grow and operating costs reduce
- One off expenses during the Quarter totalled \$1.95 million and included a pre-payment for two newly launched Althea products, additional inventory required due to a spike in sales, along with staff severance payments resulting from the Company's recent cost reduction program
- AGH management has identified approximately \$900,000 in further annualised cost savings, to be implemented during the current quarter
- The Company is expecting to achieve cash flow breakeven and operating profitability in Q3 FY23

Division

- **Recreational cannabis** - AGH's wholly owned subsidiary, Peak Processing Solutions ('Peak'), achieved a record \$4.81 million in receipts from customers for the Reporting Period
- Peak has filed a provisional patent directed to water-dispersible emulsion technology with the United States Patent and Trademark Office
- Peak has appointed a new Managing Director, effective October 1, 2022
- **Pharmaceutical cannabis** - AGH's global cannabis-based medicines business, ('Althea'), achieved \$3.31 million in receipts from customers for the Quarter
- During the Quarter Althea launched two new 'next generation' products to meet patient needs

31 October 2022: **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 30 September 2022 ('Quarter', 'Reporting Period').



Financial update for the Quarter

AGH achieved a record quarter with \$8.12 million in receipts from customers for the quarter ending 30 September 2022 – an increase of 180% from the previous corresponding period.

Cash receipts for the Quarter represent an annualised run rate of \$32.5 million, a figure which does not include further growth.

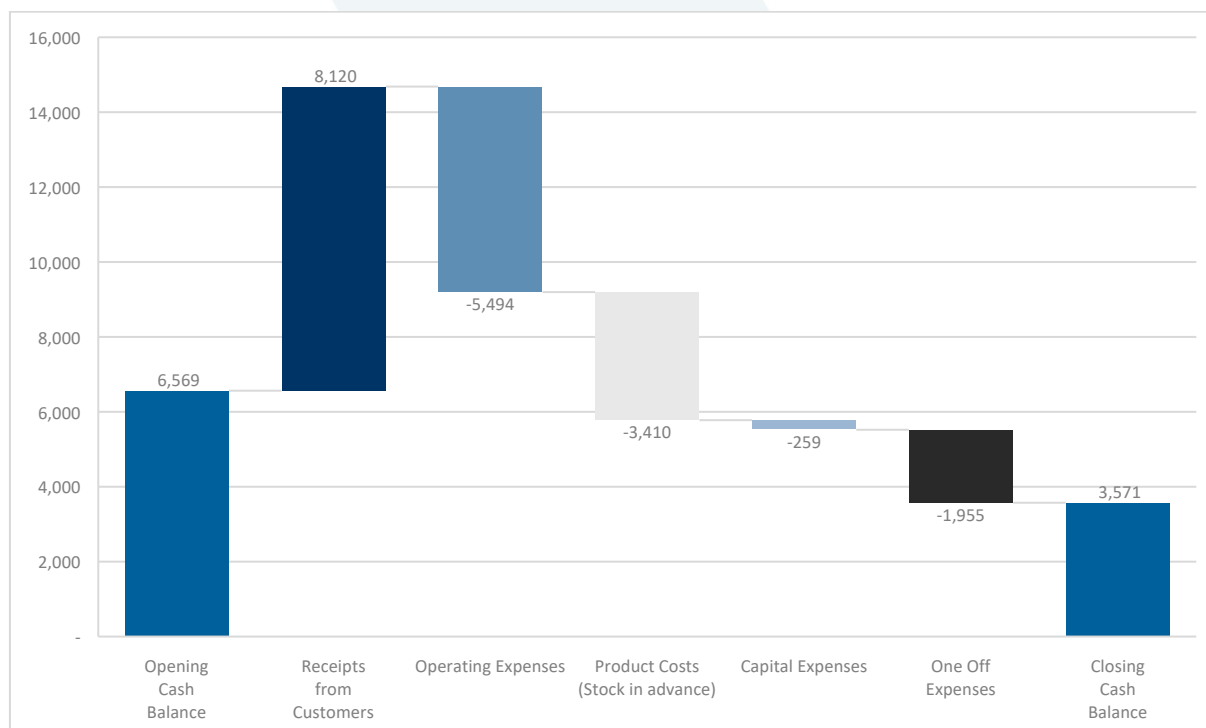
Adjusted net cash used in operating activities for the Reporting Period decreased to \$784,000, down from \$1.1 million in the prior quarter, a result of sales growth and reduced operating costs. Including one off acquisition costs for new products launched during the Quarter and staff departure costs, the net cash used in operating activities was \$2.7 million.

Further highlights for the Quarter include:

- An increase of \$1.62 million, or 25%, in receipts from customers from the previous corresponding period
- Peak achieved \$4.81 million in receipts from customers for the Reporting Period - an increase of 34% from the prior quarter
- Althea achieved \$3.29 million in receipts from customers for the Reporting Period - an increase of 13% from the prior quarter

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

Chart 1: Bridging chart for quarter ended 30 September 2022 ('000)



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

Product Costs (Stock in advance) –

- Althea launched two new ‘next generation’ products during the Reporting Period, requiring payment in advance, which resulted in one off product acquisition costs

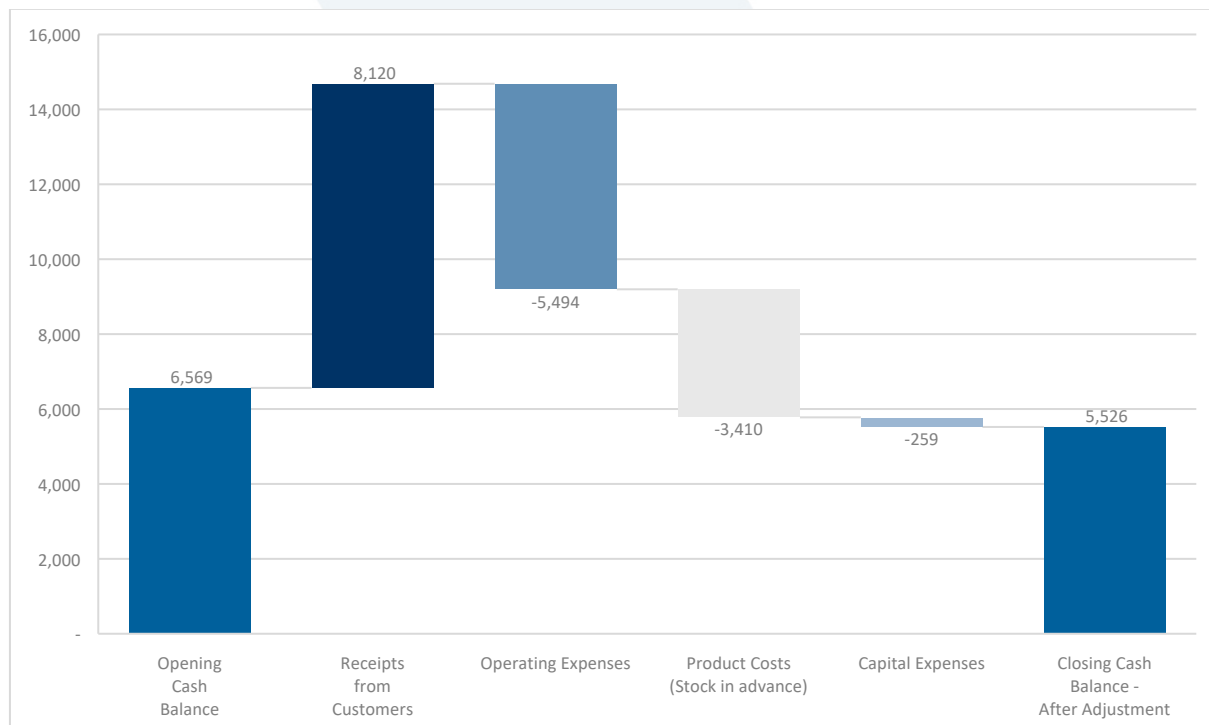
Operating Expenses –

- Cost saving measures implemented during the Quarter also required one off operating expenses, including but not limited to, staff severance payments
- Underlying increase in Operational Expenses was \$674,000 (17% increase from prior period) on an increase in cash receipts of \$1.58 million, resulting in approximately 58% incremental gross margin on receipts in the quarter
- Previous period Althea benefited from receiving its annual R&D rebate of \$643,000

Adjusted net cash outflows –

- Adjusted net cash outflow for the Reporting Period was \$784,000. Management views the 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. The Company expects operational expenses to reflect regular trading from the current quarter onwards

Chart 2: Adjusted bridging chart for the quarter ended 30 September 2022 ('000)



Approaching Profitability –



- The Company is expecting to achieve cash flow breakeven and operating profitability in Q3 FY23

Further cost cutting

The Company previously advised (ASX announcement 11 July 2022) that its annual review of operating expenditure had identified approximately \$1 million in annualised savings (derived mainly from corporate overheads). These cost saving measures commenced during the Reporting Period.

Management has identified approximately \$900,000 in further annualised cost savings to be implemented during the current quarter. Areas of the business where savings have been identified include corporate and divisional overheads.

Operational update for the Quarter

Recreational cannabis - Peak Processing Solutions

Provisional patent filed for water-dispersible emulsion formulation and methods

The Company is pleased to announce the filing of a provisional patent directed to water-dispersible emulsion technology with the United States Patent and Trademark Office by Peak Processing Solutions.

The filing of this provisional patent application secures an early effective filing date in anticipation of a formal PCT application for protection in Canada, Europe, and the United States to be filed in 12 months' time.

The filing of the provisional patent application represents the culmination of over two years of research and development within Peak, and a significant milestone for the company's ambitions in the infused-cannabis beverage market. In the near term, Peak will use its in-house emulsion technology for cannabinoid dispersion in beverages available on the Canadian recreational cannabis market.

Peak's emulsion technology has broad appeal and suitability for use in both adult-use recreational cannabis products and cannabis-based medicine products in Canada and abroad. The emulsion is notable for the improved consistency and flavour compared against other commercially available formulations, as well as a significant reduction in Peak's cost of production.

Emulsions and other colloidal formulations are sometimes used to overcome issues with oral bioavailability of cannabinoids and colloidal stability in water-based or water-containing preparations. Benefits of Peak's emulsion include high dispersibility in water-based solutions, low to no perceptible flavour disruption in the diluted emulsion, remarkable cannabinoid stability and rapid onset of effects compared to cannabis-infused oils and other edible preparations.

The provisional patent application is directed to water-dispersible emulsion formulations suitable for cannabinoids or cannabis-derived compounds for use in beverages and other water-based or water-containing products. The filing also relates to the underlying methodology to manufacture the emulsion formulation, with or without cannabinoids.



Peak may also seek to license the formulation and methodology for use in products manufactured by other licensed cannabis processors in Canada, Europe, and the United States.

Peak appoints new Managing Director

The Company is pleased to announce 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 a 15+ year span Mr Katzman was a sector pioneer as both President and part-owner of 6 different wineries, including Creekside Estates, Stoney Ridge Estates, Mike Weir Winery, Wayne Gretzky Estate Winery, as well as establishing many other iconic Canadian brands, including Tragically Hips.

A seasoned North American consumer goods executive, Mr Katzman's career most recently included a successful tenure as the Chairman and Executive Director of Thrive Cannabis, where Mr Katzman was instrumental in the sale of the business to Aurora Cannabis Inc (NYSE:ASB).

Mr Barry Katzman said: "Peak Processing Solutions is in a perfect position to expand and further dominate the infused-cannabis market. I am excited to join the Peak team. Now is a terrific time to be part of the company and I look forward to the new opportunities ahead and continuous growth by leading Peak well into the future."

AGH CEO, Joshua Fegan said: "We are very excited about Barry joining the team, bringing with him a lifetime of executive and strategic experience, including recently a highly successful cannabis exit, building on from his numerous accomplishments in the Canadian brewing and wine industry."

Pharmaceutical cannabis - Althea

Althea launches next generation products to meet patient needs

During the Reporting Period, AGH announced that its medical cannabis business, Althea, had launched two innovative new products to meet patient needs (ASX announcement 15 September 2022).

Althea CBD25 soft gel capsules provide a convenient and patient friendly preparation, whilst Althea THC25 is one of the highest-concentrated THC dried flower products available in the market.

Althea's soft gel capsules are administered orally, offering a gradual onset and extended duration of effect, compared to the rapid onset and shorter duration of effect for products requiring inhalation (i.e. dried flower products). Solid oral dosage formats are the gold-standard pharmaceutical preparation globally and are widely recognised for maximising patient acceptability and compliance.

With a growing number of consumers accessing cannabis dried flower products via the medical cannabis framework, Althea THC25 has been introduced to capitalize on this sizeable market opportunity.



Market data indicates that dried flower cannabis is the fastest growing product category in Australia and now accounts for 50.6% of the total market (+450% annual growth).¹ The dried flower market is primarily driven by highly concentrated THC products, representing just over half of the total dried flower category.²

The launch of Althea CBD25 soft gel capsules and Althea THC25 dried flower will continue to position Althea as a leader and innovator in the global medical cannabis industry.

AGH CEO, Joshua Fegan said: “With sales increasing at speed in both divisions of the business (medical cannabis and recreational cannabis), the Company has break-even and cash flow positivity firmly in its sights. Excluding the investment required to launch two exciting new Althea products during the Quarter, our operating costs continue to trend downward, with even further savings yet to come from a reduction in corporate and divisional overheads.”

Mr Fegan added: “Peak’s patent pending emulsion is a huge commercial opportunity for the business, not just because it creates cost efficiencies in current and future products developed and manufactured by Peak, but also because it can be commercialised globally via licencing arrangements to other infused-cannabis producers for use in their own brands. Peak is set to become one of a very limited number of cannabis emulsion suppliers with, in our view, the best active ingredient available.”

Capital Raise

The Company is in advanced and confidential negotiations for a transaction that, if successful, will improve its financial position. A trading halt has been requested to allow it to progress the negotiations to a point where it can make a more detailed announcement to the market about the transaction.

In item 6 of the Appendix 4C cash flow report for the Quarter, payments to Related Parties of \$196,000 comprised of salary paid to Chief Executive Officer and their associates and fees paid to Non-Executive Directors.

-ENDS-

Authorised by: Robert Meissner, Company Secretary

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^{1,2} NostraData rolling year ending Q2, 2022 vs previous rolling year



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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")

30 September 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	8,120	8,120
1.2 Payments for		
(a) research and development	(10)	(10)
(b) product manufacturing and operating costs	(4,675)	(4,675)
(c) advertising and marketing	(321)	(321)
(d) leased assets	(152)	(152)
(e) staff costs	(3,917)	(3,917)
(f) administration and corporate costs	(1,788)	(1,788)
1.3 Dividends received (see note 3)		
1.4 Interest received	12	12
1.5 Interest and other costs of finance paid	(13)	(13)
1.6 Income taxes paid		
1.7 Government grants and tax incentives	5	5
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(2,739)	(2,739)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(259)	(259)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

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 (3 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	(259)	(259)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	(5)	(5)
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	(5)	(5)
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	(5)	(5)

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	6,569	6,569
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,739)	(2,739)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(259)	(259)

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 (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(10)	(10)
4.5	Effect of movement in exchange rates on cash held	(4)	(4)
4.6	Cash and cash equivalents at end of period	3,557	3,557

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	2,979	2,979
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (Term Deposits)	578	578
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,557	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	(196)
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	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
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)	(2,730)
8.2 Cash and cash equivalents at quarter end (item 4.6)	3,557
8.3 Unused finance facilities available at quarter end (item 7.5)	
8.4 Total available funding (item 8.2 + item 8.3)	3,557
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.3
<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?	
<p>Answer: The Company expects a reduction in its operating expenses in the coming quarter as a significant part of its last quarter expenditures resulted from increasing inventories as part of the Company's strategy in connection with the launch of two new major products which were announced to ASX on 15 September 2022.</p>	
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?	
<p>Answer: The Company is in advanced and confidential negotiations for a transaction that, if successful, will improve its financial position. A trading halt has been requested to allow it to progress the negotiations to a point where it can make a more detailed announcement to the market about the transaction.</p>	

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 October 2022

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.