



LABAT AFRICA LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 1986/001616/06)

("Labat" or "the Company")

ISIN Code: ZAE 000018354 Share code: LAB

DETAILED CAUTIONARY ANNOUNCEMENT RELATING TO THE ESTABLISHMENT OF LABAT CANNABIS AND THE ACQUISITION OF RELATED BUSINESSES, NEW CAUTIONARY ANNOUNCEMENT, WITHDRAWAL OF PREVIOUS CAUTIONARY ANNOUNCEMENT AND LAUNCH OF A NEW LABAT BRAND

1) **Background**

Shareholders are advised that Labat has entered into agreements with a number of parties to give effect to the establishment of a fully integrated cannabis business within the Labat Group of companies. Labat has, as part of its long-term strategy and as previously announced, invested over the years an enormous amount of time and resources in investigating opportunities in the Pharmaceutical sector, including investigating the establishment of an active pharmaceutical ingredient ("API") facility in Pretoria. Recently, the Company has been investigating a variety of synergistic opportunities in the Cannabis industry, with a focus on the pharmaceutical opportunities.

Shareholders are accordingly advised that Labat has concluded the following agreements:

- The acquisition of 70% of a seeds and genetics business, known as Knuckle Genetics. Knuckle Genetics produce high quality cannabis flower, oils and concentrates with a very high (more than 20%) Tetrahydrocannabinol (THC) content for the export market ("**Knuckle Genetics**");
- Secured the acquisition of a license to cultivate, manufacture, supply, hold, import, export and transit cannabis in the Kingdom of Lesotho (further details to be announced in due course once the final terms are agreed and the agreement is signed); and
- The acquisition of 100% of a South African Health Products Regulatory Authority ("SAHPRA") approved pharmaceutical facility – Pac-con Pharmaceuticals Proprietary Limited ("Pac-con Pharmaceuticals"). Pac-con Pharmaceuticals currently manufactures and packages liquids, tablets, capsules, creams and gels for various clients. Pac-con will be utilised to produce high grade CBD oils and related cannabis products for the retail and wholesale markets,

together, the Acquisitions.

In addition, the Board is pleased to announce that it has secured the appointment of Mr Mike Stringer a former Managing Director of an API facility in Cape Town as Chief Executive Officer of the Cannabis operations, to be known as Labat Cannabis.

2) **Terms of the Acquisitions**

2.1 **Knuckle Genetics Acquisition**

Knuckle Genetics has over 15 years of experience in the developing, testing and stabilizing of cannabis genetics which have led to high quality cannabis flower cultivation. The company creates and stabilizes genetics for specific requirements such as API Development and extraction for a variety of medical ailments.

A cash consideration of R4 million for the majority stake of the Knuckle Genetics brand and intellectual property is payable in two tranches, being R2 million 90 days after the effective date of the transaction and an additional R2 million at the end of the first year of trading. The effective date of the acquisition is 1 August 2019.

The Knuckle Genetics management team will remain in the business for a minimum of five years.

The outstanding suspensive conditions are at an advanced stage and are expected to be completed shortly. These include inter alia:

- The parties concluding the sale of business agreements and the agreement/s becoming unconditional. The sale of business agreement/s will contain the normal warranties and indemnities associated with a transaction of this nature;
- The Board providing a certified extract of the Board resolution approving the Acquisition;
- Any regulatory approvals to the extent required;

The Knuckle Genetics Acquisition, is categorised as a category 2 transaction in terms of the JSE Listings Requirements. None of the vendors are related parties to Labat. Accordingly, shareholder approval is not required.

2.2 **Pac-con Pharmaceuticals Acquisition**

Labat has acquired 100% of the shares in Pac-Con Pharmaceuticals, which has a SAHPRA approved pharmaceutical facility in Isithebe Kwa-Zulu Natal. The facility will be used for the hemp processing and CBD oil extraction operations.

The purchase price for the 100% interest will be settled through the issue of 5 million ordinary shares in Labat, issued at a price of ZAR1.00 per share and a R5 million cash consideration to be paid no later than 01 December 2019. The effective date of the acquisition is 1 September 2019.

The Pac-con Pharmaceuticals key management team will remain in the company for a minimum of five years.

There are no conditions precedent in relation to the Pac-con Pharmaceuticals Acquisition, which is categorised as a category 2 transaction in terms of the JSE Listings Requirements. None of the vendors are related parties to Labat. Accordingly, shareholder approval is not required.

2.3 **Appointment of Mike Stringer**

Mike has worked for thirty years in the API industry and the last five years as CEO of a large API facility. He was key in developing the USA and EU markets together with highly competent agents. Mike initially studied chemical engineering whilst working in the laboratory but was eventually persuaded to transfer to the commercial part of the business' procurement and supply chain and eventually business development was part of his previous roles. Due to his outstanding performance he was rewarded with the position of CEO for one of the world's top API manufacturers.

Mike subsequently completed his Executive Leadership Programme at the UCT Graduate School of Business and then his MBA in leadership and sustainability in the UK. Mike brings with the essential API experience – regulatory, technical expertise and business development knowledge. He has worked for the last ten years actively on the regulatory side of the cannabis industry. He will be heading up Labat Cannabis as Chief Executive Officer.

3) **Rationale for the Acquisitions**

The Acquisitions and agreements will assist Labat in its quest to become a major player in the cannabis industry which is currently highly regulated in South Africa but more de regulated in countries like Lesotho and Zimbabwe. There has been a lot of interest in the cannabis industry in Southern Africa, but several international investors have been wary to take advantage of the opportunity in the private sector. A few International companies have seen large investments not come to fruition and companies not having the expertise and know-how to produce high quality cannabis products. Labat will provide a gateway to a number of investors through its 30-year old business, which has been listed for 25 years, providing the opportunity to invest in the Cannabis market in Southern Africa industry on a public platform. Part of the plan is to create a platform for small scale farmers to take advantage of the industrial component of the cannabis business: INDUSTRIAL HEMP Labat intend setting up a decortification facility for a range of industrial hemp products. For this purpose, Labat has identified 58 hectares of Land in the Eastern Cape and are currently in negotiations with a number of other parties for additional land. Further announcements will be made in due course.

4) **Funding**

The Acquisitions will be financed by way of a combination of the issue of Labat shares and cash.

5) **Financial Information**

Financial information required in accordance with the JSE Listings Requirements will be published in due course, once received.

6) **Relaunch of Labat and its strategy**

The Company is 30 years old and has been listed for 25 years. A repositioning and rebranding launch of the Labat group will be held at the Johannesburg Stock Exchange on Wednesday, 11 September 2019, where the longer-term strategy will be discussed. Shareholders are reminded that Labat has had a range of diversified investments over the years, which businesses it has built up and sold or unbundled into separate listings. This will continue to be considered going forward.

The current businesses of Labat are the fuel and logistics business and the ICT business through SAMES *which manufactures high end microchips amongst other products.

The Cannabis Industry will form part of the focus on pharmaceutical interests, which has been a long-term interest of the Labat board. Once well established, Labat will consider unbundling

one or more of the businesses for the benefit of the shareholders.

7) **Withdrawal of cautionary announcement:**

Shareholders are advised due to the protracted negotiations that the renewal of the cautionary on 31 July 2019 in respect of Senna Motors and Centenary Tanker Hire is herewith withdrawn. The Company continues in discussions with the parties and an announcement will be made in the event that new agreements are entered into between the parties.

8) **New cautionary announcement**

Shareholders are advised that further information is required to be published in relation to the Acquisitions, once received. Labat remains in discussions and/or negotiations relating to other acquisitions in each of the three segments (none of which would be Category One acquisition to the best knowledge and belief of the board as at today's date), which, if successfully concluded, may have a material effect on the price of the Company's securities, as set out below:

Cannabis

Additional licences with a facility with a different extraction process and different market segments.

ICT

A video linked tracking system for logistics, which will complement the existing technology and logistics business.

Logistics and fuel

In discussions to expand the footprint of Labat's logistics and fuel distribution.

Accordingly, shareholders are advised to exercise caution until further announcements are made.

Shareholders are advised that the trading halt as published on SENS yesterday will be lifted following the publication of this announcement.

5 September 2019
Johannesburg

Sponsor

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