



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 PROPOSED SUBSCRIPTION BY LABAT OF SHARES
IN ZARENKA GROUP (PTY) LTD ("ZARENKA")**

1) Introduction

Shareholders are referred to the cautionary announcement dated 5 September 2019 with regard to the establishment of the fully integrated cannabis business within the Labat Group of companies to be known as Labat Cannabis. Shareholders are accordingly advised that Labat, as part of the business expansion, has entered into a subscription agreement with Zarenka in terms of which it will subscribe for 2 325 173 (two million three hundred and twenty five thousand one hundred and seventy three) shares in Zarenka which will provide it with an effective 70% interest in Zarenka ("the Zarenka Subscription"). The effective date will be 3 September 2019. The current shareholders of Zarenka, Luxolo Vava and Mohammed Osman, will retain a 30% interest.

2) Background

Zarenka has an interest in 6 cannabis licenses in the Kingdom of Lesotho, which licenses allow it to cultivate, harvest, manufacture, distribute, import and export into and out of Lesotho for medical and recreational use and for any other use which is legal in the country acquiring the products.

Zarenka has a methodical and in depth detailed business plan which outlines its growth and implementation strategy. The Plan outlines its cloning program, growth program and profiling channels. Zarenka further has off-take agreements with inter-alia one of the largest European Cannabis pharmacy retail outlets ("Off-take Agreement").

It is the intention of Zarenka to partner with a reputable company listed on the Johannesburg Stock Exchange in order to raise its profile and improve corporate governance and transparency.

Zarenka is aware that the right partnership will propel the company to the forefront of the cannabis industry which is a Trillion Rand per annum global market.

3) The Terms of the Zarenka Subscription

The parties have agreed that Labat will subscribe for 70% of the total issued share capital in Zarenka for a consideration of R57.5 million to be settled through the issue of 57.5 million shares in Labat in two tranches. The first tranche of 25 million shares will be issued on fulfilment of the suspensive conditions and the second tranche of 32.5 million shares will be issued against the delivery by Zerneca of the first production of both THC dried flower and CBD oil by 1 November 2019 in line with the Off-take Agreement.

Zarenka will fully fund all the capital expenditure for the production and delivery of the product.

On finalisation of the Zarenka Subscription, Zarenka shall immediately dissolve its Board of Directors ("BOD") and a new BOD shall be elected by Labat with a minimum of two board appointments awarded to the current shareholders of Zarenka and four board appointments to Labat.

Zarenka will form an Exco which will handle the day to day operations of the business and implement the Master Grower's strategy.

Rationale for the Zarenka Subscription

The Zarenka Subscription is in line with Labat's strategy to give effect to the establishment of a fully integrated cannabis business and will enable Labat to supply the international market with a lower to mid-tier product for pharmaceutical purposes whilst the higher THC and CBD content is for the upper medicinal and medical research market. Zarenka will not require funding from Labat and as part of the warranty is expected to realise its first production and revenue before the end of November 2019.

The construction of the Zarenka facility in the Kingdom of Lesotho is underway, with production to start on 1 November 2019. This will include but is not limited to *inter alia* the setting up of containers, nurseries, offices, greenhouses, recruitment of staff appointment of master growers, appointment of airfreight agents and exporting of the first consignment of Product.

4) Funding

The Zarenka Subscription will be financed by way of a new issue of Labat Shares at R1.00 per share, to be issued in two tranches.

Zarenka has warranted that it shall fulfil and sign all the off-take obligations which include, but not limited to supply the first product by not later than 1 November 2019 as per the Master Grower program of Zarenka and all capex from date of signature of the agreement shall be funded by Zarenka.

The parties have stated that it is the intention to have a dual listing on the JSE and the DFM (Dubai Financial Market), at which time additional capital will be raised to further grow Labat Cannabis.

The parties agree to sign any and all documentation to ensure the yearly renewal of the license and to this extent will ensure that all compliance matters are adhered to.

5) Suspensive conditions

The transaction is subject to the fulfilment of the following suspensive conditions:

- The parties executing the Zarenka Subscription agreement which 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 Zarenka Subscription;
- Any regulatory approvals to the extent required;
- Any approval in connection with the admission to listing of the Labat shares on the JSE, issued as payment of the Subscription Price;
- Zarenka providing the share certificate to Labat for 70% of the issued share capital in Zarenka; and
- Zarenka and Labat entering into a voting pool agreement for the benefit of the company.

6) Classification of the transaction

The Zarenka Subscription is classified as a category 2 transaction in terms of the JSE Listings Requirements. None of the various groupings and or parties and its associates are related parties to Labat. Accordingly, shareholder approval is not required.

7) Zarenka Implementation Plan

The Zarenka implementation plan is backed by an off-take commitment from an international pharmacy group and the establishment of the site in Lesotho will be funded by Zarenka.

Zarenka has a strict Master Grower plan which shall be implemented by the Exco to the benefit of all shareholders and to this extent both parties agree that the total number of licenses which are available to and by Zarenka in the Kingdom of Lesotho are 6 (Six), each being a universal license. Each Drug Operator's License allows for 3 hectares of cultivation per license. As part of Zarenka's Master Grower scheduled plan and in terms of economies of scale due to the shortage of product, the potential revenue per Hectare is substantial once in full production.

The first license, being **02/D038/08-2019**, shall be immediately utilised which allows for 3 hectares (Three) of cultivation as per the Drug Operators License number **02/D038/08-2019**. The roll-out and expansion plan over the next 18 months by Zarenka is to incorporate all 6 (six) licenses and to this extent Labat Africa shall acquire all the licenses over the period and cultivate under one umbrella.

8) Strategy, Repositioning and Rebranding

Shareholders are reminded that Labat is an investment holding company and has, over the years, invested in a number of different businesses, grown the businesses and then either unbundled these into their own listing or sold them to a strategic partner.

Labat intends to grow the group within four strategic segments, namely Fuel, Logistics, Technology/ICT and now Pharmaceutical, starting with Labat Cannabis. Other strategic investments will also be considered from time to time.

The Board will continue to assess the merits of unbundling segments of the group in to their own listings or aligning with strategic partners as well as the merits of a dual listing.

The Company is also celebrating 20 years as a listed group and is pleased to launch its new branding and logo.

9) Financial Information

The Company will publish financial information relating to Zarenka following the completion of the due diligence.

10) Renewal of Cautionary Announcements

Shareholders are reminded of the cautionary announcement published on 5 September 2019 and also that additional information is required to be published in relation to the Zarenka Subscription, which remains subject to suspensive conditions. Accordingly, shareholders are reminded to continue to exercise caution until a further announcement is made.

12 September 2019
Johannesburg

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