



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

WITHDRAWAL OF DETAILED CAUTIONARY ANNOUNCEMENT DATED 13 SEPTEMBER 2019, THE ISSUE OF FINAL TERMS ANNOUNCEMENT RELATING TO THE CANNABIS BUSINESS OF LABAT AFRICA, ANNOUNCEMENT OF THE ACQUISITION OF MEDIGROW AFRICA AND RENEWAL OF CAUTIONARY ANNOUNCEMENT

1) Introduction

Shareholders are referred to the detailed cautionary announcements dated 5 September 2019 and 13 September 2019 respectively, with regard to the establishment of a fully integrated cannabis business within the Labat Group of companies known as Labat Healthcare. Shareholders are accordingly advised that Labat, as part of its business expansion, has now concluded or withdrawn from the various agreements together with the forward looking financial information of the businesses going forward. The Labat Healthcare Business will be a subsidiary of Labat Africa, which consists of the following subsidiaries:

- Labat Pharmaceuticals;
- Labat Cannabis (90% owned);
- Labat Intellectual Property;
- Labat Hemp Processing; and
- Cannabis Wellness Warehouse.

2) Background

Labat has announced a number of transactions in line with its re-positioning strategy and its entry into the cannabis market in Southern Africa and in the rest of the world. To this end Labat is pleased to advise shareholders that a number of these agreements and discussions have been concluded. The Company has decided not to pursue the subscription for a 70% shareholding in Zarenka Group Proprietary Limited as announced on 13 September 2019.

- 2.1 Labat has concluded an agreement with The Highly Creative (Pty) Limited (THC), its partners, management and promoters to obtain an additional cannabis licence to cultivate, harvest, process and export cannabis from the Kingdom of Lesotho to other countries for medicinal and pharmaceutical purposes as well as a detailed infrastructure plan, Intellectual Property and offtake agreements. The purchase consideration will be settled through the issue of 75 million Labat ordinary shares. All conditions precedent pertaining to this agreement have been met other than the issue of shares for the acquisition, which is in process. THC is owned by Mr Mike Stringer (23%), who will be the CEO of Labat Healthcare, Mr Stanton van Rooyen (38%), who will be the Chief operating officer, Mr Dave Roughe (23%), Mr Sizwe Ngqame (3%), Mr Mbulelo Rakwena (3%), Mr Dawood Asmal (3%) and the Incentive Trust (7%). The THC vendors are not related parties to Labat as defined in the JSE Listings Requirements, although Mr Stanton van Rooyen is a major son of a director of Labat.

- 2.2 Labat further concluded an agreement with ZCMA Holdings Limited (Medigrow Africa) to acquire a 80% interest in one of their Lesotho based operations to cultivate, harvest, process and export cannabis from the Kingdom of Lesotho for medicinal and pharmaceutical purposes for a consideration of 20 million Labat ordinary shares. The controlling shareholder of ZCMA Holdings Limited is Solid Oak Insurance Company PCC Limited.
- 2.3 Labat has finalised the agreement to acquire a 100% interest in Pac-Con in Kwazulu Natal, for a combination of 5 million shares and R5 million in cash as previously announced. This pharmaceutical facility is fully licenced and approved by the South African Health Products Regulatory Authority (SAHPRA).
- 2.4 As previously announced, the finalisation of the 70% acquisition of Knuckle Genetics is in process.
- 2.5 The conclusion of Off Take agreement with UK based cannabis group New Frontier Holdings Limited. New Frontier Holdings is the holding company for New Frontier Botanics.

3) The Terms of the Medigrow Africa and THC Acquisitions

The parties have agreed that Labat will acquire 80% interest of the operational entity – Healthy Corporation (Pty) Limited from Medigrow Africa for a consideration of R20 million to be settled through the issue of 20 million shares in Labat at an issue price of R1.00 per share.

The 100% interest in THC, which has access to licences in Lesotho and South Africa (research only) as well as a detailed infrastructure plan, Intellectual Property and off take agreements, will be settled through the issue of 75 million ordinary shares at an issue price of R1.00 per share. The various shareholders and operators in THC will continue to provide to Labat Healthcare a range of services to ensure the successful implementation of the plans. These include inter alia interest group lobbying, additional off take agreements and amongst others investment in the Labat Group.

Medigrow Africa has an interest in a number of licences in both Lesotho and other African countries, which licences allow it to cultivate, harvest, manufacture, distribute, import and export cannabis for medical, Pharmaceutical and Industrial use and for any other use, which is legal in the country acquiring the products. Labat and Medigrow Africa are currently in discussions with a view to bringing some of those licences into the Labat operations.

Medigrow Africa has a methodical and in depth detailed business plan, which outlines its growth and implementation strategy. The Plan outlines its cloning programme, growth programme and profiling channels. Medigrow Africa and THC (Pty) Limited has off-take arrangements with a number of International companies.

Rationale for the Medigrow Africa acquisition

The Medigrow Africa agreement is in line with Labat 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 tetrahydrocannabinol (THC) and cannabidiol (CBD) content is for the upper medicinal and medical research market.

The construction of the Labat facility in the Kingdom of Lesotho will start around 1 February 2020, with production expected to commence on 1 May 2020. This will include, but is not limited to, *inter alia* the setting up of a state of the art laboratory, nurseries, offices, greenhouses, recruitment of staff.

The parties have stated that it is the intention to continue with negotiations to acquire a major stake in Medigrow Africa's worldwide operations. The parties have signed all documentation to ensure the annual renewal of the licences and to this extent will ensure that all compliance matters are adhered to.

Rationale for the THC acquisition

The founders of THC have been researching and securing the various opportunities within the cannabis industry for well over a year. Mr 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 brings with the essential API experience – regulatory, technical expertise and business development knowledge. He has worked for the last ten (10) years actively on the regulatory side of the cannabis industry. He will be heading up Labat Healthcare as Chief Executive Officer. The other members of THC will be actively involved in the various operations in Labat Healthcare and these include but not limited to: The implementation of the research facility in Johannesburg; Developing and creating an Industrial Hemp strategy; Obtaining the various approvals and be involved in the lobbying for change of legislation; Obtaining further Off-Take agreements; help facilitate the capital raise by placing Labat shares; Interact with various national provincial and local government departments. The individuals and organisations that form the core of THC will be involved in the operations of Labat Healthcare. THC has negotiated a five year off take agreement with UK based cannabis group New Frontier Holdings. The group operate in Wales and England, The offtake is estimated to be around R2 billion for the duration of the contract.

4) Funding for Healthcare Acquisitions

The Acquisitions will be financed by way of a new issue of Labat shares at R1.00 per Labat share.

5) Suspensive conditions of the various acquisition

Other than the issue of shares for the Medigrow acquisition, the suspensive conditions of the above transactions have been met and these include, *inter alia*:

- The parties have executed the sale of shares agreement between Labat Africa and Medigrow Africa.
- The parties have executed the sale of shares agreement between Labat Africa and THC.
- The Board has provided a certified extract of the Board resolution approving the Medigrow Africa, THC, Pac-Con and Knuckle Genetics acquisition.
- All regulatory approvals, to the extent required, have been obtained.
- Medigrow Africa providing the share certificate to Labat for 100% of the issued share capital in Healthy Corporation (Pty) Limited.
- Medigrow Africa and Link entering into a voting pool agreement for the benefit of the company.

The Company will now proceed with the approval in connection with the admission to listing of the Labat shares on the JSE, issued as payment of the Subscription Price.

6) Classification of the transactions

The Medigrow Africa, THC, Pac Con and Knuckle Genetics agreements are all classified as Category 2 transactions in terms of the JSE Listings Requirements. None of the various groupings and or parties and their associates are related parties to Labat as defined in the JSE Listings Requirements. Aggregation does not apply. Accordingly, shareholder approval is not required.

7) Medigrow Africa, THC and Labat Healthcare Implementation Plans

These plans are backed by off-take commitments from international pharmaceutical groups. The establishment of the site in Lesotho will be funded jointly by Labat and Medigrow Africa.

Medigrow Africa and Labat Cannabis has a strict Master Grower plan which will be implemented by the Executive committee to the benefit of all shareholders. Each Drug Operator's License allows for 3 (three) hectares of cultivation per licence. Medigrow Africa has access to a team of master growers with legally obtained cultivation experience.

Labat has now obtained two licences in the Kingdom of Lesotho. The first licence, being **02/002/06-2019**, shall be immediately utilised which allows for three (3) hectares of cultivation as per the Drug Operators Licence numbers. The roll-out and expansion plan over the next 18 months by Labat Healthcare and Healthy Corporation (Pty) Limited and THC is to incorporate the licences in Lesotho, together with the licenses in other African countries to the extent Labat shall acquire all the licences over the period and cultivate under one umbrella. Labat Healthcare is awaiting its final approval for a South Africa cultivation permit.

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 continue with this model Labat intends to grow the group within four strategic segments, namely Energy; Logistics, ICT and Healthcare. **More detailed information is available on Labat Africa's website at: www.labat.co.za.**

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

9) **Financial Information**

THC and Medigrow Africa are new businesses and do not have any historical financial information.

The Pac-Con business will be upgraded and expanded under the supervision of Mr Mike Stringer. The financial information for Pac-Con has been extracted from the latest available audited annual financial statements for the year ended 29 February 2019, which were audited by Blue Sky Accounting and Tax Services and reflected a net asset value of R1 408 989 plus a loan account of R5 567 455 and a profit (loss) after taxation of R54 687.00.

After the repositioning of the group and due to the absence of historical financial information, the Board has prepared five year projections, which include both the existing Labat business and the new Health Care operations. These detailed projections and assumptions, together with the repositioning strategy, are available on the Company's' website.

INCOME STATEMENT	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	R1.4b	R2.3b	R3.1b	R3.6b	R4.1b
Gross Profit	R271m	R550m	R847m	R1.02m	R1.2b
Operating Profit	R165m	R418m	R701m	R859m	R1 030m
Net Profit Before Tax	R124m	R393m	R707m	R918m	R1.2b
Net Profit After Tax	R95m	R302m	R556m	R723m	R903m
Earnings Per Share	18 Cents	54 Cents	99 Cents	126 Cents	155 Cents
Fully diluted shares	450 000 000	500 000 000	500 000 000	500 000 000	500 000 000

Shareholders are advised that the above forecasts have not been audited or reviewed by the Company's auditors. However, the Company is embarking on a roadshow and will be presenting forward looking information to prospective investors. In the interest of transparency and equal access to information, a decision has been taken to publish the roadshow information pack on the Company's website at www.labat.co.za.

The above forecasts have been prepared using the accounting policies of Labat but exclude any assumptions around IFRS 9, IFRS 15 and IFRS 16.

Year 1 assumes a full year of operations commencing 1 March 2020. Key assumptions are set out below, including segment assumptions for year 1:

YEAR 1	Labat H/O R'000	Healthcare R'000	Energy R'000	ICT R'000	Logistics R'000	Total R'000
Revenue	R10 125	R218 714	R1 037 127	R116 675	R57 987	R1 440 627
Gross Profit	R10 125	R128 913	R62 030	R71 994	R7 621	R280 683
Operating (loss)/Profit	(R2 705)	R84 279	R17 123	R48 265	R3 020	R149 982
Net Profit Before Tax	(R3 200)	R71 800	R7 194	R59 482	R3 020	R123 908
Net Profit After Tax	(R2 304)	R57 088	(R5 179)	R42 827	R2 174	R94 606

The Healthcare segment includes the cannabis and hemp businesses, which are only expected to start generating revenue from March 2020. The key assumptions of Labat Healthcare are outlined in the investor pack of the Labat Healthcare business and is available on the company's website.

The energy business comprises Force Fuel as well as the AutoGas business. Additional guarantees, working capital facilities and capital expansion funding are being sought to increase volumes and national and regional footprint to levels achieved in previous years.

The ICT segment includes the existing Sames business and the recent acquisitions of Remote Mobile Technologies are currently performing well above the expectations and anticipate significant future growth.

10) **Subscription for shares for cash and renewal of cautionary announcement**

Shareholders are reminded that the subscription of shares for cash under the general authority of Labat that negotiations are still underway to conclude the transaction on the terms announced on the 12 September 2019. The Company is still engaged with various International parties that could bolster the operations here and abroad. Accordingly, shareholders are reminded to continue to exercise caution until a further announcement is made.

JOHANNESBURG

22 November 2019

Sponsor

Arbor Capital Sponsors Proprietary Limited

