LABAT AFRICA LIMITED
Incorporated in the Republic of South Africa
(Registration number 1986/001616/06)
JSE code: LAB ISIN: ZAE000018354
("Labat", "the Group" or "the Company")

PROFIT FORECAST FOR THE YEARS ENDING 31 AUGUST 2021 AND 31 AUGUST 2022 AND CAPITAL RAISING ROADSHOW

During 2019 and 2020, Labat has announced its various initiatives and entry into the cannabis and hemp industry, which it believes is the beginning of a new "100 year industry". A number of strategic acquisitions, relationships and people have been brought together throughout the entire value chain from farming to retail and it is the intention of Labat to raise capital to aggressively grow this business, which is now housed in its Labat Healthcare segment and is headed up by Mr Mike Stringer. Labat intends raising R112 million through the issue of shares under its existing General Authority to issue shares for cash.

The share placing will be conducted by way of a book build, which Labat believes should have the added benefit of enhancing the liquidity of its shares. The book build will be offered to qualifying investors only through a book build process and does not constitute, nor is intended to constitute, an offer to the public to purchase or subscribe for any shares. A presentation containing more detail on the book build is available on the Labat Healthcare website at www.labathealthcare.co.za.

The roadshow and book build will open with immediate effect and is expected to close by 17h00 on Friday, 26 June 2020. Pricing and allocations will be announced as soon as practicable following the closing of the book.

Arbor Capital is assisting Labat with the roadshow and book build. For further information or to request a presentation, please contact Michelle Krastanov on +27 (0)11 480 8570 or Kay Stoler on +27 11 480 8628, or by way of e-mail at michelle.k@arborcapital.co.za or kay.s@arborcapital.co.za.

In addition to the capital raising, and based on the key assumption that the required capital of R112 million will be raised before the end of the current financial year ending 31 August 2020 and key projects will commence before 1 September 2020, the Company has prepared profit forecasts for the two years ending 31 August 2021 and 31 August 2022. No profit forecast has been issued for the current year ending 31 August 2020.

The profit forecasts **have not** been audited or reviewed by the Company's auditor or a Reporting Accountant and are issued on a voluntary basis due to the intended road show.

Statement of compliance
The two year forecasts are prepared in accordance with the framework concepts and the recognition and measurement criteria of International Financial Reporting Standards ("**IFRS**"), its interpretations adopted by the International Accounting Standards Board (IASB), IAS 34 – *Interim Financial Reporting and* the Listings Requirements of the JSE Limited.

Details of the profit forecast for the two years ending 31 August 2021 and 31 August 2022, together with assumptions, as set out below:

	12 months Ending 31 August 2021 R'000	12 months Ending 31 August 2022 R'000
Revenue	**935 172**	**512 351**
Cost of sales	(762 020)	(239 288)
Gross profit	**173 152**	**273 063**
Operating expenses	(96 359)	(81 966)
Operating profit	**76 793**	**191 097**
Finance costs	(6 968)	(1 771)
Profit before taxation	**69 825**	**189 326**
Taxation	(9 624)	(26 928)
Profit for the period	**60 201**	**162 398**
Total comprehensive Income for the period	**60 201**	**162 398**
Attributable to:		
Equity holders of the parent	57 406	157 390
Non-controlling interest	2 795	5 008
Total comprehensive income for the period	**60 201**	**162 398**

Headline earnings reconciliation
The headline earnings reconciliation is set out below:

	R'000	R'000
Profit for the period attributable to equity holders of the parent	**57 406**	**157 390**
Headline earnings attributable to shareholders of the Group	**57 406**	**157 390**

Share information		
Basic and diluted earnings per share (cents)	10.9	29.9
Basic and diluted headline earnings per share (cents)	10.9	29.9
Weighted average shares in issue ('000)	526 909	526 909
Number of shares in issue at period end	526 909	526 909

Basis of preparation
The profit forecast has been prepared using the accounting policies of Labat used in the preparation of the audited results for the year ended 31 August 2019 and the interim results for the six months ended 29 February 2020. New accounting standards introduced over these two periods have been considered as follows:

IFRS 9: Financial instruments
The standard requires financial assets to be measured either at amortized cost or fair value, depending on the business model under which they are held and the cash flow characteristics of the instrument. In addition, the standard replaces the incurred loss impairment model in IAS 39 with an expected loss model. It will no longer be necessary for a credit event to have occurred before credit losses are recognised. The profit forecast assumes a provision for credit losses at a rate of 2% based on the estimated Trade Accounts Receivable book.

IFRS 15: Revenue from contracts with customers
The IFRS replaces IAS 18 Revenue and provides a single, principles based five-step model to be applied to all contracts with customers. The steps involve identifying the contract, identifying the performance obligations under the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognising revenue when the entity satisfies a performance obligation. The amendments have no impact on the Group's profit forecast and revenue has been assumed to be earned in line with historical revenue recognition.

IFRS16: Leases – Effective date: 1 January 2019
The IFRS 16 replaces IAS 17 Leases. IFRS 16 has one model for lessees which will result in almost all the leases being included on the Statement of Financial Position. Lessors continue to classify leases as operating or finance leases. Historically this has not had a material impact on the results of Labat.

Key Assumptions:
The assumptions utilised in the profit forecast and which are considered by management to be significant or are key factors on which the results of the enlarged Group will depend, are disclosed below. The assumptions disclosed are not intended to be an exhaustive list. There are other routine assumptions, which are not listed. The actual results achieved during the forecast period may vary from the forecast and the variations may or may not be material. The forecast financial information is based on the assumption that circumstances which affect the Group's business, but which are outside the control of the Directors, will not materially alter in such a way as to affect the trading of the Group.

1. The current market conditions in the fuel industry in which the business operates are expected to change substantially pursuant to the substantial drop in demand following the COVID-19 pandemic and drop in the oil price. Accordingly, the fuel business has been forecast on a zero-based approach and fuel margins will be renegotiated in line with volumes and trading facilities.
2. The forecast numbers assume that the capital of R112 million is raised for capital expenditure and working capital requirements needed to grow the business. The number of shares in issue has been assumed to increase by 112 000 000 shares, although this number may vary.
3. The forecast numbers have been prepared in terms of IFRS and are based on the accounting policies of the Group.
4. The forecast for the twelve month period ending 31 August 2021 commences from 1 September 2020 and will thus be fully representative of the Group.
5. Expenses have been forecast on a line-by-line basis and reflect the current budgeted expenditure and takes into account the cost of being listed.
6. The present level of interest and tax rates will remain substantially unchanged.
7. The expected impact on financial results due to foreign exchange movement has been kept consistent with current ruling market conditions at an estimated average exchange rate over the period. These mainly relate to the ICT business SAMES and the exchange rate used was at a rate of 16.5:1.
8. Interest from cash generated from operations has been taken into account in the forecasts.
9. Depreciation expense is provided for over the useful of the assets used.
10. Intangible assets are amortised over the expected periods in line with historical provisions made and assumed rates for new categories of intangible assets acquired during 2019 and 2020.
11. Revenue is based on an estimated percentage contribution between current clients and expected new business.
12. Finance Costs are assumed at commercial bank rates between 9.5% to 12%, depending on the different funding models and subsidiaries being funded.
13. Interest Income is assumed at commercial bank investment rates on surplus cash of between 5.0% to 7.2%.

Detailed assumptions

1. **REVENUE AND GROSS PROFIT ASSUMPTIONS AND COMMENTARY**

An analysis of the revenue of the Group for the original core business and new Labat Healthcare business areas is set out below:

	Year ending 31 August 2021 R'000	Year ending 31 August 2022 R'000
Total Revenue	**935 172**	**512 351**
Logistics	57 987	65 235
Technology	14 477	15 346
Fuel	677 519	-
Healthcare	185 189	431 770

It has been assumed that as the Labat Healthcare business grows, the low margin fuel wholesale business will be exited when global conditions improve. This is a key assumption for the year ending 31 August 2022. If the business is not exited, then a similar performance to that expected for the year ending 31 August 2021 can be assumed.

A further analysis of the Labat Healthcare forecast revenue line is set out below:

	Year ending 31 August 2021 R' 000	Year ending 31 August 2022 R'000
Labat Botanicals (Lesotho)	75 938	205 286
Labat Pharmaceuticals	49 065	99 312
Labat Hemp Processing	-	36 326
CannAfrica	60 186	90 845
Total Revenue	**185 189**	**431 770**

The Gross Profit margins for the respective business units projected are as follows:

Consolidated Gross Margins	Year ending 31 August 2021 %	Year ending 31 August 2022 %
Logistics	13.1%	13.1%
Technology	68.4%	68.5%
Fuel	8.5%	0.0%
Healthcare (see further analysis below)	53.0%	58.8%
Other	0.0%	0.0%

Labat Healthcare Gross Margins		
Labat Botanicals (Lesotho)	66.9%	82.0%
Labat Pharmaceuticals	58.8%	40.2%
Labat Hemp Processing	0.0%	51.1%
CannAfrica	30.7%	29.9%

For the 2021 and 2022 period the Revenue contribution and growth ratios are as follows:

- The Logistics division contributes 6.1% and 12.6% respectively for the Labat Group forecast turnover.
- The Technology Business contributes 1.5% and 3.0% respectively for the Labat Group forecast turnover.

- The Fuel business contributes 71.7% and 0% respectively for the Labat Group forecast turnover.
- The Labat Healthcare Business contributes 19.6% and 83.2% respectively for the Labat Group forecast turnover.
- Other revenue contributes 1.1% and 1.3% respectively for the Labat Group forecast turnover.
- The Labat Healthcare Business are as follows:
  - the Labat Botanicals stream contributes 41% and 48% respectively for the Labat Healthcare forecast turnover;
  - the Labat Pharmaceuticals stream contributes 26.5% and 23% respectively for the Labat Healthcare forecast turnover;
  - the Labat Hemp Processing stream contributes 0% and 8.4% respectively for the Labat Healthcare forecast turnover due to the need to secure and develop farmers and plant during the first period; and
  - the CannAfrica stream contributes 32.5% and 21% respectively for the Labat Healthcare forecast turnover.

The above new revenue streams for Labat include the businesses acquired or being developed during the 2019/20 financial years. Ramp-up has already commenced during the 2020 financial year in most cases and we anticipate that the programme will speed up post the lockdown period under COVID-19. Management has already secured new solid offtake agreements from both local and international clients and it is expected that sales will commence within the 2021 FY and a full year of revenue in the 2022 FY. This is evident in the expected growth in revenue in Labat Botanicals for the 2022 FY.

Revenue in the Fuel business, being the major contributor to Group turnover historically, is within revenue levels achieved in prior years will only be accounted for the 2021 FY as the Group will be considering the sale of the Fuel business during the 2021 FY, when conditions improve. The revenue forecast is in line with prior year revenue but focus has been given on the new uptake in clients which has been undertaken during the 2020 FY. The Fuel business has historically been a very low margin business with increased associated risks with turbulent economic conditions and industry challenges, which South Africa has been plagued with over recent years.

The increase in Logistics revenue is based on an increase in new clientele during the 2020 FY.

The ICT revenue is expected to continue at the current pace and will make way for new product development in line with the Healthcare business to complement Labat's new strategies that have been incubated over the past year and are currently in a high growth phase, albeit off a very low base.

Labat Botanicals has multiple opportunities globally though the investment in regional presence in both South Africa and Lesotho that will be used to serve those demands and exploit the opportunities.

2. OPERATIONAL EXPENSES

The main component of operational expenses is salaries and wages, representing a majority portion of the operational expenses. The forecast for salaries and wages for 2021 is based on the existing headcount, with an increase assumed in 2022 for both Labat Logistics and a substantial increase in headcount in the Labat Healthcare segment.

The balance of the operational costs has been based on the existing expense base of the Group. The operating expenses are higher than the operating expenses for the year ended 31 August 2019 due to the new business strategy of Labat Healthcare. This is assumed to reduce in 2022 due to the assumed disposal of the fuel wholesale business. Further cost savings started towards the end of 2019 and continued into 2020 and included renegotiating on a Group level various costs and contracts. Foreign exchange gains or losses have not been forecast.

Depreciation and amortisation have been assumed on the basis of the existing depreciation and amortisation rates used by the Group as well as on expected capital expenditure and development costs, which are capitalised and then amortised. Details of the projected EBITDA, depreciation and amortisation as set out in the table below:

	31 August 2021 R'000	31 August 2022 R'000
EBITDA	**100 130**	**207 044**
Depreciation	(2 431)	(2 431)
Amortisation of Intangibles	(20 907)	(13 516)

The amortisation of intangibles consists the following, which is consistent to those in prior years:

- Marketing-related intangible assets;
- Contractual and non-contractual client relationship;
- Contract-based intangible assets; and
- Integrated Circuits.

No impairment of goodwill or any other assets has been assumed.

3. TAXATION

Taxation has been assumed at the rate of taxation in the relevant tax jurisdictions, being 10% in Lesotho and 28% in South Africa.

4. FACTORS UNDER DIRECT INFLUENCE OF DIRECTORS

Revenue, cost of sales and operating expenses can be influenced by director actions.

5. FACTORS THAT ARE EXCLUSIVELY OUTSIDE THE INFLUENCE OF DIRECTORS

Major restructures, regulatory, economic or political factors and the short and medium term impact of COVID-19 and the economic lockdown can impact on a customer or industry, which in turn can have an impact on the Company. Such factors are outside the influence of Directors.

6. FORWARD LOOKING STATEMENTS

This report may contain certain forward-looking statements concerning Labat's operations, economic performance and financial condition, plans and expectations. Such views involve both known and unknown risks, assumptions, uncertainties and other important factors that could materially influence the actual performance of the Group. No assurance can be given that these will prove to be correct and no representation or warranty expressed or implied is given as to the accuracy or completeness of such views or as to any of the other information in this report.

The Group does not undertake to update any forward-looking statements and does not assume responsibility for any loss or damage, however arising, as a result of the reliance by any party thereon, including, but not limited to, loss of earnings, profits or consequential loss or damage.

JOHANNESBURG
5 May 2020