



LABAT AFRICA LIMITED

Incorporated in the Republic of South Africa
(Registration number 1986/001616/06)
JSE code: LAB ISIN: ZAE000018354
("Labat" or "the Company" or "the Group")
FSE Code: LEI 9845000R73DF5EE41J88

JOINT VENTURE TO DEVELOP A DISTILLATE EXTRACTION FACILITY IN THE EASTERN CAPE BETWEEN CONTINENTAL EXTRACTS, SWEET WATERS AQUAPONICS AND LABAT HEALTHCARE WITH 100% OFFTAKE

Term sheet

Shareholders are advised that Labat Healthcare Proprietary Limited ("**LHC**"), a wholly owned subsidiary of Labat, has entered into a term sheet with Continental Extracts Proprietary Limited ("**Continental**"), owned by Caliboyz Holdings Proprietary Limited ("**Caliboyz**") (70%) and Motion Assets Proprietary Limited ("**Motion**") (30%) to set up a distillate extraction facility for Tetrahydrocannabinol ("known as **THC**") and other cannabinoids at the Sweet Waters facility in the Eastern Cape. The joint venture will be between Lima Romeo Air Proprietary Limited, trading as Sweet Waters Aquaponics ("**Sweet Waters**"), an 80% subsidiary of LHC, and Continental. Caliboyz is equally owned by Messrs MN Paruk, T Ki-Yun and TS Coyle and Motion is 100% owned by Mr M Soni. Continental and its shareholders are not related parties to Labat as defined in the JSE Listings Requirements.

Sweet Waters is a SAHPRA approved, Cannabis growing and cultivation operation in the Eastern Cape. Based in California, Caliboyz Holdings is a world leader in the design, construction, and management of Cannabis extraction and manufacturing facilities, as well as product development.

The new 50:50 joint venture company ("JV") will be setting up its own GMP (Good Manufacturing Practice) extraction facility at Sweet Waters in Kenton-on-Sea. Continental will be the technical partner and will ship all extraction equipment and machinery from California to South Africa, as its contribution to the JV on an exclusive basis. Staff from California will be relocated by Continental from California to set up and operate the facility. Continental has also entered into this agreement to secure the offtake agreement with the JV.

In May 2022, Sweet Waters was granted an amendment to their SAHPRA license that now permits for the extraction of THC and other cannabinoids, the use of which will be granted to the JV on an exclusive basis. In addition, Sweet Waters will construct a Good Manufacturing Practices extraction laboratory on its land for use by the JV with construction commencing no later than November 2022. Sweet Waters will have the first right to supply the biomass for the JV, subject to competitive pricing and will provide the requisite working capital for the JV. All the contributions will be recorded as a loan to the JV, whilst the value of the equipment and machinery, agreed at R9m, will be secured by shares in Labat for a period of three months after the commencement of operations of the JV. The JV will be liable to each party for its specific contributions.

A formal agreement will be concluded to give effect to the JV based on the signed term sheet. In addition, a Shareholders Agreement will also be concluded. The JV will set up a Board comprised of representatives from Continental and Sweet Waters, to manage and oversee the overall project. Once operational, Continental will execute a management contract with Newco for the day-to-day operations of the plant. The Shareholders Agreement will elaborate in detail the management obligations, roles, and responsibilities of the parties.

The facility is designed to include Research and Development, processing, extraction, in-house testing, manufacturing, and order fulfillment and LHC expects that the plant should be completed by January 2023. This will provide LHC with ample time to refine its portfolio of Cannabis derivative products. The scope of the project will initially process up to 2 tons of biomass per month. The primary market will be exported through the JV under the existing Sweet Waters export license. The plant will be able to offer a variety of services to generate multiple revenue streams, including white labeling and contract manufacturing services for raw extract and distillation.

The joint venture is categorised as a Category 2 transaction in accordance with the JSE Listings Requirements due to Labat having to initially secure the acquisition of the equipment and machinery for the JV.

Background, market and other information

The South African market has been overshadowed by the importance of Cannabis retail branding and CBD (Cannabidiol) lifestyle products. Cannabis extraction is a vital component of any vertically integrated Cannabis company. Not only do in-house extraction operations allow Cannabis companies to avoid outsourcing costs, but it also enables the potential for additional revenue streams and more rapid product ideation.

Labat, through LHC, is a vertically integrated South African Cannabis company focused on innovative retail experiences and engaging Cannabis brands as well as cultivation, production and extraction of Cannabis products. With a flurry of merger and acquisition activity and retail expansion, LHC continues to cement its position as a leader in the South African Cannabis market.

Not only did Labat close two of its acquisitions recently, namely Echo Life and Sweet Waters, but it also opened its first two corporate owned retail outlets in Ballito and Springs under the Cannafica brand. The pace of LHC's Cannabis expansion does not seem to be slowing down.

While LHC is best known for its mission to become South Africa's largest premium Cannabis producer, its recent term sheet with Continental strengthens LHC's position as a truly vertically integrated South African Cannabis company.

At full capacity, the extraction facility will be capable of processing 50 000kg of dry Cannabis flower per annum, making it one of South Africa's largest licenced extractors. By enabling higher margins, new revenue channels and faster product development times, in-house extraction operations will likely fuel some of South Africa and Lesotho's most successful Cannabis companies. Even still, Cannabis extraction will play a crucial role in the coming years, especially as new Cannabis continue to open up around the world.

As previously announced, LHC has a secured offtake agreement with buyers in Australia and Europe, particularly Switzerland and Germany, for the supply of Cannabis products. Since the dual listing of Labat in Frankfurt in December 2021, Labat has been regularly approached by brokers and international buyers of Cannabis flower, for the supply of high-quality THC flower from South Africa.

Certificate of Analysis & THC levels achieved

As per the standard Sweet Waters operating procedure, and in compliance to the SAHPRA conventions for a licenced cultivation facility, Labat wishes to inform all shareholders that the THC potency of the current Sweet Waters harvest is in excess of 26% as per the verified results of National Analytical Forensic Services (NAFS), *TM006.3 Test Method (Potency Cannabis HPLC). NAFS is a SAHPRA accredited testing facility. The test results are available on request from Mr David Roque at david@labathehealthcare.co.za.

Johannesburg

13 September 2022

Sponsor

AcaciaCap Advisors Proprietary Limited

