

ASX Announcement | 31 October 2024
Althea Group Holdings (ASX:AGH)

Quarterly Results and Highlights for the period ending 30 September 2024

AGH achieves positive operating cash flow of \$304,000 for the quarter

Financial Highlights and Outlook: Group

- AGH recorded revenue of \$8.3 million (unaudited) for the quarter ending 30 September 2024
- The result includes an all-time high of \$6.2 million in recreational cannabis revenue and \$2.1 million in pharmaceutical cannabis revenue, in line with the phasing timeline of management's forecasts for FY25
- Net cash from operating activities was positive \$304,000, reflecting improved cash management and the early-stage impact of the Company's cost reduction program, which is on track to deliver \$4 million in annualised savings
- The divestment of the MyAccess Clinics business post-quarter for \$1.0 million will provide additional working capital to accelerate sales growth at Peak Processing Solutions, the Company's Canadian recreational cannabis subsidiary. This move is also expected to eliminate \$1.5 million in annual operating costs, further enhancing the cost savings announced previously
- AGH successfully completed a \$2.0 million placement (excluding fees) during the quarter to support expansion in the USA cannabis beverage market
- The Company completed a remuneration review and all Directors, the CEO, and the CFO, are set to take a 25% reduction in cash salary from 1 November 2024
- AGH is pleased to refine and reaffirm its FY25 guidance, projecting revenue between \$50 million and \$57 million and a positive EBITDA in the range of \$4 million to \$5.5 million. This outlook is supported by continued cost-saving measures, market share expansion, and operational improvements, with the financial benefits expected to be more pronounced in the second half of the fiscal year
- Peak USA has expanded its production and distribution across the U.S., with a key milestone being the establishment of an emulsion lab in Florida
- Initial production at Peak USA centres on a joint venture with Flora Growth Corporation ('Flora'), launching cannabis-infused beverages under two brands. Melo seltzers will come in Wild Berries, Grapefruit, and Strawberry flavours, each with 5mg THC. Cloud Cola offers Vintage Cola, Root Beer, and Orange Creamsicle, each with 10mg THC
- Peak USA is in active discussions with multiple US-based customers to expand its reach, and the Company looks forward to providing further updates on its operations soon

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- With strong momentum in our North American business, the Board has resolved to bolster its experience through identifying and securing a new Director with requisite North American fast moving consumer goods (FMCG) experience
- Following the recent cost reduction program and remuneration review, AGH has initiated a strategic assessment of each division's assets and structure to align operations and growth initiatives for optimal shareholder returns

Division

- **Recreational cannabis** - AGH's wholly owned subsidiary, Peak Processing Solutions ('Peak'), reported record revenue of \$6.2 million (unaudited) and cash receipts from customers of \$5.2 million for the quarter. Growth is expected to accelerate significantly as Peak capitalises on its operational efficiencies and optimises production scheduling to meet the current demand for its manufacturing services
- **Pharmaceutical cannabis** - AGH's global cannabis-based medicines business, ('Althea'), achieved \$2.1 million of unaudited revenue and \$2.3 million in cash receipts from customers for the Quarter. The Company is focused on swiftly recovering to its recent quarterly receipts record of \$4.9 million, following temporary stock outages that were associated with previous suppliers, with a clear strategy to expand market share and drive further growth as we optimise our supply chain with new supply partners

31 October 2024: **Althea Group Holdings Limited (ASX:AGH) ('AGH', or 'the Company')**, a global leader in the manufacturing, sales and distribution of recreational cannabis products and cannabis-based medicines, is pleased to present its Appendix 4C cash flow statement and operational update for the quarter ended 30 September 2024 ('Quarter', 'Reporting Period').

Financial update for the September Quarter

AGH has successfully advanced through the restructuring and overhead reduction phases of its cost reduction program, which forms a key component of the Company's broader organisational review. As of September 2024, these initiatives are set to deliver \$4.0 million in annualised savings, reflecting the full implementation of cost reduction measures that commenced in May 2024.

The next phase of the program, focusing on supply chain optimisation, is underway and expected to further enhance operational efficiency. These measures are anticipated to generate additional improvements in cash flow and profitability, positioning the Company for sustainable growth in the coming quarters.

Highlights for the Quarter include:

- Revenue of \$8.3 million (unaudited), including an all-time high of \$6.2 million in recreational cannabis revenue, along with \$2.1 million in pharmaceutical cannabis revenue, in line with the phasing timeline of management's forecasts for FY25
- \$7.5 million in receipts from customers for the quarter ending 30 September 2024
- Net cash from operating activities was positive \$304,000, a significant turnaround from the previous quarter's outflow, driven by effective cost-saving measures



- Peak reported record unaudited revenue of \$6.2 million and customer receipts of \$5.2 million. Growth is expected to accelerate significantly as Peak capitalises on its operational efficiencies and optimises production scheduling to meet rising demand for its manufacturing services. The company is confident that it already has the customer base necessary to achieve its revenue guidance range over the next three quarters
- Althea generated unaudited revenue of \$2.1 million and customer receipts of \$2.3 million, slightly below projections due to temporary stock shortages resulting from the transition to new suppliers
- Althea successfully negotiated enhanced trading terms with its new suppliers, resulting in improved pricing, better payment terms, and reliable future product supply, all of which are set to enhance gross margins and cash flow
- Althea's product supply is expected to return to normal by November 2024, positioning the company for strong sales recovery
- AGH successfully completed a \$2.0 million placement (excluding fees) during the quarter. Together with the post quarter divestment of the MyAccess Clinics business for \$1.0 million, the Company's balance sheet and working capital capacity have been significantly strengthened
- The AGH Board has refined and reaffirmed its FY25 guidance of \$50 million to \$57 million in revenue and positive EBITDA between \$4 million and \$5.5 million with a second half weighting, reflecting strong demand in the market for the Company's products

Cost reduction program in full swing

The Company's cost reduction program, which began in May 2024, remains on track with an annualised run rate of \$4.0 million in savings achieved so far. These savings have already begun to deliver material benefits, with AGH reporting positive operating cash flow of \$304,000. AGH continues to identify and implement additional measures to reduce costs further across its operations.

The post quarter strategic divestment of the MyAccess Clinics business is expected to eliminate \$1.5 million in annual operating costs, further contributing to cost savings, while increasing sales with the acquirer committing to purchase a minimum 10,300 units of Althea products on commercial terms in the UK.

Remuneration review completed

AGH has recently completed a comprehensive remuneration review. Effective from 1 November 2024:

- All Directors, the CEO, and the CFO, are set to take a 25% reduction in cash salary
- The 25% cash reduction in remuneration will be converted into performance rights
- These performance rights will be presented to shareholders for approval at the upcoming AGM
- Subject to AGM approval, the move will further align management and directors' interests with the Company's future performance, whilst conserving cash



Recreational cannabis - Peak Processing Solutions

Peak Canada

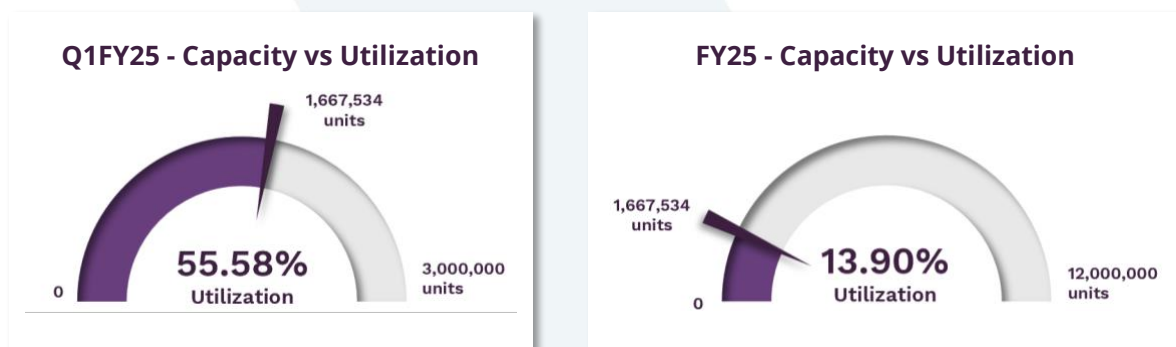
Cannabis beverages - Capacity vs Utilisation

The Company is highly encouraged by Peak Canada's record revenue and growing customer demand, which is driving significant acceleration in cannabis beverage production. With a robust base of forward orders and further enhancements in operational efficiencies and production scheduling, Peak Canada is poised to fully leverage its capacity and meet the expanding demand in the cannabis beverage market.

The following Capacity vs Utilisation illustrations provide a clear view of Peak Canada's current operational metrics. These visuals illustrate how the business's production is aligning with available capacity, giving shareholders a transparent look into Peak Canada's manufacturing capabilities as it capitalises on growth opportunities in the cannabis sector:

- The first illustration shows Peak Canada's quarterly results, highlighting how production utilisation aligns with available capacity each quarter
- The second illustration provides a year-to-date (YTD) view of annual capacity versus utilisation, offering a comprehensive look at Peak Canada's production efficiency over the year

Image 1 & 2: Cannabis beverage production - Capacity vs Utilisation - Q1FY25 and YTD



Expanding production beyond cannabis beverages

While cannabis beverages remain the cornerstone of Peak Canada's production, the business is equipped with established capabilities across multiple cannabis product categories. These production areas hold significant untapped revenue potential, which Peak Canada plans to capitalise on in the coming periods. By strategically leveraging its diverse capabilities, Peak Canada aims to broaden its offerings and capture a larger share of the Canadian cannabis market.

Vape Production

- Capacity: Up to 8,000 vape units per day
- Capabilities: Includes both vape cartridges and disposable vape pens, utilising popular cannabis extracts such as live resin, rosin, and distillate
- Lead Time: Approximately 8 weeks from order to delivery

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- Onboarding: Currently adding selected clients to maximise this capacity and meet growing demand

Extraction (Tolling)

- Fresh Biomass Capacity: 25 kg per day
- Dry Biomass Capacity: 10 kg per day
- Lead Time: Around 4 weeks for customer-supplied biomass
- Onboarding: Additional clients are being integrated to fully utilise this existing extraction capacity, addressing the increasing demand for cannabinoid-based products

Dried Flower Packaging

- Capabilities: Manual packaging for dried flower, providing flexibility to support diverse client needs
- Strategic Value: While not scaled for high-volume production, this offering supports client relationships that may grow into larger opportunities in beverage and vape categories

Topical Production

- Product Range: Scalable production of cannabis-infused topicals, including creams, lotions, serums, and balms
- Market Demand: Positioned to capture growing consumer interest in topicals as cannabis use extends into wellness products

New Product Development (NPD) services

- Revenue: High-margin service leveraging existing staff and equipment
- Purpose: Supports client-driven innovations, enabling custom product development with minimal material costs

These capabilities solidify Peak Canada's position as a versatile, full-spectrum partner in the Canadian recreational cannabis industry. By strategically capitalising on its diverse production lines and actively onboarding clients, Peak Canada is well-positioned to broaden its impact and drive growth across multiple product categories beyond its core cannabis beverage offerings.

Peak USA

Market opportunity

The US cannabis beverages market presents a significant growth opportunity for the Company. The US cannabis beverages market, valued at USD\$966.92 million in 2024, is projected to grow at a CAGR of 54.30% to reach USD\$19.06 billion by 2028¹. Cannabis beverages, a non-alcoholic alternative containing THC, are legal nationwide and offer substantial potential for category expansion. Peak USA is strategically positioned to capture a share of this rapidly growing market by working with brand partners to make these products available through FMCG channels, such as wine and liquor stores, as well as online.

Operational Progress

Peak has expanded its production and distribution into the US, with a key milestone being the

¹ <https://www.marketdataforecast.com/market-reports/cannabis-beverages-market>

establishment of an emulsion lab in Florida. This facility enables production of Peak's proprietary cannabis emulsion, Envision™, essential for THC delivery in US produced cannabis beverages. The lab ensures the same high product standards as Peak's Canadian operations.

Product Details

Initial production at Peak USA centres on a joint venture with Flora Growth Corporation ('Flora'), launching cannabis-infused beverages under two brands. Melo seltzers will come in Wild Berries, Grapefruit, and Strawberry flavours, each with 5mg THC. Cloud Cola offers Vintage Cola, Root Beer, and Orange Creamsicle, each with 10mg THC.

Peak USA is already in active discussions with multiple US based customers to expand its reach and the Company looks forward to providing further updates on its US operations soon.

Pharmaceutical cannabis - Althea

Althea supplier transition – progress update

AGH is focused on restoring its pharmaceutical cannabis business to previous performance levels while continuing to drive growth. The September quarter saw sales impacted by stock outages, but with full stock availability expected to return to normal in November, the Company is confident in a rapid and full rebound in sales.

Althea aims to quickly return to its recent peak quarterly receipts level of \$4.9 million and further grow its market share by capitalising on an improved supply chain and enhanced supplier agreements, resulting in higher margins and more reliable product availability.

MyAccess Clinics divestment

Subsequent to the quarter ending, AGH announced the divestment of the MyAccess Clinics business to Montu Group UK Ltd² ('Montu UK') for a total sale price of \$1.0 million. As part of the deal, Montu UK has committed to purchasing a minimum of 10,300 units of Althea products over the next 24 months, ensuring ongoing demand for AGH's pharmaceutical products.

The transaction is expected to eliminate approximately \$1.5 million in annual operating costs, further contributing to AGH's cost reduction program. This strategic divestment allows AGH to focus on its core medicinal and recreational cannabis businesses, particularly in high-growth markets such as North America.

Refinement and reaffirmation of FY25 guidance

AGH is pleased to refine and reaffirm its FY25 guidance, highlighting the Board's continued confidence in the Company's strategic direction and improvements in operational performance. The Company projects FY25 revenue to fall within the \$50 million to \$57 million range, driven by strong contributions from its two core divisions: Recreational Cannabis (Peak Processing Solutions) and Pharmaceutical Cannabis (Althea).

AGH remains focused on achieving a positive EBITDA target of \$4 million to \$5.5 million. This outlook

² For clarity, Montu UK Ltd is a separate trading entity to Montu Group Pty Ltd in Australia and is not a subsidiary

is supported by a combination of cost-saving measures, market share growth, and ongoing operational enhancements, with the financial benefits expected to be more prominent in the second half of the fiscal year.

Strategic review of business divisions

Following the recent cost reduction program and remuneration review, AGH has initiated a strategic assessment of each division's assets and structure to align operations and growth initiatives for optimal shareholder returns.

With strong market positions and unique competitive advantages, each division will be evaluated for growth strategies, capital allocation, further cost base reduction, and strategic priorities to drive growth, improve margins, and enhance shareholder value.

Senior management and the Board are progressing this review together.

With strong momentum in our North American business, the Board has resolved to bolster its experience through identifying and securing a new Director with requisite North American FMCG experience.

AGH CEO, Joshua Fegan said: "Our positive operating cash flow this quarter reflects record-breaking cannabis beverage sales at Peak, alongside extensive cost reduction initiatives across the business. Peak's sales are poised for expansion through FY25, supported by improved working capital from the recent placement and post-quarter divestment of the MyAccess Clinics business. Moving forward, Peak's operational efficiencies, capacity to meet growing demand, and Althea's normalised product availability will be key drivers of AGH's financial performance.

In our pharmaceutical division, we aim to swiftly rebound from stock outages, with full product availability expected in November, allowing Althea to regain previous sales levels and expand its market share.

Additionally, the sale of the MyAccess Clinics business not only generated \$1.0 million in proceeds, but also delivered \$1.5 million in annual cost savings, significantly enhancing our financial flexibility. With an additional \$4 million in annualised cost savings, AGH is on track to achieve our refined FY25 revenue and EBITDA targets, laying the foundation for sustainable, long-term growth across all divisions."

In item 6 of the Appendix 4C cash flow report for the Quarter, payments to Related Parties of \$202,000 comprised of salary paid to Chief Executive Officer and fees paid to Non-Executive Directors.

-ENDS-

Authorised by: Robert Meissner, Company Secretary

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Althea Group Holdings Limited (ASX:AGH)

Althea Group Holdings Ltd ('AGH') is a global leader in the manufacturing, sales and distribution of cannabis-based medicines and recreational cannabis products. AGH services these sectors via two distinct business units. Althea, the company's pharmaceutical business, offers a comprehensive range of cannabis-based medicines which are made available to patients via prescription. Peak Processing Solutions, AGH's recreational cannabis business, produces legal cannabis products purchased by adult consumers in retail stores.

AGH operates in highly regulated and legal cannabis markets across the world with burgeoning operations in North America, Europe and Australia.

To learn more about Althea Group Holdings, please visit: www.altheagroupholdings.com

For more information on Peak, please visit: www.peakprocessing.com

For more information on Althea, please visit: www.althea.life



Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Althea Group Holdings Limited

ABN

78 626 966 943

Quarter ended ("current quarter")

30 September 2024

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	7,519	7,519
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(3,735)	(3,735)
(c) advertising and marketing	(113)	(113)
(d) leased assets		
(e) staff costs	(2,383)	(2,383)
(f) administration and corporate costs	(1,002)	(1,002)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(3)	(3)
1.6 Income taxes paid		
1.7 Government grants and tax incentives	21	21
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	304	304
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(354)	(354)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment		
	(d) investments		
	(e) intellectual property		
	(f) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	(354)	(354)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	1,887	1,887
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities		
3.5	Proceeds from borrowings	879	879
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings	(361)	(361)
3.8	Dividends paid		
3.9	Other (provide details if material)	(442)	(442)
3.10	Net cash from / (used in) financing activities	1,963	1,963

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	833	833
4.2	Net cash from / (used in) operating activities (item 1.9 above)	304	304
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(354)	(354)

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,963	1,963
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	2,746	2,746

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,890	250
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (Term Deposits)	856	583
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	2,746	833

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(202)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	1,403	1,403
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 Total financing facilities		
7.5 Unused financing facilities available at quarter end		-
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
<p>Loan 1 – AUD\$1mil facility from AMAL Security Services. Maturity date of November 2025 and a 14.31% annual interest rate.</p> <p>Loan 2 – CAD\$575,000 asset-based loan facility with Stoke Partners. Maturity date of May 2024 and a 22% annual interest rate.</p>		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	304
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,746
8.3 Unused finance facilities available at quarter end (item 7.5)	
8.4 Total available funding (item 8.2 + item 8.3)	2,746
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	N/A
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: N/A	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: N/A	

8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: October 2024

Authorised by: The Board of Directors

(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg *Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.