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ASX RELEASE

ALCHEMIA TO ACQUIRE AUSTRALIAN PRIMARY HEMP AND PROPOSED CAPITAL RAISING

Highlights:

- Alchemia Limited (ASX: ACL) (**Alchemia** or **Company**) has entered into a share sale agreement pursuant to which it has conditionally agreed to acquire 100% of the issued capital of Australian Primary Hemp Pty Ltd (**APH**) (**Acquisition**).
- APH is one of Australia's leading hemp producers with a demonstrated execution capability and diversified business operations across the value chain, owning quality production assets in Victoria.
- APH has a vast network of growers across the east coast of Australia with large scale hemp production capability. Since inception APH's network of growers have procured over 500T of hemp grain.
- Since the legalisation of hemp in Australia, the industry has experienced rapid growth and APH is strongly positioned to benefit from the growth in hemp demand in Australia and internationally.
- Incoming APH executive team and Board of Directors have significant agricultural and hemp industry experience.
- Alchemia will change its name to "Australian Primary Hemp Limited" on settlement of the Acquisition.

The Board of Alchemia Limited (ASX: ACL) is pleased to announce that it has entered into a share sale agreement (**Sale Agreement**) pursuant to which it has agreed, subject to satisfaction of certain conditions precedent, to acquire 100% of the shares of APH.

APH engages in hemp cultivation and production services, as well as handling in all areas of the hemp seed selection, farming, processing and distribution, contract packaging, and bulk and retail sale of edible products. APH also produce their own brand of hemp products. Further details on APH's business are set out below.

Australian Primary Hemp Pty Ltd Business

Overview

APH's founders first began researching alternative proteins in 2012. After numerous R&D efforts, APH launched in 2016 with a multi-layered approach to:

- purchase FINOLA® hemp seed under an exclusive supply agreement in Australia and New Zealand (and other varieties non-exclusively that are suited to the Australian climate including, but not limited to: CRS, CFX, Katani, Piccolo, Ferimon, Yuma, Fassimo, and X59);
- establish a network of farmers to grow the hemp seed under contract and produce hemp grain;
- establish Australia's largest hemp facility in Victoria, to process and package hemp grain; and
- produce their own branded hemp products.

On 28 April 2017, following consideration by the Australia and New Zealand Ministerial Forum on Food Regulation, the Australia New Zealand Food Standards Code was amended to permit low-THC hemp hulled seed to be sold as, or used as an ingredient in food.

The changes to the Food Standards Code commenced on 12 November 2017 and allow the sale of hemp food products. Since then, the hemp industry has grown rapidly and is now one of the fastest growing alternative protein sources in Australia.

APH Business Model

Purchase and sale of hemp seed

APH purchases hemp seed from a variety of sources (some of which are exclusive to APH in Australia) and on-sells the hemp seed to APH's network of contract growers (who grow the hemp seed on APH's behalf).

In addition, the Company continues to receive high levels of interest from farmers to grow hemp under contract for APH.

With strong commercial relationships internationally, APH has access to notable international plant breeders that produce globally recognised premium hemp seed varieties, ideal for growing in parts of Australia.

Hemp seed growing

APH's network of contracted growers are managed directly or through other contracted third parties.

APH has significant knowledge of the industry and a large grower network, which APH leverages to assist growers to produce the highest possible yields from their crops through collaborations with several well-established Australian agronomy groups.

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Contracted growers complete their own harvest and supply cleaned and graded hemp grain to APH at pre-contracted prices. Harvest typically occurs 3-4 months after planting, with hemp grain delivered to APH for processing one month after harvest.

The hemp grain is cleaned, dried and graded before being transported to APH's facility. Once the hemp grain arrives in APH's facility, an independent third-party lab test is conducted to verify the quality before APH accepts the hemp grain.

Production of hemp grain

APH uses its toll processing partners (for both milling and oil pressing operations) and their own de-hulling equipment to process the hemp grain into APH products that are packaged onsite for retail and/or bulk distribution sales.

Manufacturing and sales of products using hemp grain

APH sells its hemp derived products to:

- wholesale parties who use either the raw hemp grain or processed products (including de-hulled hemp seed, milled powders, and cold pressed hemp oil) as ingredients in their own products (e.g. muesli bars and breakfast cereals); and
- retail consumers of APH's own branded products (e.g. hemp seeds, boost and balance milled fibre/protein powders, and hemp cold pressed hemp oil).

Currently sales are predominantly in Australia and New Zealand and APH intends to explore international opportunities.

Terms of Acquisition

Under the Sale Agreement, Alchemia has agreed to acquire 100% of the issued share capital in APH, subject to the satisfaction or waiver of conditions precedent. A summary of the key terms of the Acquisition is set out below.

1. Issue of Shares

In consideration for acquiring 100% of APH's shares, Alchemia has agreed to issue 500,000,000 fully paid ordinary shares in the capital of the Company (**Shares**) (on a pre-Consolidation basis, see below for more detail) on settlement of the Acquisition, to the vendors and advisors of APH (**Consideration Shares**).

2. Issue of Consideration Options

Under the Sale Agreement and subject to obtaining shareholder approval the Company will issue 183,268,743 options (on a pre-Consolidation basis) to acquire Shares with an exercise price of 30% each above the Share price at re-compliance and expiring 3 years from the date of issue (expected to be the date of re-compliance), to be issued to the two founders and advisors of APH (**Consideration Options**).

The issue of the Consideration Shares and the Consideration Options will be subject to the provision of restriction agreements (where required by the ASX (for a period of 2 years commencing on the date on which quotation of the Shares recommences)).

3. Conditions Precedent

Settlement of the Acquisition is subject to a number of conditions precedent, including, but not limited to:

- **Due Diligence:** Alchemia completing and being reasonably satisfied in relation to the outcome of its due diligence investigations of APH.
- **Material changes:** confirmation that there has been no material adverse change in respect of Alchemia or APH's businesses.
- **Shareholder and regulatory approval:** Alchemia obtaining all necessary shareholder and regulatory approvals required in relation to the Acquisition and other matters contemplated by the Sale Agreement (which includes receipt of ASX's conditional approval to reinstate the Company to trading).
- **Re-compliance:** Alchemia lodging a prospectus (**Prospectus**) with the Australian Securities and Investments Commission (**ASIC**) for the purpose of ASX reinstatement requirements.
- **Capital Raising:** under the Prospectus, the offer of 600,000,000 Shares at an issue price of \$0.010 per Share (on a pre-Consolidation basis).
- **Consolidation:** Alchemia successfully consolidating its equity securities (currently an issue price of A\$0.20 is proposed).
- **Independent Expert:** The independent expert opinion obtained by Alchemia opining that the Acquisition contemplated by the Sale Agreement is fair and/or reasonable to shareholders of Alchemia.
- **Escrow Agreements:** Any party to whom Consideration Shares are issued entering into a restriction agreement in relation to some or all of those Consideration Shares if and to the extent required by the ASX in accordance with the ASX Listing Rules (for a period of 2 years commencing on the date on which quotation of the Shares recommences).

If the conditions precedent to Completion are not all fulfilled or waived by 29 March 2020 (or such other date as agreed in writing by Alchemia and the APH shareholders), then either Alchemia or APH may terminate the Sale Agreement by notice in writing to the other party. Upon termination, the Sale Agreement will be at an end and the parties will be released from their obligations under the Sale Agreement (other than in respect of any breaches that occurred prior to termination).

4. Secured Loan Facility

APH (as borrower) and the Company (as lender) have entered into a secured loan facility agreement, whereby the Company provided and advanced to APH the sum of A\$600,000 for general working capital purposes (**Commitment**).

In addition, the Company entered into associated security documentation:

- a general security deed over APH's present and acquired property, including property in which APH has, or may in the future have, rights or the power to transfer rights; and
- deed of guarantee and indemnity with Charles Mann and James Hood (APH CEO and COO, respectively) over the Commitment including any interest, fees and costs.

Key material terms of the secured loan facility agreement are as follows:

- The Commitment is available for a maximum period of two years (unless the Company cancels the provision of the Commitment at an earlier date).
- Interest shall accrue at a rate of 6 per cent per annum (calculated daily) on and from the date of drawdown until such time as the Commitment (and all accrued interest) are fully and finally repaid to Alchemia.
- The Commitment and accrued interest must be repaid to Alchemia by APH on the earlier of:
 - 12 months from 17 April 2019;
 - on termination of the Sale Agreement by either party; or
 - such date as agreed to in writing between the Company and APH.
- If Completion occurs within twelve months from 29 March 2019, the Commitment and accrued interest will be forgiven and cancelled by the Company on Completion.
- If Completion does not occur within twelve months from 29 March 2019, the Commitment and accrued interest will be owing by APH and Alchemia may call on the Commitment on demand until Completion. If the Commitment is not called and Completion occurs, the Commitment will be forgiven and cancelled.

Change of Activities and General Meeting

The proposed acquisition of APH will constitute a change in the nature and scale of the Company's activities from a life science business to a hemp growing and production business.

Accordingly, the Company is required, pursuant to ASX Listing Rule 11.1.2, to obtain approval from Alchemia's shareholders. The Company will also be required, pursuant to ASX Listing Rule 11.1.3, to re-comply with chapters 1 and 2 of the ASX Listing Rules. A general meeting is proposed to be convened to approve the change in activities, as arising from the Acquisition, the Capital Raising (defined below), the Consolidation (defined below) and other associated business that results in the re-compliance listing of Alchemia on the ASX (**General Meeting**).

Consolidation of Shares

As part of the Acquisition and the Alchemia's proposed re-compliance with Chapters 1 and 2 of the ASX Listing Rules, the Company proposes to consolidate its issued capital on the basis that every twenty securities outstanding will consolidate into one security (**Consolidation**), subject to shareholders' approval.

Capital Raising

As noted in the conditions precedent set out above, the Company proposes to undertake a capital raising (**Capital Raising**), under which Alchemia proposes to raise A\$6,000,000, such funds to be received net of fees and expenses or such other amount as agreed between Alchemia and the APH shareholders by way of the issuance of a minimum of 30,000,000 Shares (on a post-Consolidation basis). The funds raised will be used to fund the acquisition of new equipment for expansion, building-up of inventory, operating expenses, ongoing working capital requirements and other expenses associated with the Acquisition (see detailed table below).

Proposed Change of Company Name

If the Acquisition proceeds to the stage of convening the General Meeting, the Company proposes to seek shareholders' approval at the General Meeting to change its name to "**Australian Primary Hemp Limited**" with effect from settlement of the Acquisition.

Proposed Change in Alchemia's Board and Management

It is proposed that the existing directors of the Company, other than Mr Cameron Petricevic (who will remain on the board), will retire in conjunction with the settlement of the Acquisition, and new board members will be nominated by APH. The new board is proposed to include:

- **Charlie Mann – Managing Director & Chief Executive Officer**

Charlie is a co-founder of APH, and is focussed on APH's commercialisation and growth strategy, whilst navigating the regulatory element of the emerging hemp industry.

Charlie maintains significant holdings in businesses that are successfully operating in the agricultural sector. Prior to establishing his own operations in the agricultural industry, Charlie had extensive experience in importing, licensing, distribution and logistics within the framework of the Department of Transport and Regional Services for Vectrix Australia Pty Ltd.

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- **James Hood – Executive Director & Chief Operations Officer**

James is a co-founder of APH, with substantial experience in production facility development and an extensive network of farmers, which has positioned APH well to produce a complete vertically integrated product line.

Prior to APH, James had roles in digital software applications and marketing.

- **Cameron Petricevic – Non Executive Chairman**

Cameron has spent over 15 years in the financial industry with roles at AXA Asia Pacific Holdings (now AMP) and Acorn Capital. Cameron has extensive investment banking experience, including valuations, mergers & acquisitions, and portfolio management. Cameron is a Partner at Kentgrove Capital.

Cameron is a qualified Actuary (AIAA) and holds a Bachelor of Commerce (Actuarial) and a Bachelor of Engineering (Electrical) from the University of Melbourne, with First Class Honours. He is also a Graduate and Fellow of the Australian Institute of Company Directors (GAICD) and Founder/Treasurer of Brimbank ToRCH, a Royal Children's Hospital auxiliary charity.

Cameron is a Director of several private and public companies. He has been a director of Alchemia since June 2018 and currently serves as the Chairman of the Board.

APH is considering the appointment of at least one other independent, non-executive director with significant ASX experience to form part of the board of directors with the appointment targeted by Completion.

Further, Alchemia proposes to add new senior management from APH personnel including:

- **Skye Patterson – Sales Manager**

Skye has 5 years of experience in business development, sales and marketing within the corporate sector, and will be responsible for driving APH's business growth via local and global markets.

Prior to APH, Skye had roles in business development for the design and production of events and experiences.

- **Mitch Costin – Operations & Agriculture Manager**

Mitch joined APH in March 2018 as Operations & Agricultural Relations Manager.

Mitch has 8 years of experience in logistics and operations at a furniture, showroom and venue hire company. Prior to that Mitch had significant experience in the agricultural industry and now specialises in seed and grain logistics, agronomic relations and production and operation efficiencies for APH.

Indicative Timetable

An indicative timetable related to the Acquisition and associated transactions is set out below:

Particulars	Date
ASX Announcement of Acquisition	Thursday, 20 June 2019
Lodge notice of meeting with ASX	Wednesday, 26 June 2019
Despatch notice of meeting to ACL shareholders	Wednesday, 17 July 2019
Hold the general meeting of ACL shareholders	Wednesday, 14 August 2019
Lodgement of Prospectus with ASIC	Thursday, 15 August 2019
Prospectus offer opens	Thursday, 29 August 2019
Prospectus offer period	Friday, 30 August 2019 (Open) Friday, 6 September 2019 (Closed)
Settlement of the Capital Raising	Wednesday, 11 September 2019
Completion of Acquisition and allotment	Friday, 13 September 2019
Despatch of holding statements	Tuesday, 17 September 2019
Commencement of trading of Shares on ASX	Wednesday, 18 September 2019

Please note that this timetable is indicative only and the Directors reserve the right to amend the timetable as required.

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Indicative Capital Structure

Set out below is the indicative capital structure of the Company following Completion. The anticipated capital structure of the Company is only an estimate and subject to variation.

Shares		
<i>Shareholders (on a pre-Consolidation basis)</i>	<i>A\$6.0m subscription</i>	<i>Percentage (undiluted)</i>
Existing Shareholders	324,723,621	22.1%
New Shareholders (Capital Raising)	600,000,000	40.8%
Consideration Shares	500,000,000	34.0%
Corporate Advisor Shares ¹	40,000,000	2.7%
Conversion of loan ²	6,405,828	0.4%
TOTAL	1,471,129,449	100.0%
<i>Shareholders (on a post-Consolidation basis)</i>	<i>A\$6.0m subscription</i>	<i>Percentage (undiluted)</i>
Existing Shareholders	16,236,181	22.1%
New Shareholders (Capital Raising)	30,000,000	40.8%
Consideration Shares	25,000,000	34.0%
Corporate Advisor Shares ¹	2,000,000	2.7%
Conversion of loan ²	320,291	0.4%
TOTAL	73,556,472	100.0%

Notes:

- The Corporate Advisor role will commence on completion of the Acquisition
- The Company must repay debts to a related party of James Hood amounting to A\$168,984.08. The Company has agreed with the related party of James Hood that the relevant debts will be satisfied by way of:
 - a loan repayment amounting to A\$104,925.80; and
 - an issue of Shares amounting to 6,405,828 Shares (on a pre-Consolidation basis).

Options¹	
<i>Option holders (on a pre-Consolidation basis)</i>	<i>A\$6.0m subscription</i>
Consideration Options	183,268,743
Corporate Advisor Options	22,066,942
TOTAL	205,335,685
<i>Option holders (on a post-Consolidation basis)</i>	<i>A\$6.0m subscription</i>
Consideration Options	9,163,437
Corporate Advisor Options	1,103,347
TOTAL	10,266,784

Notes:

- All options have the following terms:
 - an exercise price that is 30% higher than the issue price of the Shares at re-compliance; and

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- b. an expiry date that is 3 years from the date on which the Options are issued (which is expected to be the date of quotation for the shares pertaining to the Acquisition)

The Company's total securities on issue following the Acquisition and Capital Raising will be as follows:

Securities (on a pre-Consolidation basis)	A\$6.0m subscription	Percentage (undiluted)
Total Shares	1,471,129,449	87.8%
Total options	205,335,685	12.2%
TOTAL	1,676,465,134	100.0%

Indicative Use of Funds

Funds raised under the Capital Raising be allocated as follows:

Proposed Use of Funds	Capital (\$)	%
Build-up of inventory (including hemp seed and finished hemp grain product)	\$2,200,000	36.7%
Acquisition of new equipment for expansion	\$1,000,000	16.7%
Operating expenses	\$500,000	8.3%
Working capital and costs of the Offer	\$2,300,000	38.3%
Total	\$6,000,000	100.0%

The above table is indicative only. Actual use of funds will depend on a variety of factors including the actual amount raised as part of the Capital Raising and various market conditions and the Company's progress and success in the implementation of its strategy following Completion.

For enquiries, please contact:

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