



**International Distributor of
Medicinal Cannabis**

ASX ANNOUNCEMENT

ASX CODE: HHI

24 November 2022

September 2022 Quarterly Update

Key highlights:

- **Quarterly cash receipts of A\$4.6M**
- **Robust sales across the group, particularly in Australia**
- **Health House International Limited signed a non-binding term sheet with Creso Pharma Limited ("Creso") for Creso to acquire Health House**

Health House International Ltd (ASX:HHI) ("Health House" or the "Company"), an international pharmaceutical distributor specialising in, but not limited to, the distribution of medicinal cannabis products across Australasia, United Kingdom and Europe, is pleased to provide its operational update alongside its Appendix 4C for the three months ended 30 September 2022 (Q1 FY23).

Health House International's Chairman, Mr David Wheeler commented:

We are pleased to again generate in excess of A\$4.6 million in cash receipts this quarter in light of ongoing funding constraints. We are optimistic as to what growth Health House and the Creso Group will be able to achieve, following the proposed merger, when Health House will be able to take advantage of additional growth opportunities as they present themselves.

A\$4.6mn cash receipts in quarter

Health House generated quarterly cash receipts of A\$4,640,000 in Q1 FY23. This showed 9% increase to the previous quarter (A\$4,269,000) and an 82% increase on Q1 FY22.

Receipts and sales compared to last quarter varied across the group:

- Health House Australia
 - Another 49% increase in sales compared to last quarter despite disruption from regulatory changes, supply constraints and funding constraints
- Health House United Kingdom
 - Reduced sales due to the timing impact of regulatory changes in the EU following Brexit that are anticipated to reverse in the following quarter as a result of a significant number of supply contracts executed during Q1 FY23. The new supply contracts, if fully utilised, have the potential to generate up to €845,000 revenue over the next 12 months
- Health House Germany (CanPharma GmbH)
 - Restricted cash affected stock purchases, however total sales in Germany continued to scale in this quarter leading to an increased contribution to cash receipts from CanPharma in Germany

Non-binding term sheet

On 29 July 2022, HHI entered into a non-binding term sheet with Creso Pharma Limited (ASX: CPH) (**Creso**), under which it is proposed that Creso will acquire 100% of the shares in Health House by way of a scheme of arrangement to be undertaken by Health House (**Scheme**). The Scheme will be subject to shareholder and Court approval in accordance with the requirements of Part 5.1 of the Corporations Act 2001 (Cth).

Scheme Implementation Deed

On 21 November 2022, subsequent to the end of the quarter, executed the scheme implementation deed pursuant to which Creso proposes to acquire Health House by way of a scheme of arrangement (**Transaction** and **Scheme**).

Health House believes that by joining the Creso group, the combined business will create an organisation with strong medicinal cannabis product and distribution capabilities.

The Transaction will result in Creso issuing Health House shareholders Scheme Consideration of 107,683,442 Creso shares, which may be reduced subject to certain debts outstanding at the Implementation Date, representing 5.5% of Creso, and will result in a total value to Health House shareholders that is a 200% premium to the market capitalisation of Health House as of 18 November 2022.

The Scheme is not subject to finance and is subject only to conditions and provisions customary for transactions of this type, including exclusivity arrangements (with relevant fiduciary carve outs) and provisions for payment of break fees of \$100,000 in certain circumstances, no material adverse change, court approval, and the requisite Health House shareholder approval.

The Scheme is subject to Health House shareholder approval to be sought at a general meeting which is expected to be convened in February 2023.

Facility Agreement

Furthermore, during the quarter, Creso provided Health House with a A\$750,000 working capital facility to assist it with its working capital needs (**Facility**).¹ In conjunction with execution of the scheme implementation deed, the Facility was increased to \$3,400,000 which will be used to as follows:

- \$750,000 – already advanced to Health House for working capital purposes;
- in accordance with the terms of a deed of settlement between Health House, Creso and Zelira (**Zelira Deed**):
 - \$550,000 – paid to Zelira Therapeutics Limited (**Zelira**) in cash (in partial settlement of a debt owing by Health House to Zelira); and
 - \$800,000 – comprised of Creso Shares to be issued to Zelira in partial satisfaction of a debt owing by Health House to Zelira, subject to approval of Creso’s shareholders; if Creso shareholder approval is not obtained on or prior to 31 December 2022, Health House will remain liable to Zelira to repay this amount;
- \$400,000 – assumed debt obligation of Health House to Celtic Capital Pty Ltd (**Celtic**) in accordance with a deed of settlement between Health House, Creso and Celtic; and
- up to \$900,000 – additional funding for Health House’s general corporate purposes and working capital.

¹¹ Refer ASX announcement 5 September 2022

Key Operational Achievements

Australia

In the quarter, Health House Australia's marketing team continued to work with partner pharmacies to improve margins per order, as well as commencing the implementation of a new IT backend in order to improve warehouse efficiency as well as facilitate increased distribution capacity.

Health House Australia's representation at major industry event (United in Compassion) resulting in substantial follow up with potential new suppliers and customers.

Germany

CanPharma secured Dronabinol supply for Germany, the new source of supply will enable CanPharma to enter into further framework agreements with statutory health insurance funds for dronabinol on competitive terms.

Subsequent to the end of the quarter, on 16 November 2022, Health completed the sale of CanPharma GmbH (**CanPharma**) to Ms Sabine Jacker.

The sale of CanPharma removed actual and contingent liabilities of approx. €2,887,000 (AUD\$4,456,000) from the Health House group's balance sheet.

United Kingdom

Health House UK was granted regulatory approval to add its pharmacy business as a site on its wholesale dealer license. This allows an increased range of products to be provided to customers.

Following the hot European summer, we have engaged the services of a new logistics partner, providing enhanced transport service and security of products.

Health House UK continued to see domestic growth alongside improved supply chain management.

Despite reduced sales due to the impact of changing regulatory requirements post-Brexit, Health House UK continued to secure significant new tender contracts to supply products to the Maltese National Health Service over the next two years.

Health House UK also received over 30 new and re-instated approvals to supply in Malta, securing our ability to supply and demonstrating the significant work in the regulatory space post-Brexit

Corporate

Health House has also raised \$400,000 via the issue of a convertible note (**Note**). The Note was used to repay \$400,000 to Zelira Therapeutics Limited (ASX:ZLD).

Coinciding with the sale of CanPharma, on 16 November 2022, Dr Henrik Sprengel has resigned the position of executive director.

Additional Information

Financial Snapshot

The Company's net cashflow used in operations for the quarter was \$951,000. The Company's operational outflows mainly comprised of inventory and operating costs (\$3,848,000), staff costs (\$959,000), administrative and corporate costs (\$659,000).

Cash receipts represented \$4,269,000 mainly generated from sales in Australia and the United Kingdom with a consistent contribution from Germany.

Listing Rule 4.7C.2

Health House confirms its operations are significantly funded by cash receipts from customers and Group expenditure since the date of admission, being 16 April 2021, exceeded the "use of funds: statement on expenditure program in the prospectus" prior to the end of the 31 December 2021 quarter. Health House will no longer provide a comparison of Health House's actual expenditure on the individual items in the "use of funds: statement of expenditure program since the date of admission" against the estimated expenditure on those items in the "use of funds: statement on expenditure program in the prospectus".

Health House will no longer be providing the use of funds comparison in its Appendix 4C.

Listing Rule 4.7C.3

In item 6 of the attached Appendix 4C, HHI recorded payments to related parties during the quarter of approximately \$39,000 comprising Director Services of \$12,000 and Non-Director Services –and serviced office expenses of \$5,000, as well as payments to associates during

the quarter of approximately \$21,000 comprising of legal and strategic consulting services of \$15,000 and rent of \$6,000.

The Company closed the quarter with a cash position of \$974,000.

This announcement has been approved and authorised for release by the board of Health House International Limited.

David Wheeler
Chairman

About Health House (www.healthhouse.com.au)

Health House International and the entities it controls (**the Group**) is an international pharmaceutical distributor specialising in, but not limited to, the distribution of medicinal cannabis products across Australasia, United Kingdom and Europe.

The Group is a fully licenced and regulated specialised importer, exporter and distributor currently distributing medicinal cannabis products from 14 producers to pharmacies, prescribers, specialist medicinal cannabis clinics and researchers across Australasia. In the UK and Germany, the Group holds all relevant licences (including GMP manufacturing), Wholesale Dealers and Controlled Drugs licences the Company supplies pharmacies, hospitals, government departments and other wholesalers with medicinal cannabis and general pharmaceutical products in the UK and Europe. The Group also integrates education of patients and healthcare professionals in the use of medicinal cannabis as a core part of its activities and is developing digital tools to enable a holistic understanding of usage.

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