

ASX ANNOUNCEMENT

ASX CODE: HHI

26 April 2022

March 2022 Quarterly Update

Key highlights:

- **Quarterly cash receipts of A\$4,368,000 representing a 8.4% increase on the previous quarter**
- **Strong sales across the group, particularly in Australia and the UK**
- **Agreement to merge with Zelira: the combination of Zelira's leading IP and R&D expertise combined with Health House's distribution network to create value for all shareholders**

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 31 March 2022 (Q2 FY22).

Health House International's CEO, Mr David Atwood commented:

We are extremely pleased with our results this quarter, we saw an 8.4% increase in cash receipts which remained at over A\$4 million. The continued growth was particularly pleasing given historic seasonality of sales.

Another key achievement in the period was the agreement to merge with Zelira Therapeutics Ltd (Zelira). The merger will create a formidable global medicinal cannabis player: we are confident that Zelira's leading IP and R&D expertise combined with Health House's distribution network -

as well as both groups' clinical experience and manufacturing capabilities - will unlock benefits for all shareholders.

8.4% cash receipts increase in December 2021 quarter

Health House generated quarterly cash receipts of A\$4,368,000 in Q3 FY22. The increase of 8.4% when compared to previous quarter, consolidated and built on the Dec 2021 record quarter.

Growth in cash receipts was mainly due to strong sales in Australia and the United Kingdom as well as Germany starting to scale, with drivers including:

- Health House Australia
 - Strong sales in a historically quieter quarter
 - Expanded sales and marketing team leading to an increase in pharmacy outreach
- Health House United Kingdom
 - New customers on-boarded
 - Internal restructuring improves team performance
- Health House Germany (CanPharma GmbH)
 - The operations in Germany started to scale in this quarter leading to an increased contribution to cash receipts from CanPharma in Germany

Scheme implementation deed executed with Zelira

During the quarter Health House entered into a binding terms sheet with Zelira Therapeutics Limited (ASX: ZLD) (**Zelira**). Subsequent to the end of the quarter, the parties executed a scheme implementation deed pursuant to which Zelira proposes to acquire 100% of Health House via a scheme of arrangement (**Transaction** and **Scheme**).

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

The Transaction will result in Zelira paying Health House shareholders Scheme Consideration of 2,311,045 Zelira shares, representing 19.45% of Zelira, and will result in a total value to Health House shareholders that is a 20% premium to the market capitalization of Health House as of 18 April 2022.

Zelira provided Health House with a \$1.5 million working capital facility to assist it with its working capital needs.

The Scheme is subject to Health House shareholder approval to be sought at a general meeting which is expected to be convened in June 2022.

Following Zelira shareholders approving the consolidation of Zelira's capital at a general meeting on 12 April 2022, all consideration shares issued to Health House shareholders will be on a post-consolidation basis.

Key Operational Achievements

Australia

In the quarter, the team has continued to work hard to build on the last quarters' record achievements and maintained supply despite Australia having supply chain issues and major COVID outbreaks in most cities. Health House Australia's marketing team's outreach focussed on working with partner pharmacies to improve margins per order.

Furthermore, Health House is working with our suppliers especially importers to navigate the new TGA regulations introduced in March 2022.

Germany

In the quarter, despite continued COVID disruption, Health House has continued to scale its operations and build out its strategy in Germany including becoming a preferred supplier to statutory insurance funds (SHI), taking the number of patients that are covered by SHI funds with framework agreements with CanPharma to almost 50% of the total number of insured Germans.

CanPharma continued recruitment for an observational trial into the effect of CanPharma brand extracts on patients' quality of life and doctors' prescribing habits.

Kalapa increased its visibility through participation of Kalapa doctors as conference presenters and recruiting a number of independent doctors to the Kalapa Network in Germany.

United Kingdom

The UK performed well this quarter with new customers onboarded in the UK and overseas, focussing on increasing margins.

The wholesale team in the UK has completed its internal restructuring to enable more efficient and smarter working patterns and establish itself to target future growth. Gees Pharmacy has continued its growth, supplying care homes and local communities as well as other ancillary services.

The quarterly performance was achieved despite the logistical issues present across Europe due to the ongoing war in the Ukraine.

Additional Information

Financial Snapshot

The Company's net cashflow used in operations for the quarter was \$728,000. The Company's operational expenses mainly comprised of inventory and operating costs (\$3,050,000), staff costs (\$877,000), administrative and corporate costs (\$1,046,000).

The Company fully drew down on a \$1,500,000 working capital facility from Zelira.

Cash receipts included \$4,368,000 mainly generated from sales in Australia and the United Kingdom.

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 \$95,000 comprising Director Services of \$76,000 and Non-Director Services –and serviced office expenses of \$4,000, as well as payments to associates during the quarter of approximately \$14,000 comprising of legal and strategic consulting services of \$12,000 and rent of \$2,000.

The Company closed the quarter with a cash position of \$1,502,000. The Company is in discussions with multiple parties that have the capacity to provide funding for the company through debt or equity. The Company is confident of being able to raise sufficient funding to continue to operate as it continues to grow revenues through Australia, Germany and the United Kingdom.

Forward Looking Activities

Health House and the entities it controls (the Group) looks forward to continuing implementing its growth strategy, by focusing on growing revenues by expanding its core operations to become the leading international pharmaceutical distributor, specialising in medicinal cannabis products.

Health House believes that the medicinal cannabis sector will converge with the traditional pharmaceutical industry across all aspects of the value chain including sales processes, delivery systems, standards of evidence, regulatory oversight and digital innovation. The Company is focused on leading the development of the sector with this in mind.

Distribution and geographical expansion

Health House is focused on expanding its operations in key strategic markets including Australasia, the UK and Europe. It will do this by leveraging its existing and extensive industry relationships, to enter into new distribution agreements to build out its product range and supplier base.

Sales Team and Marketing

To support its growing operations and expanding global footprint, Health House will strengthen its team to support customers and suppliers and to focus on product sales and marketing together with ongoing market development. As markets demand it, it will bring pharma-industry best practice in sales and patient care.

Education and Digital Innovation

Health House has been a pioneer in medicinal cannabis education in Australia. Following the acquisition of CanPharma, the Group now incorporates Kalapa Clinic, the first medicinal cannabis patients and doctors' consultancy in the EU. Health House believes that the medicinal cannabis sector is in its infancy and growth requires education and building trust with patients: it will do this by leveraging and expanding existing activities into current and other geographies.

Consistent with its belief in the convergence of medicinal cannabis with the traditional pharmaceutical sector, Health House will develop digital tools to order to generate data and loyalty along the patient journey.

Acquisitive expansion

Health House's Board, management team and advisors have a proven track record of identifying and implementing strategic acquisitions and successfully integrating these into existing businesses.

Health House believes that it continues to be well placed to attract and identify potential acquisition targets in strategic markets to build out its business and expand its geographic distribution footprint.

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

David Attwood
Chief Executive Officer

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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