

23 July 2024

\$12m Proposed Cash Asset Sale to Strengthen Balance Sheet, with \$2.2m of Earn Outs

Highlights:

- **Melodiol has signed a non-binding LOI with Canadian-based Nacerna Life Sciences Inc. to sell its Mernova production facility and land in Nova Scotia for an initial \$12m in cash consideration**
- **LOI includes two earn-out provisions totalling \$2.2m which are payable to Melodiol on completion of each earn out provisions**
- **Initial purchase price in line with previously attained appraisals on the building, equipment and land valuing it at between \$10.4m and \$12m (C\$9.5m to C\$11m)**
- **Transaction proceeds sufficient to repay all existing secured debt, significantly strengthening the balance sheet**
- **Transaction expected to allow for working capital to be deployed to Health House and Creso Pharma Switzerland to aid in future growth**
- **Melodiol to keep its highly-established Ritual cannabis brand and products and will attempt to continue selling in the Canadian recreational market via sourcing and branded resale of third party production**
- **In H1 2024, Health House and Creso Pharma Switzerland delivered combined revenues of \$5.6m, representing an annualised figure of \$11.2m, not including future sales of Ritual branded products in Canada**
- **Ritual brand (which ME1 retains) accounted for approximately \$6.9m (or 32%) of the Group's total revenue in FY23**

Melodiol Global Health Limited (ASX:ME1) ('Melodiol' or 'the Company'), is pleased to announce a non-binding Letter of Intent (LOI) with the Canadian based, Nacerna Life Sciences Inc. ('Nacerna'). The LOI pertains to the sale of Melodiol's cannabis production facility, equipment and land ('Sale Assets'), located in Nova Scotia, Canada, for an initial cash consideration of \$12m (C\$11m).

The transaction also includes two earn out provisions of \$1.1m (C\$1m) each, payable to Melodiol on (1) Nacerna reaching gross revenues of C\$50m within 24 months from the closing of the transaction via the Sale Assets and (2) 15,000kg of cannabis being produced at the facility within 24 months of the closing of the transaction.

The initial consideration for the Sale Assets is at the top end of the independent appraisals received for the Sale Assets (refer to ASX release: 19 June 2024), which valued the Sale Assets between \$10.4m and \$12m (C\$9.5m to C\$11m). Furthermore, the initial consideration is sufficient to repay all of the Company's existing secured

debt, significantly improving the Company's balance sheet, and is expected to allow for additional working capital to be deployed to Health House and Creso Pharma Switzerland. Health House and Creso Pharma Switzerland generated a combined \$5.6m of revenue in the first half of 2024, an annualised run rate of \$11.2m. Furthermore, the proposed transaction does not preclude Melodiol from retaining access to and generating revenue from the Ritual cannabis brand that had been produced at the Sale Assets. Following the transaction, Melodiol intends to leverage its ability to purchase third party produced flower (refer to ASX release: 27 May 2024) to attempt to continue marketing its Ritual products in the Canadian marketplace, thereby aspiring to retain some level of sales from the Ritual brand (which generated \$6.9m of sales in FY23), even without access to the Sale Assets.

About Nacerna

Nacerna Life Sciences Inc. is a licensed medical cannabis and psychedelics health services provider. Nacerna is focused on enhancing the patient's journey while incorporating its proprietary infuser medical products into the standard of care. Nacerna offers its "Breakwater" branded micro dosing CBD/THC infuser products through national distribution channels.

Nacerna Life Sciences Inc operates from a 6,000 sqft Health Canada approved treatment facility and the Nacerna team has extensive experience in novel drug development utilizing cannabis and psychedelic compounds, as well as experience in performing clinical trials.

The Nacerna team over their career have successfully worked with Health Canada, Canada Veteran Affairs and other government bodies on a variety of projects.

Management commentary:

Chief Executive Officer Mr William Lay said: *"The sale of the Mernova building, equipment and land is expected to be a pivotal step in the Company's trajectory. Upon closing, we would be in a position to significantly improve our balance sheet, and focus working capital on Health House and Creso Pharma Switzerland, while also attempting to maintain a level of sales from the Ritual brand in Canada.*

"We are pleased that the initial consideration is in line with the top end of the independent appraisals received for the Sale Assets, an outcome which highlights the quality of the assets the Company has built.

"Following the expected repayment of all secured debt, the Company will be in a stronger financial position, and able to focus all of its efforts on continued growth in the remaining business units, while aggressively pursuing its long-term strategic objective of group cash flow positive. We look forward to providing further updates in due course."

Transaction terms:

Subject to due diligence being satisfied and the conditions set out below, Nacerna would acquire the Sale Assets for a total purchase price totalling \$14.2m (C\$13m).

- \$12.0m (C\$11m) of cash payable on the closing of the transaction; and
- Subject to the following milestones (set out below) being met by Nacerna, the Company will receive:
 - \$1.1m (C\$1m) on Nacerna reaching gross revenues of C\$50m within 24 months from the closing of the transaction via the Sale Assets; and
 - \$1.1m (C\$1m) on Nacerna reaching 15,000kg of cannabis being produced at the facility within 24 months of the closing of the transaction.

The closing of the transaction will be subject to customary conditions, including, without limitation:

- Nacerna's satisfactory completion of due diligence of the Sale Assets;
- receipt of applicable corporate approvals of the transaction by the board of directors, as applicable;
- the execution of the definitive agreement and any ancillary agreements; and
- the receipt of any regulatory approvals and third-party consents

Sydney-based, Oakley Capital Partners acted as corporate advisor to Melodiol on the transaction and will receive a fee of approximately 11% of the transaction, in line with its Corporate Advisory and Transaction Mandates. Steinepreis Paganin acted as legal counsel to Melodiol.

Next steps

Melodiol is working closely with Nacerna's management to assist the group's due diligence process. Per the LOI, there is a 60-day exclusivity period for Nacerna to complete its due diligence activities and for the parties to negotiate and sign definitive and ancillary agreements for the sale.

-Ends-

Authority and Contact Details

This announcement has been authorised for release by the Board of Directors of Melodiol Global Health Limited.

For further information, please contact:

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About Melodiol

Melodiol Global Health Limited (ASX:ME1) brings the best of cannabis and other plant-based products to better the lives of people and animals. Melodiol strives for the highest quality in its products. It develops cannabis, hemp-derived and other plant based therapeutic, nutraceutical, and lifestyle products with wide consumer reach.

To learn more please visit: <https://melodiolglobalhealth.com/>

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Forward Looking statements

This announcement contains forward-looking statements with respect to Melodiol and its respective operations, strategy, investments, financial performance and condition. These statements generally can be identified by use of forward-looking words such as "may", "will", "expect", "estimate", "anticipate", "intends", "believe" or "continue" or the negative thereof or similar variations. The actual results and performance of Melodiol could differ materially from those expressed or implied by such statements. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Some important factors that could cause actual results to differ materially from expectations include, among other things, general economic and market factors, competition and government regulation.

The cautionary statements qualify all forward-looking statements attributable to Melodiol and persons acting on its behalf. Unless otherwise stated, all forward-looking statements speak only as of the date of this announcement and Melodiol has no obligation to up-date such statements, except to the extent required by applicable laws.