

22 February 2024

Northern Leaf Plc
(“Northern Leaf” or the “Company”)
Company number 128967

Northern Leaf Plc, the Jersey based medicinal cannabis producer, is pleased to announce that it has agreed terms for an all share merger (the “Merger”) with an established UK listed cannabis company (the “UK Listed”) valuing the Company at up to £3.7 million, representing a 5.5 times multiple on the pre-money price of the Company’s December 2023 rights issue (“Rights Issue”).

The target date for completion of the Merger is 31 March 2024 pursuant to which the UK Listed will undertake an equity fundraising of not less than £2 million (the “Fundraising”) providing the enlarged group with the liquidity required to deliver on its growth plans and see Northern Leaf financed through to profitable, self-sustaining cash flows in the latter half of 2024.

The Board recommends the approval of the Merger by all shareholders, which has already received approval from the Company’s two largest shareholders representing a significant percentage of the voting rights in the Company, as the best way forward for Northern Leaf to:

- secure the funding required to achieve profitability during H2 2024;
- provide an immediate return on investments made in the Rights Issue;
- provide our loyal shareholders with continued exposure to the growth in value of Northern Leaf;
- achieve liquidity for shareholders;
- provide a future exit for shareholders;
- realise meaningful economies of scale in the short term by gaining access to the UK Listed’s capabilities and experience in the areas of:
 - digital marketing
 - product branding
 - website presence
 - finished product packaging and logistics
 - shared corporate functions
- enhance the Company’s corporate governance;
- provide staff with equity based compensation enhancing retention and performance without increasing cash costs; and
- become part of an exciting growth story in the cannabis industry.

Your action required: The Board requests that you **complete, sign and return** by email to investors@northern-leaf.com the letter appended to this announcement **no later than the close of business on Wednesday 28th February 2024** to confirm your support for the Merger.

Completion of the Merger is conditional upon:

- The Company receiving the signed letters from shareholders representing not less than 75% of all shares held in the Company;
- UK Takeover Panel approval;
- Shareholders with larger holdings entering into orderly market agreements;
- Successful completion of the Fundraising; and
- Approval by the UK Listed’s shareholders (of which the largest shareholders have already provided their approval).

Details of Consideration

The total consideration of up to £3.7 million is comprised of a preliminary element, a loyalty element, and deferred performance-based consideration:

- **Preliminary consideration:** new UK Listed company’s shares issued pro rata to shareholders of Northern Leaf with an indicative value of £1.1 million

- **Loyalty consideration:** new UK Listed company's shares issued pro rata to shareholders of Northern Leaf who have remained on the shareholder register for six months prior to the date of this announcement with an indicative value of £220,000
- **Deferred consideration:** new UK Listed company's shares issued pro rata to shareholders of Northern Leaf subject to Northern leaf achieving annual revenues by no later than 31 March 2025 of:
 - not less than £2.0 million - new shares with an indicative value: £1.2 million
 - £3.5 million - new shares with an indicative value: £1.8 million
 - *More than* £5.0 million – new shares with an indicative value: £2.4 million

The intermediate revenue threshold is provided for illustrative purposes only as the actual shares vesting will be calculated on a straight line basis for revenue in between the £5.0 million upper and £2.0 million lower limit.

Note: Management's most recent forecast for FY24 anticipates the achievement of over £5 million of sales in FY24. Whilst this does not represent a guarantee of performance, it is the basis on which the deferred consideration has been agreed.

Ownership of the Enlarged Group

Based on the above arrangements, the ownership of the Enlarged Group (assuming all consideration shares vest and at the agreed Merger share price) is expected to be:

- **Existing UK Listed's shareholders – 20.8%**
- **Fundraising investment – 27.7%**
- **Northern Leaf shareholders – 51.5%**

The breakdown of the relative shareholdings at each step is as follows:

	UK Listed shareholders	Northern Leaf shareholders	Fundraising investment	Total	Northern Leaf shareholders
	£'m	£'m	£'m	£'m	%
Current market cap	1.50	N/A		1.50	
Preliminary consideration		1.10		2.60	42.3%
Loyalty consideration		0.22		2.82	7.8%
Deferred consideration		2.40		5.22	46.0%
Fundraising investment			2.00	7.22	Note 1
	1.50	3.72	2.00	7.22	
	20.8%	51.5%	27.7%	100.0%	

Note 1: Dependent on participation in Fundraising

The Fundraising

Shareholders in Northern Leaf will be entitled to participate in the Fundraising which is expected to represent c.27.7% of the enlarged group.

Furthermore, **investment in the Fundraising qualifies for the UK Government's Enterprise Investment Scheme** which offers a range of attractive tax reliefs to individual investors (who are UK taxpayers) and Venture Capital Trusts that purchase new shares in the Fundraising thereby making an investment in Northern Leaf via the Merger significantly more attractive than on a stand-alone basis.

Although there can be no guarantee that the Fundraising will be successful at this stage, preliminary market soundings have been very encouraging and the probability of success is significantly enhanced via the UK Listed vehicle.

Further details of the UK Government's Enterprise Investment Scheme can be found via the following link:

<https://www.gov.uk/hmrc-internal-manuals/venture-capital-schemes-manual/vcm10010>

Shareholder Call

The Board will host a Team's call for shareholders on **Monday 26th February 2024 at 6pm** UK time to discuss the transaction and address shareholder questions which can be accessed via the following link:

https://teams.microsoft.com//meetup-join/19%3ameeting_OGI2NjUxYWEtYTI5Zi00N2YxLWJkYTItM2RkNDkyY2Y2Nzlw%40thread.v2/0?context=%7b%22Tid%22%3a%22b28d1609-b27a-4b19-8cdc-1983cda15c72%22%2c%22Oid%22%3a%223fa538e4-c25e-4641-a840-a29a425538cf%22%7d

“After a challenging time for Northern Leaf I am delighted to be able to recommend this transaction which sees the board delivering on its undertaking to shareholders during the Rights Issue. The proposed Merger represents real value for shareholders in the immediate term whilst also maintaining our shareholders’ longer-term exposure to the strong growth prospects for Northern Leaf. Joining a listed company gives shareholders increased liquidity and, based upon the sales we now anticipate generating, represents an enhanced opportunity for long term shareholder returns.”

- Frank Walker OBE, Chairman of Northern Leaf Plc.

“The proposed Merger is a very exciting and logical next step in the development of Northern Leaf’s business strategy. The combined group will benefit from a number of meaningful operational synergies and efficiency savings in addition to the Company’s existing plans for this year where we expect to substantially grow revenues and achieve profitable, self-sustaining cash flow generation during H2 2024.”

- Geoff Eyre, Chief Executive Officer of Northern Leaf Plc.

For further information contact:

Geoff Eyre, CEO (geoff.eyre@northern-leaf.com)

Frank Walker, Chairman (frankwalkerjsy@gmail.com)

Ed Douglas, Senior Manager (edward.douglas@northern-leaf.com)

END

The Directors
Northern Leaf Plc
Retreat Farm
Rue des Varvots
St Lawrence
Jersey JE3 1GX

by email to investors@northern-leaf.com

Date: ____ February 2024

Dear Sirs

Northern Leaf Plc (“Northern Leaf”)

I refer to the announcement issued by Northern Leaf on 22 February 2024 (the “**Announcement**”).

I also refer to the proposed all share merger (the “**Merger**”) between Northern Leaf and an established UK listed cannabis company (the “**UK Listed**”).

Confirmation of support for the Merger

I confirm that I have given consideration to the information set out in the Announcement and the additional information provided by Northern Leaf and I ask that this letter be taken as evidence of my support for the Merger.

Authorisation

I hereby confirm that I will sign whatever documents are required to give effect to the Merger.

I do however also irrevocably grant each of the directors of Northern Leaf with the necessary power to sign any such documents in my stead to the extent it would expedite matters to achieve a successful closing of the Merger.

Power of Attorney

Accordingly, by signing this letter, I _____ of _____ (the “**Principal**”) hereby appoint each of Frank Walker, Geoffrey Eyre, Tobias Mathews and Michael Thompson (the “**Attorney**”) severally as an attorney with full power and authority for, and in the name of and on behalf of the Principal in any part of the world to do all or any of the following (in each case as the Attorney in his absolute and unfettered discretion shall think fit):

- (a) to negotiate, agree the terms of, approve, sign, execute and deliver any agreements, documents, notes, instruments, stock transfer forms, deeds, letters, notices (including any Drag Along Notice (as defined in article 8.2 of the articles of association of Northern Leaf (the “**Articles**”)), certificates, acknowledgements and instructions (the “**Documents**”) considered by the Attorney necessary or expedient in connection with the Merger;

- (b) to approve any amendments to any Document considered by the Attorney necessary or expedient (the execution and delivery of such document to be conclusive evidence of the Attorney's approval to any such amendments); and
- (c) to do all other such acts and things as the Attorney may consider necessary or expedient for the purposes of the Merger and/or the Documents.

1.2 The power of attorney granted in this letter shall:

- (a) be effective immediately; and
- (b) expire at midnight on the date that is six months from the date of the power of attorney granted in this letter (the "**Expiry Date**"); and
- (c) be irrevocable until the Expiry Date.

1.3 The expiry of the power of attorney granted in this letter shall not affect the validity of any act, matter, communication or other thing done during the validity of this power of attorney.

1.4 I hereby:

- (a) undertake to ratify and confirm each and every act or thing which may be done or effected by the Attorney in the proper exercise of any of the Attorney's powers under the power of attorney granted in this letter;
- (b) undertake to indemnify the Attorney and to hold him harmless against all actions, claims, demands, costs, charges, expenses, losses and other liabilities whatsoever arising from or otherwise relating to the exercise or purported exercise in good faith of any power conferred by this power of attorney;
- (c) declare that any person dealing with the Attorney shall not be concerned to see or enquire as to the propriety or expediency of any act, deed, matter or thing which the Attorney may do or perform in the Principal's name under the power of attorney granted in this letter; and
- (d) empower the Attorney to procure to be done any and every other act or thing whatsoever which may be necessary to give full effect to the power of attorney granted in this letter.

Drag along rights

I understand that by giving my support for the Merger and by signing this letter, Northern Leaf may include my shareholding in the calculation to determine whether or not the threshold for activating the drag along right in article 8.1 of the Articles has been met.

For the purposes of article 8.5 of the Articles, to the extent there are any defaulting Called Members (as defined in article 8.1 of the Articles), I hereby nominate each of the directors of Northern Leaf to execute and deliver all necessary transfers and take all necessary steps to transfer the Called Shares (as defined in article 8.2(a) of the Articles).

This letter and the power of attorney granted in this letter is governed by and shall be construed in accordance with the laws of Jersey.

Yours faithfully,

Signed by _____

.....
Signature

in the presence of a witness

.....
Signature of witness

.....
Name of witness

.....
Address of witness

.....
Occupation of witness