

## Asset spotlight continued



### The Glasshouse

Controlled environment glasshouse, utilising surplus heat and power from co-located AD facility

#### Investment highlights

<b>Acquisition date</b>	September 2022
<b>Ownership</b>	Majority of investment through a senior loan to fund construction of the glasshouse, with a minority equity interest in the growing partner
<b>Investment to date/ total commitment</b>	£26.7 million invested; in line with initial commitment
<b>Operational status</b>	Phase 1 (2.4 hectare facility) construction is complete. Currently in operational ramp-up period
<b>Timetable to completion</b>	Ramp-up expected to be complete by 2026
<b>Location</b>	Co-located with an existing FGEN AD facility
<b>Basis of FGEN valuation</b>	Discounted cash flow ("DCF")
<b>FGEN equity value</b>	£35.5 million
<b>Percentage of portfolio value</b>	4.4%
<b>Gearing</b>	No external debt
<b>Life of investment</b>	Land is leased for 25 years
<b>Source of funding</b>	Construction funded from surplus portfolio cash flows and RCF drawings

#### Investment overview

A 2.4-hectare advanced glasshouse which completed phase 1 of construction in September 2023 and which is co-located with an existing FGEN AD facility that supplies low carbon heat and power via a private wire.

The advanced glasshouse is capable of growing a wide array of horticultural products, from consumable produce to cut flowers. Its current operator focuses on the lawful cultivation of the heavily regulated tetrahydrocannabinol flower, conforming to tightly monitored licence requirements for secure supply to established UK-based pharmaceutical manufacturers.

Glass Pharms is the first UK commercial grower of high-THC cannabis flower for lawful third parties to produce cannabis-based products for medicinal use in humans ("CBPMs").

#### Investment attractions

- Synergies from co-location of facilities, whereby the glasshouse receives renewable heat and electricity via private wires at a discount to market prices it would otherwise pay and the AD facility benefits from receipt of RHI subsidy from the provision of otherwise waste heat as well as selling electricity to the glasshouse at a premium to the price available from exporting to the grid
- Attractive risk-adjusted returns with FGEN benefiting from downside protection via a senior preferred return and opportunity for capital growth via equity interest
- High margin business model, requiring low volumes to achieve breakeven position whilst retaining potential for significant capital growth
- The investment generates new diversified revenue streams for FGEN derived from glasshouses, whilst also increasing revenues from an existing asset



CE Glasshouse exterior

## Asset spotlight continued

### Revenue structure and key cost base

<b>Sources of revenue</b>	Sales of high-THC cannabis flower for lawful third parties to produce CBPMs
<b>Revenue growth</b>	Increased market penetration
<b>Inflation linkage</b>	No contractual linkage, although the Company retains pricing power in its ability to pass on underlying cost increases
<b>Margins</b>	65%+
<b>Currency strategy</b>	No currency risk post construction
<b>Key costs</b>	Staff and electricity

### Key operational updates in the period

- Phase 1 of construction completed in September 2023, allowing for c.12,000kg of dried flower to be grown per annum
- Signed first major offtake contract with Releaf, the UK's fastest-growing medical cannabis provider, in a landmark multi-million pound deal to supply CBPMs to Releaf's patients. The relationship resulted in the first ever patient to receive prescribed medical cannabis flower grown in the UK, ending the reliance on imported flower

### Operational focus for the year ahead

- Principal focus is to continue ramp-up operations; carefully managing costs and attracting new offtake partners who presently rely on imported sources with a view to achieving breakeven performance in 2025

### Value enhancement opportunities

- More longer term, once the facility has reached its current capacity, there is scope to undertake phase 2 of construction - intended to facilitate more than double the current volume capacity. The expansion would be funded from free cash generated by the glasshouse

### Sustainability credentials

- Co-location: other wasted heat from the co-located AD facility is used to both heat and cool the facility, avoiding the emissions usually involved in heating
- Circular water saving: rainwater is harvested from the glasshouse roofs and recycled around the facility
- Advanced glasshouse design using 45% of the energy compared to indoor growing. Patent pending

### Principal risks and mitigants

	<b>Risk</b>	<b>Mitigant</b>
<b>#1</b>	Lower than modelled demand leading to failure to reach break-even cash flows	Short-term shortfalls managed through ability to control production levels to match offtake requirements, minimising wastage. Longer-term shortfalls mitigated through alternative production opportunities
<b>#2</b>	Poor harvest	Reliability of harvests increased through the controlled nature of the growing environment, advanced glasshouse technology and extensive experience of the growing team
<b>#3</b>	Change in regulation	In addition to the existing license, Glass Pharms is actively engaged with regulators and ministers on the benefits of medical cannabis. Independent research shows that prescribing medical cannabis for chronic pain could save the NHS nearly £4 billion each year by reducing reliance on more expensive alternative treatments