

# NOTICE OF GENERAL MEETING

Accompanied by an Explanatory Statement, Independent Expert's Report & Proxy Form

## **TW Holdings Limited**

ACN 008 095 207

to be renamed AusCann Group Holdings Ltd

**TIME:** 3.00pm WST

**DATE:** Monday, 31 October 2016

**PLACE:** Allion Partners, Level 9, 863 Hay Street, Perth, Western Australia

This Notice of Meeting, Explanatory Statement, Independent Expert's Report and Proxy Form should be read in their entirety.

If you are in doubt as to how you should vote, you should seek advice from your accountant, solicitor or other professional advisor prior to voting.

The Independent Expert reporting on the Essential Resolutions concludes that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders of the Company.

If you wish to discuss this Notice of Meeting or the accompanying documents, please do not hesitate to contact the Company Secretary on +61 (0) 8 6298 6191.

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## KEY DATES

Event	Date
Snapshot date for eligibility to vote	29 October 2016
Last day for receipt of Proxy Forms*	29 October 2016
General Meeting and suspension of the Company's Shares from trading	31 October 2016
Completion of Proposed Transaction and issue of new Securities (anticipated)	30 November 2016
Re-quotation of the Company's Shares on ASX (anticipated)	14 December 2016

\* Proxy Forms received after 3.00pm WST will be disregarded.

## NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of TW Holdings Limited ACN 008 095 207 (**Company**) will be held at Allion Partners, Level 9, 863 Hay Street, Perth, Western Australia at 3.00pm WST on Monday, 31 October 2016.

The Explanatory Statement, which accompanies and forms part of this Notice, describes the various matters to be considered.

The Independent Expert's Report, which accompanies this Notice and the Explanatory Statement, sets out the Independent Expert's conclusion that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders of the Company.

Terms used in this Notice, unless the context otherwise requires, have the meanings given to them in the Glossary set out in the Explanatory Statement.

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### RESOLUTION 1 – APPROVAL FOR CHANGE TO NATURE AND SCALE OF ACTIVITIES

To consider and, if thought fit, pass with or without amendment the following resolution as an **ordinary resolution**:

*That, subject to the Essential Resolutions being passed, for the purposes of Listing Rule 11.1.2, and for all other purposes, approval is given for the Company to make a significant change to the nature and scale of its activities as set out in the Explanatory Statement to the Notice in respect of the General Meeting at which this resolution is passed.*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by RSM for the purposes of shareholder approval in relation to the Essential Resolutions. The Independent Expert's report comments on the fairness and reasonableness of the issues under those resolutions to non-associated shareholders. The Independent Expert has determined that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders.

**Voting exclusion:** In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this resolution by any person who may obtain a benefit, except a benefit solely in the capacity of a holder of Shares, if the resolution is passed, and any Associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the General Meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy to vote as the proxy decides.

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### RESOLUTION 2 - CONSOLIDATION

To consider and, if thought fit, pass with or without amendment the following resolution as an **ordinary resolution**:

*That, subject to the Essential Resolutions being passed, for the purposes of section 254H of the Corporations Act and the Constitution, and for all other purposes, approval be and is hereby given for the Shares in the Company to be consolidated on a 20:1 basis, with any fractional entitlements being rounded down, such consolidation to occur as soon as practicable following Completion as defined in the Notice and to occur in respect of all existing Shares as well as all Securities to be issued as contemplated in that Notice where those Securities are described as pre-Consolidation.*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by RSM for the purposes of shareholder approval in relation to the Essential Resolutions. The Independent Expert's report comments on the fairness and reasonableness of the issues under those resolutions to non-associated shareholders. The Independent Expert has determined that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders.

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## RESOLUTION 3 - APPROVAL FOR A NEW CLASS OF SECURITIES

To consider and, if thought fit, pass the following resolution as a **special resolution**:

*That, subject to the Essential Resolutions being passed, for the purposes of section 246B of the Corporations Act, rule 5 of the Constitution, and for all other purposes, with effect from Completion, the Company is authorised to issue Performance Shares on the terms and conditions set out in the Explanatory Statement.*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by RSM for the purposes of shareholder approval in relation to the Essential Resolutions. The Independent Expert's report comments on the fairness and reasonableness of the issues under those resolutions to non-associated shareholders. The Independent Expert has determined that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders.

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## RESOLUTION 4 - APPROVAL FOR ISSUE OF CONSIDERATION SECURITIES

To consider and, if thought fit, pass with or without amendment the following resolution as an **ordinary resolution**:

*That, subject to the Essential Resolutions being passed, for the purposes of Listing Rule 7.1, and for all other purposes, approval is given for the Company to issue:*

- (a) *957,718,474 Ordinary Shares and 184,287,904 Performance Shares (each on a pre-Consolidation basis) to the SPA Vendors; and*
- (b) *153,552,779 Canopy Options (on a pre-Consolidation basis) to Canopy or its nominee,*

*on the terms set out in the Explanatory Statement.*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by RSM for the purposes of shareholder approval in relation to the Essential Resolutions. The Independent Expert's report comments on the fairness and reasonableness of the issues under those resolutions to non-associated shareholders. The Independent Expert has determined that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders.

**Voting exclusion:** In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this resolution by any vendor or person who may receive Consideration Securities, and any person who may participate in the proposed issue, and any person who may obtain a benefit, except a benefit solely in the capacity of a holder of Shares, if the resolution is passed, and any Associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the General Meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy to vote as the proxy decides.

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## RESOLUTION 5 – APPROVAL FOR THE ISSUE OF ADVISOR SECURITIES

To consider and, if thought fit, pass with or without amendment the following resolution as an **ordinary resolution**:

*That, subject to the Essential Resolutions being passed, for the purposes of Listing Rule 7.1, and for all other purposes, approval is given for the Company to issue 290,424,561 Ordinary Shares and 55,884,621 Performance Rights (each on a pre-Consolidation basis) to the Advisors (or their respective nominees) on the terms set out in the Explanatory Statement.*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by RSM for the purposes of shareholder approval in relation to the Essential Resolutions. The Independent Expert's report comments on the fairness and reasonableness of the issues under those resolutions to non-associated shareholders. The Independent Expert has determined that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders.

**Voting exclusion:** In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this resolution by any person who may participate in the proposed issue, and any person who may obtain a benefit, except a benefit solely in the capacity of a holder of Shares, if the resolution is passed, and any Associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the General Meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy to vote as the proxy decides.

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## RESOLUTION 6 – APPROVAL FOR THE ISSUE OF OPTIONS TO MR DAVID WHEELER

To consider and, if thought fit, pass with or without amendment the following resolution as an **ordinary resolution**:

*That, subject to the Essential Resolutions being passed, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 1,000,000 Director Options (on a pre-Consolidation basis) to Mr David Wheeler or his nominee on the terms set out in the Explanatory Statement.*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by RSM for the purposes of shareholder approval in relation to the Essential Resolutions. The Independent Expert's report comments on the fairness and reasonableness of the issues under those resolutions to non-associated shareholders. The Independent Expert has determined that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders.

**Voting exclusion:** In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this resolution by Mr Wheeler or any of his Associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the General Meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy to vote as the proxy decides.

The Company will also disregard any votes cast on this resolution by any member of the Key Management Personnel of the Company, or a closely related party of such member, acting as proxy if their appointment does not specify the way the proxy is to vote on the resolution. However, the Company need not disregard a vote if the Proxy Form specifies how the proxy is to vote on the resolution, and the vote is not cast on behalf of a person who is otherwise excluded from voting on this resolution, or it is cast by the person chairing the General Meeting as an undirected proxy for a person who is entitled to vote and their appointment expressly authorises the proxy to exercise the proxy even though the resolution is connected with the remuneration of the Key Management Personnel of the Company.

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## RESOLUTION 7 – APPROVAL FOR THE ISSUE OF OPTIONS TO MR NICHOLAS CALDER

To consider and, if thought fit, pass with or without amendment the following resolution as an **ordinary resolution**:

*That, subject to the Essential Resolutions being passed, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 1,000,000 Director Options (on a pre-Consolidation basis) to Mr Nicholas Calder or his nominee on the terms set out in the Explanatory Statement.*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by RSM for the purposes of shareholder approval in relation to the Essential Resolutions. The Independent Expert's report comments on the fairness and reasonableness of the issues under those resolutions to non-associated shareholders. The Independent Expert has determined that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders.

**Voting exclusion:** In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this resolution by Mr Calder or any of his Associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the

directions on the Proxy Form, or it is cast by the person chairing the General Meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy to vote as the proxy decides.

The Company will also disregard any votes cast on this resolution by any member of the Key Management Personnel of the Company, or a closely related party of such member, acting as proxy if their appointment does not specify the way the proxy is to vote on the resolution. However, the Company need not disregard a vote if the Proxy Form specifies how the proxy is to vote on the resolution, and the vote is not cast on behalf of a person who is otherwise excluded from voting on this resolution, or it is cast by the person chairing the General Meeting as an undirected proxy for a person who is entitled to vote and their appointment expressly authorises the proxy to exercise the proxy even though the resolution is connected with the remuneration of the Key Management Personnel of the Company.

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## RESOLUTION 8 – APPROVAL FOR THE ISSUE OF OPTIONS TO MR SIMON TAYLOR

To consider and, if thought fit, pass with or without amendment the following resolution as an **ordinary resolution**:

*That, subject to the Essential Resolutions being passed, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 1,000,000 Director Options (on a pre-Consolidation basis) to Mr Simon Taylor or his nominee on the terms set out in the Explanatory Statement.*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by RSM for the purposes of shareholder approval in relation to the Essential Resolutions. The Independent Expert's report comments on the fairness and reasonableness of the issues under those resolutions to non-associated shareholders. The Independent Expert has determined that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders.

**Voting exclusion:** In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this resolution by Mr Taylor or any of his Associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the General Meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy to vote as the proxy decides.

The Company will also disregard any votes cast on this resolution by any member of the Key Management Personnel of the Company, or a closely related party of such member, acting as proxy if their appointment does not specify the way the proxy is to vote on the resolution. However, the Company need not disregard a vote if the Proxy Form specifies how the proxy is to vote on the resolution, and the vote is not cast on behalf of a person who is otherwise excluded from voting on this resolution, or it is cast by the person chairing the General Meeting as an undirected proxy for a person who is entitled to vote and their appointment expressly authorises the proxy to exercise the proxy even though the resolution is connected with the remuneration of the Key Management Personnel of the Company.

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## RESOLUTION 9 – ACQUISITION OF A SUBSTANTIAL ASSET

To consider and, if thought fit, pass with or without amendment the following resolution as an **ordinary resolution**:

*That, subject to the Essential Resolutions being passed, for the purposes of Listing Rule 10.1, and for all other purposes, approval is given for the Company to acquire AusCann Shares from Vendors who are related parties of the Company or who are substantial holders (within the meaning in the Listing Rules) in, the Company on the terms set out in the Explanatory Statement.*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by RSM for the purposes of shareholder approval in relation to the Essential Resolutions. The Independent Expert's report comments on the fairness and reasonableness of the issues under those resolutions to non-associated shareholders. The Independent Expert has

determined that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders.

**Voting exclusion:** In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this resolution by Pathways Corporate Pty Ltd or Mr Jason Peterson & Mrs Lisa Peterson, and any Associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the General Meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy to vote as the proxy decides.

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## RESOLUTION 10 – APPROVAL FOR THE ISSUE OF SHARES UNDER THE PUBLIC OFFER

To consider and, if thought fit, pass with or without amendment the following resolution as an **ordinary resolution**:

*That, subject to the Essential Resolutions being passed, for the purposes of Listing Rule 7.1, and for all other purposes, approval is given for the Company to issue up to a maximum of 500,000,000 Shares (on a pre-Consolidation basis), on the terms and conditions set out in the Explanatory Statement.*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by RSM for the purposes of shareholder approval in relation to the Essential Resolutions. The Independent Expert's report comments on the fairness and reasonableness of the issues under those resolutions to non-associated shareholders. The Independent Expert has determined that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders.

**Voting exclusion:** In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this resolution by any person who may participate in the proposed issue, and any person who may obtain a benefit, except a benefit solely in the capacity of a holder of Shares, if the resolution is passed, and any Associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the General Meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy to vote as the proxy decides.

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## RESOLUTION 11 – APPROVAL FOR DIRECTORS TO APPLY UNDER PROSPECTUS

To consider and, if thought fit, pass with or without amendment the following resolution as **ordinary resolution**:

*That, subject to the Essential Resolutions being passed, for the purposes of Listing Rule 10.11, and for all other purposes, approval is given for the Company to issue up to 3,000,000 Shares (on a pre-Consolidation basis) to Mr Bruce McHarrie (a proposed Director) and Ms Cheryl Edwardes (a proposed Director), out of the maximum number of Shares to be issued pursuant to resolution 10 in the Notice, on the terms and conditions set out in the Explanatory Statement.*

**Voting exclusion:** In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this resolution by Mr Bruce McHarrie and Ms Cheryl Edwardes and any Associates of Mr Bruce McHarrie or of Ms Cheryl Edwardes. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the General Meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy to vote as the proxy decides.

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## RESOLUTION 12 – APPOINTMENT OF DR MAL WASHER AS A DIRECTOR

To consider and, if thought fit, pass with or without amendment the following resolution as an **ordinary resolution**:

*That, subject to the Essential Resolutions being passed, for the purposes of rule 61 of the Constitution, and for all other purposes, with effect from Completion, Dr Malcolm James Washer be appointed as a Director, on and from Completion as defined in the Notice of the General Meeting at which this resolution is passed.*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by RSM for the purposes of shareholder approval in relation to the Essential Resolutions. The Independent Expert's report comments on the fairness and reasonableness of the issues under those resolutions to non-associated shareholders. The Independent Expert has determined that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders.

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#### RESOLUTION 13 – APPOINTMENT OF MS ELAINE DARBY AS A DIRECTOR

To consider and, if thought fit, pass with or without amendment the following resolution as an **ordinary resolution**:

*That, subject to the Essential Resolutions being passed, for the purposes of rule 61 of the Constitution, and for all other purposes, with effect from Completion, Ms Elaine Lucy Darby be appointed as a Director.*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by RSM for the purposes of shareholder approval in relation to the Essential Resolutions. The Independent Expert's report comments on the fairness and reasonableness of the issues under those resolutions to non-associated shareholders. The Independent Expert has determined that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders.

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#### RESOLUTION 14 – APPOINTMENT OF MR HARRY KARELIS AS A DIRECTOR

To consider and, if thought fit, pass with or without amendment the following resolution as an **ordinary resolution**:

*That, subject to the Essential Resolutions being passed, for the purposes of rule 61 of the Constitution, and for all other purposes, with effect from Completion, Mr Harry Karelis be appointed as a Director.*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by RSM for the purposes of shareholder approval in relation to the Essential Resolutions. The Independent Expert's report comments on the fairness and reasonableness of the issues under those resolutions to non-associated shareholders. The Independent Expert has determined that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders.

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#### RESOLUTION 15 – APPOINTMENT OF MR BRUCE MCHARRIE AS A DIRECTOR

To consider and, if thought fit, pass with or without amendment the following resolution as an **ordinary resolution**:

*That, subject to the Essential Resolutions being passed, for the purposes of rule 61 of the Constitution, and for all other purposes, with effect from Completion, Mr Bruce McHarrie be appointed as a Director.*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by RSM for the purposes of shareholder approval in relation to the Essential Resolutions. The Independent Expert's report comments on the fairness and reasonableness of the issues under those resolutions to non-associated shareholders. The Independent Expert has determined that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders.

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#### RESOLUTION 16 – APPOINTMENT OF HON CHERYL EDWARDES AS A DIRECTOR

To consider and, if thought fit, pass with or without amendment the following resolution as an **ordinary resolution**:

*That, subject to the Essential Resolutions being passed, for the purposes of rule 61 of the Constitution, and for all other purposes, with effect from Completion, Hon Cheryl Edwardes be appointed as a Director.*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by RSM for the purposes of shareholder approval in relation to the Essential Resolutions. The Independent Expert's report comments on the fairness and reasonableness of the issues under those resolutions to non-associated shareholders. The Independent Expert has determined that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders.

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## RESOLUTION 17 – APPOINTMENT OF MR BRUCE LINTON AS A DIRECTOR

To consider and, if thought fit, pass with or without amendment the following resolution as an **ordinary resolution**:

*That, subject to the Essential Resolutions being passed, for the purposes of rule 61 of the Constitution, and for all other purposes, with effect from Completion, Mr Bruce Linton be appointed as a Director.*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by RSM for the purposes of shareholder approval in relation to the Essential Resolutions. The Independent Expert's report comments on the fairness and reasonableness of the issues under those resolutions to non-associated shareholders. The Independent Expert has determined that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders.

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## RESOLUTION 18 – CHANGE OF COMPANY'S NAME

To consider and, if thought fit, pass the following resolution as a **special resolution**:

*That, subject to the Essential Resolutions being passed, and conditional upon the name below becoming available, for the purposes of section 157(1) of the Corporations Act, and for all other purposes, the Company change its name from "TW Holdings Limited" to "AusCann Group Holdings Ltd".*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by RSM for the purposes of shareholder approval in relation to the Essential Resolutions. The Independent Expert's report comments on the fairness and reasonableness of the issues under those resolutions to non-associated shareholders. The Independent Expert has determined that the Proposed Transaction is FAIR AND REASONABLE to non-associated shareholders.

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## RESOLUTION 19 – ADOPTION OF A NEW CONSTITUTION

To consider and, if thought fit, pass the following resolution as a **special resolution**:

*That, subject to the Essential Resolutions being passed, for the purposes of section 136(2) of the Corporations Act, and for all other purposes, the Constitution submitted to the General Meeting at which this resolution is passed, and signed by the Chairman for the purposes of identification, is approved and adopted as the Constitution in substitution for and to the exclusion of the existing constitution of the Company with effect immediately following the Meeting.*

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## RESOLUTION 20 – APPROVAL OF EMPLOYEE SHARE OPTION PLAN

To consider and, if thought fit, pass with or without amendment the following resolution as an **ordinary resolution**:

*That, subject to the Essential Resolutions being passed, for the purpose of Listing Rule 7.2 Exception 9(b), sections 200B and 200E of the Corporations Act and for all other purposes, approval is given for the employee incentive scheme, a summary of which is set out in the*

*Explanatory Statement, and the issue of Securities there under, as an exception to Listing Rule 7.1.*

**Voting exclusion:** In accordance with Listing Rule 14.11, the Company will disregard any votes cast on this resolution by a Director (except one who is ineligible to participate in any employee incentive scheme in relation to the Company) and any Associates of such a Director. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the General Meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy to vote as the proxy decides.

The Company will also disregard any votes cast on this resolution by any member of the Key Management Personnel of the Company, or a closely related party of such member, acting as proxy if their appointment does not specify the way the proxy is to vote on the resolution. However, the Company need not disregard a vote if the Proxy Form specifies how the proxy is to vote on the resolution, and the vote is not cast on behalf of a person who is otherwise excluded from voting on this resolution, or it is cast by the person chairing the General Meeting as an undirected proxy for a person who is entitled to vote and their appointment expressly authorises the proxy to exercise the proxy even though the resolution is connected with the remuneration of the Key Management Personnel of the Company.

BY ORDER OF THE BOARD OF DIRECTORS



**David Wheeler**

**Non-Executive Chairman**

28 September 2016

## LODGEMENT OF A PROXY FORM

The Proxy Form (and any power of attorney or other authority, if any, under which it is signed) or a copy or facsimile which appears on its face to be an authentic copy of the Proxy Form (and the power of attorney or other authority) must be lodged with the Company no later than 3.00pm WST on 29 October 2016 being not later than 48 hours before the commencement of the General Meeting. Any Proxy Form received after that time will not be valid. Proxy forms may be lodged:

Proxy forms may be lodged:

1. Online: at [www.investorvote.com.au](http://www.investorvote.com.au)
2. By mail: complete and sign the enclosed Proxy Form and return to:  
Computershare Investor Services Pty Limited  
GPO Box 242  
Melbourne VIC 3001 Australia
3. By Fax: complete and sign the enclosed Proxy Form and fax to:  
Inside Australia 1800 783 447  
Outside Australia +61 3 9473 2555

## APPOINTMENT OF A PROXY

A member of the Company entitled to attend and vote at the General Meeting is entitled to appoint a proxy. The proxy may, but need not be, a shareholder of the Company.

If you wish to appoint the Chairman as your proxy, mark the box. If the person you wish to appoint as your proxy is someone other than the Chairman, please write the name of that person. If you leave this section blank, or your named proxy does not attend the Meeting, the Chairman will be your proxy.

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company on +61 1300 503 085 or you may photocopy the Proxy Form.

To appoint a second proxy, you must on each Proxy Form state (in the appropriate box) the percentage of your voting rights which are the subject of the relevant proxy. If both Proxy Forms do not specify that percentage, each proxy may exercise half your votes. Fractions of votes will be disregarded.

## CORPORATE SHAREHOLDERS

Corporate shareholders should comply with the execution requirements set out on the Proxy Form or otherwise with the provisions of section 127 of the Corporations Act. Section 127 of the Corporations Act provides that a company may execute a document without using its common seal if the document is signed by:

- (a) two directors of the company;
- (b) a director and a company secretary of the company; or
- (c) for a proprietary company that has a sole director who is also the sole company secretary – that director.

## VOTES ON RESOLUTIONS

You may direct your proxy how to vote on a resolution by placing a mark in one of the boxes opposite the resolution. All your shareholding will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on the resolutions by inserting the percentage or number of Shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the resolutions, your proxy may vote as he or she chooses. If you mark more than one box on a resolution your vote on the resolution will be invalid.

## **VOTING ENTITLEMENT (SNAPSHOT DATE)**

For the purposes of determining voting and attendance entitlements at the General Meeting, Shares will be taken to be held by the persons who are registered as holding the Shares at 3.00pm WST on 29 October 2016. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the General Meeting.

## **CORPORATE REPRESENTATIVES**

A corporation may elect to appoint an individual to act as its representative in accordance with section 250D of the Corporations Act, in which case the Company will require a certificate of appointment of the corporate representative executed in accordance with the Corporations Act. The certificate of appointment must be lodged with the Company before the General Meeting or at the registration desk on the day of the General Meeting.

## EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of Shareholders in relation to the business to be conducted at the General Meeting.

The purpose of this Explanatory Statement is to provide Shareholders with all information known to the Company which is material to a decision on how to vote on the resolutions in the accompanying Notice of Meeting.

This Explanatory Statement should be read in conjunction with the Notice of Meeting.

Capitalised terms in this Explanatory Statement and in the Notice are defined in the Glossary in Schedule 1.

All of the proposed resolutions relate in some way (directly or indirectly) to the proposed acquisition by the Company of AusCann. A summary of the proposed transactions, including the business of AusCann and the effect of the transactions on holders of existing Shares, is set out in Schedule 2.

Information relevant to particular resolutions is set out below. There is additional information relevant generally to the Proposed Transaction and the other transactions the subject of the Notice set out in Schedule 3.

Each resolution is conditional on the Essential Resolutions, meaning that in order for any resolution to have effect, the Essential Resolutions must also be passed by Shareholders.

Accordingly, if any Essential Resolution is not passed, none of the resolutions will be able to take effect. In that event the Proposed Transaction will not proceed and the Company will continue with its current activities unless and until further opportunities can be identified by the Directors. ASX has indicated to the Company that if the Proposed Transaction does not proceed, there is a risk that the Company will not be reinstated for failure to comply with Listing Rule 12.1 which requires an entity to have a level of operations sufficient to warrant its continued quotation.

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### 1. APPROVAL FOR CHANGE TO NATURE AND SCALE OF ACTIVITIES

#### 1.1 Background

Resolution 1 seeks shareholder approval for the acquisition of AusCann and the consequent change to the nature and scale of activities of the Company that will occur.

The Company has entered into Share Purchase Agreements with 23 AusCann Shareholders representing approximately 32.6% of the AusCann Shares on issue as at the date of this Notice.

To the extent that the Company has not entered into share purchase agreements with AusCann Shareholders, the acquisition of AusCann is proposed to be effected by means of scrip off market takeover offers by the Company to acquire all of the AusCann Shares, as announced to ASX on 28 September 2016 (**Takeover Bid**). The Company intends to despatch its bidder's statement during the period between the date of this Notice and the date of the General Meeting.

Under the Takeover Bid and the Share Purchase Agreements, the consideration offered for each AusCann Share is one (1) Share and approximately 0.1924 Performance Shares. The total number of Consideration Securities to be issued to acquire AusCann is 2,934,183,791 Ordinary Shares and 564,607,029 Performance Shares.

In addition to the Takeover Bid and the Share Purchase Agreements, the Company proposes to make a private offer to acquire all of the AusCann Options. These options are currently held exclusively by Canopy. Under the terms of this offer, the Company will enter into the Option Purchase Agreement with Canopy and issue 153,552,779 options (on a pre-Consolidation basis) to Canopy on the terms set out in Schedule 10 (**Canopy Options**). The offer to acquire the AusCann Options will be conditional on the Takeover Bid becoming unconditional.

As a result of the Takeover Bid, the Share Purchase Agreements and the Option Purchase Agreement, AusCann will become a wholly owned subsidiary of the Company and the holders of AusCann Securities will become security holders in the Company.

This resolution is conditional on the passing of all of the other Essential Resolutions.

## **1.2 Requirement for shareholder approval**

Listing rule 11.1 provides that where an entity proposes to make a significant change, either directly or indirectly, to the nature and scale of its activities, it must:

- (a) provide full details to ASX as soon as reasonably practicable;
- (b) provide ASX with information regarding the change and its effect on future potential earnings, and any additional information ASX asks for;
- (c) if required by ASX, obtain the approval of its shareholders and comply with any ASX requirements in respect of the notice of the relevant general meeting; and
- (d) if required by ASX, meet the requirements of Chapters 1 and 2 of the Listing Rules as if the Company were applying for admission to the official list of ASX.

ASX has indicated to the Company that it has exercised its discretion to require the Company to seek shareholder approval for the change in nature and scale of activities that will occur as a result of the Proposed Transaction under Listing Rule 11.1.2 and that the Company must comply with ASX requirements in respect of this Notice.

ASX has also indicated to the Company that the Proposed Transaction constitutes a backdoor listing of AusCann which consequently requires the Company, in accordance with Listing Rule 11.1.3, to comply with the admission requirements in Chapters 1 and 2 of the Listing Rules as if the Company were applying for admission to the official list of ASX for the first time, including any ASX requirements to treat certain Securities as restricted Securities for the purposes of the Listing Rules.

## **1.3 Directors' recommendation**

Mr Wheeler has a material personal interest in the outcome of resolution 1 by virtue of being a director and shareholder of Pathways Corporate which is a holder of AusCann Shares, and so does not express an opinion or make any recommendation as to the outcome of resolution 1.

Except to that extent, the Directors unanimously recommend that shareholders vote in favour of resolution 1 for the reasons set out in this Explanatory Statement. Shareholders should refer to the information set out in Schedule 2 in respect of the Proposed Transaction and its impact on the Company in determining how to vote.

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## **2. CONSOLIDATION**

### **2.1 Background**

Resolution 2 seeks shareholder approval for the Consolidation of the Shares on issue on a 20:1 basis. The basis for the Consolidation is to ensure a more appropriate capital structure for the Company going forward and to assist the Company comply with the requirements of Chapters 1 and 2 of the Listing Rules in order to achieve Re-compliance.

This resolution is conditional on the passing of all of the other Essential Resolutions.

The Directors intend to implement the Consolidation immediately after Completion, such that all new Securities to be issued on a "pre-Consolidation" basis will be consolidated in the same manner as the existing Shares.

### **2.2 Requirement for shareholder approval**

Section 254H(1) of the Corporations Act provides that a Company may, by resolution passed at a General Meeting, convert all or any of its Shares into a larger or smaller number.

The Listing Rules require that where a Consolidation occurs in respect of ordinary share capital, the number of options in respect of any of those Shares be consolidated in the same ratio and the exercise price be amended in inverse proportion to that ratio.

### **2.3 Fractional entitlements**

Not all shareholders will hold a number of Shares that can be evenly divided by 20. Any fractional entitlements of shareholders as a consequence of the Consolidation will be rounded down to the nearest whole number.

## **2.4 Capital structure and taxation implications**

The effect on the capital structure of the Company of the Consolidation is shown in the table in Schedule 5. Subject to rounding, shareholders' proportional holding of Shares will not be affected by the Consolidation.

It is not considered that the Consolidation should have any taxation consequences for shareholders. However, shareholders are encouraged to seek their own tax advice on the effect of the Consolidation. Neither the Company nor the Directors accept any responsibility for the individual taxation implications arising from the Consolidation or other resolutions the subject of this Notice.

## **2.5 Holding statements and certificates**

From the date of the Consolidation, all existing holding statements in respect of Shares will cease to have any effect, except as evidence of entitlement to a certain number of Shares on a post-Consolidation basis.

## **2.6 Directors' recommendation**

The Directors unanimously recommend that shareholders vote in favour of resolution 2.

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## **3. APPROVAL FOR A NEW CLASS OF SECURITIES**

### **3.1 Background**

Resolution 3 seeks shareholder approval for the issue of Performance Shares. The terms of the Performance Shares are set out in Schedule 7, and the issue of those Performance Shares (including other shareholders approvals necessary for the issue of those Performance Shares) is dealt with in resolution 4 and section 4 of this Explanatory Statement.

This resolution is conditional on the passing of all of the other Essential Resolutions.

### **3.2 Requirement for shareholder approval**

The approval under this resolution is not sought directly in respect of the issue of the Performance Shares themselves, but rather the creation of this new class of Securities.

Under section 246C(5) of the Corporations Act, a Company with one class of shares which issues a new class of shares is taken to have varied the rights attaching to shares already issued.

Although rule 3 of the Constitution allows broad discretion on the part of the Board to issue shares with special rights, obligations or restrictions attaching to them, rule 5 confirms that the procedure for variation of rights attaching to shares shall be as set out in the Corporations Act. Section 246B of the Corporations Act requires that, in order for the variation of rights attaching to a class of shares, the Company requires either:

- (a) a special resolution passed at a Meeting of the shareholders holding shares in that class (being all of the Company's existing shareholders); or
- (b) the written consent of shareholders who are entitled to at least 75% of the votes that may be cast in respect of such shares.

Consequently, the Company is seeking shareholder approval for the deemed variation of rights of Shares which will occur by the issue of the Performance Shares.

### **3.3 ASX approval**

Listing rule 6.1 provides that the terms that apply to each class of security must, in ASX's opinion, be appropriate and equitable. Listing rule 6.2 states that an entity may only have one class of security unless ASX approves the terms of any additional class.

The Company has sought and received ASX's approval of the terms of the Performance Shares.

### **3.4 Purpose of the proposed Performance Shares**

Section 4 (in respect of resolution 4) below deals with the proposed issue of Performance Shares as part of the Proposed Transaction. Those Performance Shares are intended to be issued to Vendors in consideration for the sale of their Securities in AusCann.

The purpose of the issue of the Performance Shares in this regard is to link part of the consideration to one or a series of milestone events that are representative of part of the potential value of AusCann. The milestones are set out in full in Item 6 of Schedule 7. If the milestone is not achieved within the prescribed timeframe (18 months after the Company achieves Re-compliance), the Performance Shares lapse.

### **3.5 Directors' recommendation**

Mr Wheeler has a material personal interest in the outcome of resolution 3 by virtue of being a director and shareholder of Pathways Corporate which is a holder of AusCann Shares, and does not express or make any recommendation as to the outcome of resolution 3.

Except to that extent, Directors unanimously recommend that shareholders vote in favour of resolution 3 for the reasons set out in this Explanatory Statement. Shareholders should refer to the information set out in Schedule 2 in respect of the Proposed Transaction and its impact on the Company in determining how to vote.

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## **4. APPROVAL FOR ISSUE OF CONSIDERATION SECURITIES**

### **4.1 Background**

Under the Takeover Bid and the Share Purchase Agreements, the consideration offered for each AusCann Share is one (1) Share and approximately 0.1924 Performance Shares.

The total number of Consideration Securities to be issued is 2,934,183,791 Ordinary Shares and 564,607,029 Performance Shares, comprised of:

- (a) 2,128,850,457 Ordinary Shares and 409,641,664 Performance Shares to the AusCann Shareholders (including 460,658,336 Ordinary Shares and 88,641,664 Performance Shares to Canopy; and
- (b) 805,333,333 Ordinary Shares and 154,965,364 Performance Shares to the AusCann Noteholders.

Additionally, as outlined in section 1.1, the Company is also proposing to offer to acquire 153,552,779 AusCann Options from Canopy pursuant to the Option Purchase Agreement. The consideration offered for the AusCann Options will be 153,552,779 Canopy Options. The offer will be subject to the Takeover Bid becoming unconditional.

Under Resolution 4, the Company is seeking Shareholder approval to issue Ordinary Shares and Performance Shares under the Share Purchase Agreements and the Canopy Options under the Option Purchase Agreement as set out above. Shareholder approval for the issue of 1,976,465,316 Ordinary Shares and 380,319,124 Performance Shares under the Takeover Bid is not required due to Listing Rule 7.2 Exception 5 (in respect of holders of Securities in AusCann who are not Related Parties of the Company) and Listing Rule 10.12 Exception 5 (in respect of Pathways Corporate, which is a Related Party of the Company).

Overall, it is proposed that 957,718,474 Ordinary Shares and 184,287,904 Performance Shares are to be issued under the Share Purchase Agreements and 153,552,779 Canopy Options under the Option Purchase Agreement.

Resolution 4 is conditional on the passing of all of the other Essential Resolutions.

### **4.2 Requirement for shareholder approval**

Listing rule 7.1 provides that a Company must not, subject to certain exceptions, issue or agree to issue more equity Securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary Securities on issue at the commencement of that 12 month period, without the approval of shareholders. The effect of resolution 4 will be to allow the Company to issue the Shares and Performance Shares under the Share Purchase Agreements and the Canopy Options during the 3 months following the Meeting (or longer if ASX allows), without using the Company's 15% annual placement capacity.

In accordance with exception 5 of Listing Rule 7.3, the issue of Consideration Securities under the Takeover Bid does not require shareholder approval.

### **4.3 ASX approval of terms of Performance Shares**

The Company has sought and received ASX conditional confirmation that the terms of the Performance Shares proposed to be issued by the Company as part consideration for the Acquisition are appropriate and equitable for the purposes of listing rule 6.1.

The conditions include that the Company obtains shareholder approval for the issue of the Performance Shares, and that the notice of meeting pursuant to which the Company will seek the approval required under Listing Rule 11.1.2 in respect of the Acquisition includes sufficient information about the terms and conditions of the Performance Shares (see Schedule 7).

### **4.4 Required information**

Pursuant to Listing Rule 7.3, the following information is provided in respect of this resolution:

- (a) The maximum number of Consideration Securities to be issued under the Share Purchase Agreements is 957,718,474 Ordinary Shares, 184,287,904 Performance Shares and 153,552,779 Canopy Options under the Option Purchase Agreement (all on a pre-Consolidation basis);
- (b) the Consideration Securities to be issued under resolution 4 will be issued no later than three months after the date of the Meeting (or such later date permitted by any ASX waiver or modification of the Listing Rules) and it is intended to issue all Consideration Securities on the same date;
- (c) the Consideration Securities to be issued under resolution 4 will be issued for nil cash consideration, although recipients of Consideration Securities will provide other consideration for the issue of their Consideration Securities, namely their respective AusCann Shares, and in the case of Canopy only, the AusCann Options;
- (d) the Consideration Securities to be issued under resolution 4 will be issued to the Vendors;
- (e) the Consideration Shares to be issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (f) the Performance Shares to be issued will be on the terms set out in Schedule 7;
- (g) the exercise price of the Canopy Options is \$0.01 (on a pre-Consolidated basis) with an expiry date of 36 Months from the date of issue and the Canopy Options will be otherwise on the terms set out in Schedule 10; and
- (h) no funds will be raised by the issue of the Consideration Securities under resolution 4.

### **4.5 Fractional entitlements**

The allocation of Consideration Securities to the Vendors is based on their holding of Securities in AusCann. Not all Vendors' entitlements will be for a number of Consideration Securities that is a whole number. Consequently, it is possible that the total number of Consideration Securities to be issued will not be exactly the number set out in paragraph 4.4(a). Any fractional entitlements of Vendors in the course of allocation of Consideration Securities will be rounded down to the nearest whole number so that the number of Consideration Securities will not be higher than the amount shown in paragraph 4.4(a).

### **4.6 Directors' recommendation**

Mr Wheeler has a material personal interest in the outcome of resolution 4 by virtue of being a director and shareholder of Pathways Corporate which is a holder of AusCann Shares, and does not express or make any recommendation as to the outcome of resolution 4.

Except to that extent, the Directors unanimously recommend that shareholders vote in favour of resolution 4. Shareholders should refer to the information set out in Schedule 2 in respect of the Proposed Transaction and its impact on the Company in determining how to vote.

## 5. APPROVAL FOR THE ISSUE OF ADVISOR SECURITIES

### 5.1 Background

As noted in Schedule 2, the Company and AusCann have entered into obligations with certain Advisors which require the issue of Securities in exchange for facilitating the Proposed Transaction. Resolution 5 seeks shareholder approval for the issue of those Advisor Securities.

This resolution is conditional on the passing of all of the other Essential Resolutions.

### 5.2 Requirement for shareholder approval

The approval of shareholders is required under section 208 of the Corporations Act and under Listing Rule 10.11 for the issue of securities (which is also the provision of financial benefit) to related parties. Some of the Advisor Securities are to be issued to Gemelli Nominees, which is a Related Party of the Company by reason of Mr Karelis (a director and shareholder of Gemelli Nominees) being a proposed Director and consequently a Related Party of the Company within the meaning of section 228(6) of the Corporations Act.

However, Gemelli Nominees is only a Related Party of the Company because it is to become a Related Party of the Company as a result of the Proposed Transaction. Listing rules 10.12 exception 6 applies in that circumstance such that shareholder approval is not specifically required for the Related Party transaction in that respect under Listing Rule 10.11.

The Company is also satisfied in this respect that Gemelli Nominees can rely on the exception to section 208 of the Corporations Act contained in section 210(a) of the Corporations Act, which applies to remove the shareholder approval requirement where the terms of the financial benefit would be reasonable in the circumstances if the Company and the Related Party were dealing at arm's length. Here, the Advisor Securities are securities that are to be issued pursuant to the company's obligations under the Heads of Agreement, and the terms of issue are similar to those in respect of the Consideration Securities. As such, Gemelli Nominees' commercial relationship with the Company is at arm's length with the Company and on the same basis as that with Drs Stewart and Patricia Washer who are non-related parties of the Company and who are receiving Advisor Securities.

Consequently, no Related Party approvals are sought in respect of the issue of the Advisor Securities.

Listing Rule 7.1 provides that a Company must not, subject to certain exceptions, issue or agree to issue more equity Securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary Securities on issue at the commencement of that 12 month period, without the approval of shareholders. The effect of resolution 5 will be to allow the Company to issue the Advisor Securities to the Advisors during the 3 months following the Meeting (or longer if ASX allows), without using the Company's 15% annual placement capacity.

### 5.3 Required information

Pursuant to Listing Rule 7.3, the following information is provided in respect of this resolution:

- (a) The maximum number of Advisor Securities (all on a pre-Consolidation basis) to be issued is as follows:

	CPS Capital	Gemelli Nominees	Dr Stewart Washer	TOTAL
<b>Ordinary Shares</b>	153,552,779	68,435,891	68,435,891	290,424,561
<b>Performance Rights</b>	29,547,221	13,168,700	13,168,700	55,884,621

- (b) the Advisor Securities will be issued no later than 3 months after the date of the Meeting (or such later date permitted by any ASX waiver or modification of the Listing Rules) and it is intended to issue all Advisor Securities on the same date;
- (c) the Advisor Securities to be issued will be issued for nil cash consideration, although the Advisors provided other consideration for the issue of the Advisor Securities, namely, negotiating and facilitating the Proposed Transaction;

- (d) the Advisor Securities to be issued under resolution 5 will be issued to CPS Capital, Gemelli Nominees and Dr Stewart Washer;
- (e) the Ordinary Shares to be issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (f) the Performance Rights to be issued will be on the terms set out in Schedule 8; and
- (g) no funds will be raised by the issue of Advisor Securities under resolution 5.

#### **5.4 Directors' recommendation**

The Directors unanimously recommend that shareholders vote in favour of resolution 5. Shareholders should refer to the information set out in Schedule 2 in respect of the Proposed Transaction and its impact on the Company in determining how to vote.

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## **6. APPROVAL FOR THE ISSUE OF OPTIONS TO MR DAVID WHEELER**

### **6.1 Background**

Resolution 6 seeks shareholder approval for the issue of 1,000,000 Director Options (on a pre-Consolidation basis) on the terms set out in Schedule 9 to Mr David Wheeler, the Company's outgoing Chairman, in consideration for his services to the Company.

This resolution is conditional on the passing of all of the other Essential Resolutions.

### **6.2 Requirement for shareholder approval**

The approval of shareholders is required under Listing Rule 10.11 for the issue of Securities to related parties.

Listing rule 7.1 provides that a Company must not, subject to certain exceptions, issue or agree to issue more equity Securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary Securities on issue at the commencement of that 12 month period, without the approval of shareholders. However, one of those exceptions is where shareholder approval is obtained under Listing Rule 10.11. Consequently, approval is not required under Listing Rule 7.1.

Mr Wheeler is a Director and consequently a Related Party of the Company within the meaning of section 228(2)(a) of the Corporations Act. Section 208 of the Corporations Act requires shareholder approval for the provision of a financial benefit to a related party. However, section 211 of the Corporations Act provides that shareholder approval is not required for these purposes where the financial benefit to be provided to the related party is "reasonable remuneration" for the purposes of section 211(1). The Directors are of the view that the issue of the Director Options to Mr Wheeler is reasonable remuneration and, on that basis, resolution 6 does not seek shareholder approval under section 208 of the Corporations Act.

### **6.3 Required information**

Pursuant to Listing Rule 10.13, the following information is provided in respect of this resolution:

- (a) the Related Party to whom Securities are to be issued under this resolution is Mr David Wheeler;
- (b) the maximum number of Director Options (on a pre-Consolidation basis) to be issued is 1,000,000;
- (c) the Director Options to be issued under resolution 6 will be issued within 5 months of the Meeting, ASX having granted a waiver to extend the period during which securities may be issued following shareholder approval being provided for the purposes of Listing Rule 10.13;
- (d) the Director Options will be issued for nil cash consideration as they constitute a fee for services provided;
- (e) the exercise price of the Director Options is \$0.0105 (expressed on a pre-Consolidation basis) with an expiry date of 36 months after Completion;
- (f) the Director Options, if exercised, will convert into fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;

- (g) the full terms of the issue of the Director Options are set out in Schedule 9;
- (h) pursuant to, and in accordance with Listing Rules 10.13.6 and 14.11, a voting exclusion statement is included in the Notice in respect of resolution 6;
- (i) no funds will be raised by the issue of the Director Options under resolution 6.

#### **6.4 Directors' recommendation**

Mr Wheeler has a material personal interest in the outcome of resolution 6 and expresses no opinion and makes no recommendation to shareholders in respect of the resolution.

Otherwise, the Directors unanimously recommend that shareholders vote in favour of resolution 6.

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## **7. APPROVAL FOR THE ISSUE OF OPTIONS TO MR NICHOLAS CALDER**

### **7.1 Background**

Resolution 7 seeks shareholder approval for the issue of 1,000,000 Director Options (on a pre-Consolidation basis) on the terms set out in Schedule 9 to Mr Nicholas Calder, an outgoing Director and company secretary of the Company, in consideration for his services to the Company.

This resolution is conditional on the passing of all of the other Essential Resolutions.

### **7.2 Requirement for shareholder approval**

The approval of shareholders is required under Listing Rule 10.11 for the issue of Securities to related parties.

Listing rule 7.1 provides that a Company must not, subject to certain exceptions, issue or agree to issue more equity Securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary Securities on issue at the commencement of that 12 month period, without the approval of shareholders. However, one of those exceptions is where shareholder approval is obtained under Listing Rule 10.11. Consequently, approval is not required under Listing Rule 7.1.

Mr Calder is a Director and consequently a Related Party of the Company within the meaning of section 228(2)(a) of the Corporations Act. Section 208 of the Corporations Act requires shareholder approval for the provision of a financial benefit to a related party. However, section 211 of the Corporations Act provides that shareholder approval is not required for these purposes where the financial benefit to be provided to the related party is "reasonable remuneration" for the purposes of section 211(1). The Directors are of the view that the issue of the Director Options to Mr Calder is reasonable remuneration and, on that basis, resolution 7 does not seek shareholder approval under section 208 of the Corporations Act.

### **7.3 Required information**

Pursuant to Listing Rule 10.13, the following information is provided in respect of this resolution:

- (a) the Related Party to whom Securities are to be issued under this resolution is Mr Nicholas Calder;
- (b) the maximum number of Director Options (on a pre-Consolidation basis) to be issued is 1,000,000;
- (c) the Director Options to be issued under resolution 7 will be issued within 5 months of the Meeting, ASX having granted a waiver to extend the period during which securities may be issued following shareholder approval being provided for the purposes of Listing Rule 10.13;
- (d) the Director Options will be issued for nil cash consideration as they constitute a fee for services provided;
- (e) the exercise price of the Director Options is \$0.0105 (expressed on a pre-Consolidation basis) with an expiry date of 36 months after Completion;
- (f) the Director Options, if exercised, will convert into fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (g) the full terms of the issue of the Director Options are set out in Schedule 9;

- (h) pursuant to, and in accordance with Listing Rules 10.13.6 and 14.11, a voting exclusion statement is included in the Notice in respect of resolution 7;
- (i) no funds will be raised by the issue of the Director Options under resolution 7.

#### **7.4 Directors' recommendation**

Mr Calder has a material personal interest in the outcome of resolution 7 and expresses no opinion and makes no recommendation to shareholders in respect of the resolution.

Otherwise, the Directors unanimously recommend that shareholders vote in favour of resolution 7.

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### **8. APPROVAL FOR THE ISSUE OF OPTIONS TO MR SIMON TAYLOR**

#### **8.1 Background**

Resolution 8 seeks shareholder approval for the issue of 1,000,000 Director Options (on a pre-Consolidation basis) on the terms set out in Schedule 9 to Mr Simon Taylor, an outgoing Director of the Company, in consideration for his services to the Company.

This resolution is conditional on the passing of all of the other Essential Resolutions.

#### **8.2 Requirement for shareholder approval**

The approval of shareholders is required under Listing Rule 10.11 for the issue of Securities to related parties.

Listing rule 7.1 provides that a Company must not, subject to certain exceptions, issue or agree to issue more equity Securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary Securities on issue at the commencement of that 12 month period, without the approval of shareholders. However, one of those exceptions is where shareholder approval is obtained under Listing Rule 10.11. Consequently, approval is not required under Listing Rule 7.1.

Mr Taylor is a Director and consequently a Related Party of the Company within the meaning of Section 228(2)(a) of the Corporations Act. Section 208 of the Corporations Act requires shareholder approval for the provision of a financial benefit to a related party. However, Section 211 of the Corporations Act provides that shareholder approval is not required for these purposes where the financial benefit to be provided to the related party is "reasonable remuneration" for the purposes of section 211(1). The Directors are of the view that the issue of the Director Options to Mr Taylor is reasonable remuneration and, on that basis, resolution 8 does not seek shareholder approval under Section 208 of the Corporations Act.

#### **8.3 Required information**

Pursuant to Listing Rule 10.13, the following information is provided in respect of this resolution:

- (a) the Related Party to whom Securities are to be issued under this resolution is Mr Simon Taylor;
- (b) the maximum number of Director Options (on a pre-Consolidation basis) to be issued is 1,000,000;
- (c) the Director Options to be issued under resolution 8 will be issued within 5 months of the Meeting, ASX having granted a waiver to extend the period during which securities may be issued following shareholder approval being provided for the purposes of Listing Rule 10.13;
- (d) the Director Options will be issued for nil cash consideration as they constitute a fee for services provided;
- (e) the exercise price of the Director Options is \$0.0105 (expressed on a pre-Consolidation basis) with an expiry date of 36 months after Completion;
- (f) the Director Options, if exercised, will convert into fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (g) the full terms of the issue of the Director Options are set out in Schedule 9;

- (h) pursuant to, and in accordance with Listing Rules 10.13.6 and 14.11, a voting exclusion statement is included in the Notice in respect of resolution 8;
- (i) no funds will be raised by the issue of the Director Options under resolution 8.

#### **8.4 Directors' recommendation**

Mr Taylor has a material personal interest in the outcome of resolution 8 and expresses no opinion and makes no recommendation to shareholders in respect of the resolution.

Otherwise, the Directors unanimously recommend that shareholders vote in favour of resolution 8.

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### **9. ACQUISITION OF A SUBSTANTIAL ASSET**

#### **9.1 Background**

The acquisition of 100% of the issued capital in AusCann involves the purchase of AusCann Shares from some persons who are related parties of the Company or otherwise substantial holders of Securities in the Company within the meaning of the Listing Rules. The consideration paid (in Consideration Securities) for the acquisition of those AusCann Shares constitutes the acquisition of a substantial asset within the meaning of the Listing Rules.

Resolution 9 seeks shareholder approval for the acquisition of a substantial asset from Vendors who are related parties of, or substantial holders of Securities in, the Company. This resolution is conditional on the passing of all of the other Essential Resolutions.

#### **9.2 Requirement for shareholder approval**

The approval of shareholders is required under Listing Rule 10.1 for the acquisition of a "substantial asset" from related parties and certain other persons holding more than 10% of the issued capital of the Company.

In the context of the Proposed Transaction, the "asset" in question is the relevant person's AusCann Shares.

An asset is substantial under the Listing Rules if the value of the consideration paid for it is 5% or more of the equity interests as set out in the last accounts of the Company given to the ASX under the Listing Rules. Based on the Company's statement of financial position as at 31 December 2015, that amount is approximately \$40,000. In the context of the Proposed Transaction, the Vendors who are related parties or substantial holders within the meaning of the Listing Rules are captured by the rule. Consequently, resolution 9 seeks approval for the acquisition of substantial assets from:

- (a) Pathways Corporate, which is a Related Party by reason of having Mr David Wheeler (a Director and consequently a Related Party of the Company within the meaning of Section 228(2)(a) of the Corporations Act) as a director; and
- (b) Mr Jason Peterson & Mrs Lisa Peterson (Mr & Mrs Peterson are substantial holders in the Company within the meaning of the Listing Rules).

Pathways Corporate owns 12,121,212 AusCann Shares which under the Takeover Bid will be exchanged for 12,121,212 Ordinary Shares and 2,332,411 Performance Shares in the Company as part of the Proposed Transaction, on a pre-Consolidation basis. The value of the AusCann Shares to be acquired from Pathways Corporate is estimated to be in excess of \$40,000 and accordingly those AusCann Shares are considered to be a substantial asset for the purposes of the Listing Rules.

Mr & Mrs Peterson own 52,674,438 AusCann Shares which under the Takeover Bid will be exchanged for 52,674,438 Ordinary Shares and 10,135,820 Performance Shares in the Company (on a pre-Consolidation basis). The value of the AusCann Shares to be acquired from Mr & Mrs Peterson is estimated to be in excess of \$40,000 and accordingly those AusCann Shares are considered to be a substantial asset for the purposes of the Listing Rules.

#### **9.3 Required information**

As required by Listing Rule 10.1, a voting exclusion statement and a report from the Independent Expert in respect of the Proposed Transaction are included with the Notice. The Independent Expert in its report concludes that the acquisitions of substantial assets contemplated in resolution 9 in the

context of the Proposed Transaction are fair and reasonable to the non-associated shareholders of the Company.

#### **9.4 Directors' recommendation**

Mr Wheeler has a material personal interest in the outcome of resolution 9 and expresses no opinion and makes no recommendation to shareholders in respect of the resolution.

Otherwise, the Directors unanimously recommend that shareholders vote in favour of resolution 9. Shareholders should refer to the information set out in Schedule 2 in respect of the Proposed Transaction and its impact on the Company in determining how to vote.

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### **10. APPROVAL FOR THE ISSUE OF SHARES UNDER THE PUBLIC OFFER**

#### **10.1 Background to the Public Offer**

Resolution 10 seeks shareholder approval for the issue of Shares as part of a proposed post-Consolidation capital raising by way of the Public Offer. The Public Offer will be undertaken via the issue of the Prospectus and will raise up to \$5 million.

#### **10.2 Requirement for shareholder approval**

As noted in Schedule 2, the Proposed Transaction is conditional on the Company raising a minimum of \$3 million pursuant to the Public Offer. Listing rule 7.1 provides that a Company must not, subject to certain exceptions, issue or agree to issue more equity Securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary Securities on issue at the commencement of that 12 month period, without the approval of shareholders. The effect of resolution 10 will be to allow the Company to issue the Shares pursuant to the Public Offer during the 3 months following the Meeting (or longer if ASX allows), without using the Company's 15% annual placement capacity.

This resolution is conditional on the passing of all of the other Essential Resolutions.

#### **10.3 Required information**

Pursuant to Listing Rule 7.3, the following information is provided in respect of the Public Offer:

- (a) the maximum number of Shares to be issued is 500 million (on a pre-Consolidation basis);
- (b) the Shares will be issued no later than 3 months after the date of the Meeting (or such later date permitted by any ASX waiver or modification of the Listing Rules) and it is intended that the issue of all Shares pursuant to the Public Offer will occur on the same date;
- (c) the issue price per Share (on a pre-Consolidation basis) will be \$0.01;
- (d) except insofar as contemplated in resolution 11, the Shares are proposed to be issued to the general public pursuant to the Public Offer by way of the Prospectus for the purposes of Listing Rule 1.1 Condition 3, and none of the subscribers to the Public Offer will be related parties of the Company, and the successful applicants will be determined by the Board in its sole discretion;
- (e) the Shares to be issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares; and
- (f) the Company intends to use the funds raised from the Public Offer towards its budgeted expenditure as set out in Schedule 2.

#### **10.4 Directors' recommendation**

The Directors unanimously recommend that shareholders vote in favour of resolution 10. Shareholders should refer to the information set out in Schedule 2 in respect of the Proposed Transaction and its impact on the Company in determining how to vote.

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## **11. APPROVAL FOR DIRECTORS TO APPLY UNDER PROSPECTUS**

### **11.1 Background**

Resolution 10 seeks approval for the issue of Shares under the Public Offer generally. That resolution is sufficient authority for the issue of Shares to the general public. However, an additional approval is required where an applicant for Shares is a Related Party of the Company within the meaning of the Corporations Act.

### **11.2 Requirement for shareholder approval**

Mr Bruce McHarrie and Ms Cheryl Edwardes are proposed Directors of the Company and consequently Related Parties of the Company within the meaning of Section 228(6) of the Corporations Act. The approval of shareholders is required under Listing Rule 10.11 for the issue of Shares to such related parties. Resolution 11 seeks that shareholder approval.

Approval is also required under Section 208 of the Corporations Act for the provision of a financial benefit (including the issue of Securities) to related parties. However, the Company is satisfied in this respect that all related parties can rely on the exception to Section 208 of the Corporations Act contained in Section 210(a) of the Corporations Act, which applies to remove the shareholder approval requirement where the terms of the financial benefit would be reasonable in the circumstances if the Company and the Related Party were dealing at arm's length. The terms and conditions of the Public Offer apply equally to related parties and non-related parties of the Company.

This resolution is conditional on the passing of all of the Essential Resolutions.

### **11.3 Required information**

Pursuant to Listing Rule 10.13, the following information is provided in respect of this resolutions:

- (a) the allottees of the Shares under resolution 11 are Mr McHarrie (or his nominee) and Ms Edwardes (or her nominee);
- (b) the maximum number of Shares to be issued to Mr McHarrie is 2,000,000 and to Ms Edwardes is 1,000,000, each on a pre-Consolidation basis;
- (c) the Shares to be issued under resolution 11 will be issued within one month of the Meeting (or such later date permitted by any ASX waiver or modification of the Listing Rules) and it is intended that the issue of all Shares pursuant to the Public Offer will occur on the same date;
- (d) approval of shareholders is required because Mr McHarrie and Ms Edwardes are Related Parties by virtue of being proposed Directors;
- (e) the issue price for the Shares to be issued under resolution 11 will be the same as the issue price for all Shares under the Public Offer;
- (f) the Shares to be issued under resolution 11 are fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (g) pursuant to, and in accordance with Listing Rules 10.13.6 and 14.11, a voting exclusion statement is included in the Notice in respect of resolution 11;
- (h) the intended use of funds raised from the Public Offer is the Company's budgeted expenditure as set out in Schedule 2; and
- (i) \$20,000 will be raised by the issue of Shares to Mr McHarrie and a further \$10,000 will be raised by the issue of Shares to Ms Edwardes under resolution 11.

### **11.4 Directors' recommendation**

The Directors recommend that shareholders vote in favour of resolution 11. Shareholders should refer to the information set out in Schedule 2 in respect of the Proposed Transaction and its impact on the Company in determining how to vote.

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## **12. APPOINTMENT OF DR MAL WASHER AS A DIRECTOR**

### **12.1 Introduction**

Dr Mal Washer is to be appointed as a Director effective from Completion. Dr Washer has consented to act as a Director.

The Constitution allows for the appointment of directors without shareholders' approval, with that appointment to be effective until the next annual general meeting. However, in circumstances where it is intended all existing Directors resign on Completion, the current Board considers it appropriate to have shareholders vote on the appointment.

Consequently, resolution 12 seeks shareholders' approval for the appointment of Dr Washer.

This resolution is conditional on the passing of all of the other Essential Resolutions.

### **12.2 Background and qualifications**

Dr Washer was a Liberal member of the Australian House of Representatives from 1998 to 2013. He was educated at the University of Western Australia, graduating in 1970 with degrees in medicine and surgery. He was a general practitioner before entering politics & established a number of prominent medical centres in Western Australia. Dr Washer was also past chair of the Alcohol and Other Drugs Council of Australia. He has extensive experience in agricultural and horticultural activities and currently operates a commercial avocado plantation in Western Australia bringing highly relevant medical and horticultural expertise and experience to the Company.

### **12.3 Directors' recommendation**

The current Directors support the election of Dr Washer and unanimously recommend shareholders vote in favour of resolution 12.

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## **13. APPOINTMENT OF MS ELAINE DARBY AS A DIRECTOR**

### **13.1 Introduction**

Ms Elaine Darby is to be appointed as a Director effective from Completion. Ms Darby has consented to act as a Director.

Ms Darby will also be appointed as the Managing Director of the Company and will be employed on the terms and conditions of an employment agreement between herself and AusCann as set out in Item 8.12 of Schedule 2.

The Constitution allows for the appointment of directors without shareholders' approval, with that appointment to be effective until the next annual general meeting. However, in circumstances where it is intended all existing Directors resign on Completion, the current Board considers it appropriate to have shareholders vote on the appointment.

Consequently, resolution 13 seeks shareholders' approval for the appointment of Ms Darby.

This resolution is conditional on the passing of all of the other Essential Resolutions.

### **13.2 Background and qualifications**

Ms Darby holds a Bachelor of Science in Biochemistry & Microbiology, Honours in Molecular Biology and a Bachelor of Laws. She is currently project manager and investment director with Biologica Ventures, an advisory firm in the bio-medical sector. Previous roles have included as a lawyer with top tier corporate law firm Clayton Utz, Media and Communications Officer for an Australian Federal Member of Parliament, and Managing Director and Senior Winemaker of Aquila Estate Winery where she was an award winning wine-maker and also involved in international business development and marketing in territories including Singapore, Japan, Canada, the United Kingdom, and the United States.

### **13.3 Directors' recommendation**

The current Directors support the election of Ms Darby and unanimously recommend shareholders vote in favour of resolution 13.

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## **14. APPOINTMENT OF MR HARRY KARELIS AS A DIRECTOR**

### **14.1 Introduction**

Mr Harry Karelis is to be appointed as a Director effective from Completion. Mr Karelis has consented to act as a Director.

Mr Karelis will be an Executive Director of the Company and will be engaged on the terms and conditions of a consultancy agreement between himself, Gemelli Nominees and AusCann as set out in Item 8.12 of Schedule 2.

The Constitution allows for the appointment of directors without shareholders' approval, with that appointment to be effective until the next annual general meeting. However, in circumstances where it is intended all existing Directors resign on Completion, the current Board considers it appropriate to have shareholders vote on the appointment.

Consequently, resolution 14 seeks shareholders' approval for the appointment of Mr Karelis.

This resolution is conditional on the passing of all of the other Essential Resolutions.

### **14.2 Background and qualifications**

Mr Karelis is the founder of Titan Capital Partners, a privately held investment group involved in a range of projects and has in excess of 24 years' diversified experience in the financial services sector including fundamental analysis, funds management and private equity investing and has acted as a director on several public and private companies in Australia, Singapore and the United Kingdom.

Mr Karelis graduated from the University of Western Australia with Bachelor of Science (Hons) majoring in Biochemistry and Microbiology and a Masters in Business Administration. He is also a Fellow of the Financial Services Institute of Australia, a Fellow of the Australian Institute of Company Directors and has qualified as a Chartered Financial Analyst (CFA) from the CFA Institute in the United States. Mr Karelis resides in Australia.

### **14.3 Directors' recommendation**

The current Directors support the election of Mr Karelis and unanimously recommend shareholders vote in favour of resolution 14.

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## **15. APPOINTMENT OF MR BRUCE MCHARRIE AS A DIRECTOR**

### **15.1 Introduction**

Ms Bruce McHarrie is to be appointed as a Director effective from Completion. Mr McHarrie has consented to act as a Director.

The Constitution allows for the appointment of directors without shareholders' approval, with that appointment to be effective until the next annual general meeting. However, in circumstances where it is intended all existing Directors resign on Completion, the current Board considers it appropriate to have shareholders vote on the appointment.

Consequently, resolution 15 seeks shareholders' approval for the appointment of Mr McHarrie.

This resolution is conditional on the passing of all of the other Essential Resolutions.

### **15.2 Background and qualifications**

Mr McHarrie is an experienced senior executive with a background in the life science industry focussed on finance, operations, business and investment management, and strategic planning.

He is currently the General Manager (Business Services) of Brightwater Care Group Inc., and is also a non-executive director of Adherium Limited, a publicly listed digital health technology company. He has previously served as the Chief Financial Officer, Director of Operations and Director of Strategic Projects with the Telethon Kids Institute Western Australia, as well as holding non-executive director positions in biotechnology and not-for-profit healthcare organisations.

Mr McHarrie is a Fellow of the Institute of Chartered Accountants (Australia & New Zealand) and a Graduate of the Australian Institute of Company Directors. Mr McHarrie resides in Australia.

### **15.3 Directors' recommendation**

The current Directors support the election of Mr McHarrie and unanimously recommend shareholders vote in favour of resolution 15.

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## **16. APPOINTMENT OF HON CHERYL EDWARDES AS A DIRECTOR**

### **16.1 Introduction**

The Hon Cheryl Edwardes is to be appointed as a Director effective from Completion. Ms Edwardes has consented to act as a Director.

The Constitution allows for the appointment of directors without shareholders' approval, with that appointment to be effective until the next annual general meeting. However, in circumstances where it is intended all existing Directors resign on Completion, the current Board considers it appropriate to have shareholders vote on the appointment.

Consequently, resolution 16 seeks shareholders' approval for the appointment of Ms Edwardes.

This resolution is conditional on the passing of all of the other Essential Resolutions.

### **16.2 Background and qualifications**

The Hon. Cheryl Edwardes was the former Attorney-General for Western Australia and Minister for the Environment. Ms Edwardes was most recently Executive General Manager for External Affairs, Government Relations and Approvals at Hancock Prospecting.

She has extensive experience of successful negotiations to ensure that critical primary agreements and government approvals are obtained in a timely fashion. Such agreements and approvals include the *Railway (Roy Hill Infrastructure Pty Ltd) Agreement Act 2010* (WA) and the Special Railway Licence, port lease and licence, native title agreements, environmental approvals, and many other critical approvals for Hancock Prospecting Pty Ltd and Roy Hill Iron Ore and Infrastructure. The Hon. Cheryl Edwardes resides in Australia.

### **16.3 Directors' recommendation**

The current Directors support the election of Ms Edwardes and unanimously recommend shareholders vote in favour of resolution 16.

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## **17. APPOINTMENT OF MR BRUCE LINTON AS A DIRECTOR**

### **17.1 Introduction**

Under the terms of the Heads of Agreement, Mr Bruce Linton is to be appointed as a Director effective from Completion. Mr Linton has consented to act as a Director.

The Constitution allows for the appointment of directors without shareholders' approval, with that appointment to be effective until the next annual general meeting. However, in circumstances where it is intended all existing Directors resign on Completion, the current Board considers it appropriate to have shareholders vote on the appointment.

Consequently, resolution 17 seeks shareholders' approval for the appointment of Mr Linton.

This resolution is conditional on the passing of all of the other Essential Resolutions.

### **17.2 Background and qualifications**

Mr. Linton is the founder of Canopy. His primary focus has been to position cannabis brands in a competitive market and to raise the capital necessary to fund such operations. Mr Linton's experience as a founder, CEO, and board member across a wide variety of enterprises has influenced the initial success of Canopy.

Mr Linton has led three merger and acquisition transactions valued over \$70 million total since founding Canopy. In addition to his leadership responsibility at Canopy, he is the CEO of communications company Martello Technologies.

After beginning his career at Newbridge Networks Corporation, Mr Linton has since held positions that include General Manager and re-founder of Computerland.ca, President and Co-Founder of

webHancer Corp, and part of the establishing team at CrossKeys Systems Corporation. He was also part of the leadership team for the Nasdaq/TSX initial public offering at CrossKeys. He has been responsible for the acquisition or disposition of over \$200 million in business assets, and has established regular engagement with the World Bank and Asia Development Bank while focused on markets in India, Philippines, China, Peru, Colombia, Ecuador, Azerbaijan and Uzbekistan.

Mr Linton led the successful entry of both CrossKeys and Clearford into the Chinese market. In 2009 Clearford was awarded by the Canada-China Business Council for its market entry strategy. He sat as Canada's representative on the World Bank's Water Sanitation Program. He has been on the Cleantech Advisory Board for Foreign Affairs, Trade and Development Canada. He is the past Chairman of the Ottawa Community Loan Foundation, past Board Member and Treasurer of Canada World Youth, past Board of Governor for Carleton University, past President of the Nepean Skating Club and past President of the Carleton University Students' Association.

### **17.3 Directors' recommendation**

The current Directors support the election of Mr Linton and unanimously recommend shareholders vote in favour of resolution 17.

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## **18. CHANGE OF COMPANY'S NAME**

### **18.1 Background**

Pursuant to Section 157(1)(a) of the Corporations Act, the Company may change its name by special resolution. Resolution 18 seeks shareholder approval for the change of name to "AusCann Group Holdings Ltd".

Sometimes, resolutions such as resolution 17 include provision to read references to the old name in the relevant company's constitution as references to the company's new name. Here that is not necessary because resolution 18 only takes effect if resolution 19 (adoption of a new Constitution) also takes effect.

The proposed new name is currently the name of AusCann, the entity which the Company will acquire under the terms of the Acquisition. It is not possible for two Australian companies to have the same name, so the Company will affect the change of its name at the same time as changing the name of its new subsidiary to something other than "AusCann Group Holdings Ltd".

This resolution is conditional on the passing of all of the other Essential Resolutions.

If resolution 18 is passed and takes effect, the Company will lodge a copy of the special resolution with ASIC in order to effect the change.

### **18.2 Directors' recommendation**

The Directors unanimously recommend that shareholders vote in favour of resolution 18.

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## **19. ADOPTION OF A NEW CONSTITUTION**

### **19.1 Background**

Pursuant to section 136(2) of the Corporations Act, the Company may repeal its Constitution and adopt a new Constitution by special resolution.

Resolution 18 seeks shareholder approval to replace the Company's existing Constitution to reflect the Company's acquisition of a public company limited by shares and a significant change of the Company's activities.

The Company's current Constitution was adopted in 2010 and does not adequately cover the new direction of the Company after acquisition of AusCann. A summary of the key terms of the proposed new Constitution is set out in Schedule 11. The summary is not intended to be exhaustive and shareholders should read the proposed new Constitution in full before voting on resolution 19. A copy of the proposed new Constitution will be tabled at the General Meeting and is available for review by shareholders on request from the company secretary.

This resolution is conditional on the passing of all of the Essential Resolutions.

## 19.2 Proportional Takeover Provisions

The proposed new Constitution contains provisions that enable the Company to refuse to register Shares acquired under a proportional takeover bid unless approved by a resolution of Shareholders. Provisions such as these require specific information to be provided to Shareholders at the time the provisions are adopted. This information is set out below:

A proportional takeover bid includes a bidder offering to buy a proportion only of each Shareholder's Shares in the Company. This means that control of the Company may pass without members having the chance to sell all of their Shares to the bidder. It also means the bidder may take control of the Company without paying an adequate amount for gaining control.

In order to deal with this possibility, the Company may provide in its proposed new Constitution that:

- (a) in the event of a proportional takeover bid being made for Shares in the Company, members are required to vote by ordinary resolution and collectively decide whether to accept or reject the offer; and
- (b) the majority decision of the Company's members will be binding on all individual members.

The Directors consider that members should be able to vote on whether a proportional takeover bid ought to proceed given such a bid might otherwise allow control of the Company to change without members being given the opportunity to dispose of all of their Shares for a satisfactory control premium. The Directors also believe that the right to vote on a proportional takeover bid may avoid members feeling pressured to accept the bid even if they do not want it to succeed.

The effect of the proposed new Constitution is that, if a proportional takeover offer is received, the Directors are required to convene a meeting of Shareholders to vote on a resolution to approve the proportional bid. Each security holder affected will be entitled to vote (except for the bidder and persons associated with the bidder, who may not vote). Approval of the bid will require a simple majority of the votes cast. The meeting must be held at least 14 days before the bid closes so that holders know the result of the voting before they have to make up their minds whether or not to accept for their own securities.

If the proportional bid is not approved, the registration of any transfer of Shares resulting from an offer made under the proportional bid will be prohibited and the bid will be deemed to be withdrawn. If the proportional bid is approved, the transfers will be registered, provided they comply with the other provisions of the Corporations Act and the Company's proposed new Constitution.

The bid will be taken to have been approved if the resolution is not voted on within the deadline specified under the Corporations Act.

The provisions do not apply to takeover bids for the whole of the issued Shares in the Company.

The proportional takeover approval provisions will cease to apply at the end of three years (or longer if it is subsequently renewed by a further resolution of Shareholders).

The reasons why the Board has proposed that the proposed new Constitution should provide for a Shareholder resolution on proportional takeover bids are set out below as the advantages of the provisions.

Each of the Directors considers that these advantages outweigh the disadvantages stated below.

The Board considers that Shareholders should have the power to prevent the control of the Company from passing to a bidder without it making a bid for all the Shares. They believe that the resolution requirement is the best procedure available to Shareholders to ensure that they are not forced to accept a proportional offer even though they do not wish the bidder to obtain control of the Company.

Without these provisions, a proportional takeover bid may enable control of the Company to be acquired without Shareholders having an opportunity to dispose of all their Shares to the bidder. Shareholders therefore risk holding a minority interest in the Company. If the Shareholders considered that control of the Company was likely to pass under any takeover bid, they could be placed under pressure to accept the offer even if they do not want control of the Company to pass to the bidder. The proposed Article will prevent this by permitting Shareholders in general meeting to decide whether a proportional takeover bid should be permitted to proceed.

While the inclusion of the provisions will allow the Directors to ascertain members' views on a proportional takeover bid, it does not otherwise offer any advantage or disadvantage to the Directors who remain free to make their own recommendation as to whether the bid should be accepted.

In summary, the potential advantages of the proposed proportional takeover approval provisions for Shareholders are that:

- (a) they give Shareholders their own say in determining, by a majority vote, whether a proportional takeover bid should proceed;
- (b) they enable Shareholders, by combining together, to veto a change of control that would lock them into a minority position;
- (c) the existence of the resolution requirement in the Proposed Constitution would make it more probable that any takeover bid will be a full bid for the whole Shareholding of each member, so that Shareholders may have the opportunity of disposing of all their Shares rather than of a proportion only;
- (d) if a proportional takeover bid should be made, the existence of the resolution requirement will make it more probable that a bidder will set its offer price at a level that will be attractive to the Shareholders who vote;
- (e) knowing the view of the majority of Shareholders assists each individual Shareholder in assessing the likely outcome of the proportional takeover bid, and whether to accept or reject offers made under that bid; and
- (f) at present it is only the Directors who express on behalf of the Company any formal view on the adequacy or otherwise of a takeover bid. With the resolution requirement, the most effective view on a proportional takeover bid will become the view expressed by the vote of the Shareholders themselves at general meeting.

The potential disadvantages of the proposed proportional takeover approval provisions for Shareholders are that:

- (a) proportional takeover bids may be discouraged, reducing the speculative element in the market price of the Company's Shares arising from the possibility of a takeover offer being made;
- (b) an individual Shareholder who wishes to accept a proportional takeover bid will be unable to sell to the bidder unless a majority of Shareholders favour the proportional takeover bid; and
- (c) the inclusion of the provisions may be considered to constitute an unwarranted additional restriction on the ability of Shareholders to freely deal with their Shares.

As at the date of this Notice of Meeting and other than as set out in this Notice of Meeting, no Director is aware of any proposal by any person to acquire or increase the extent of a substantial interest in the Company.

### **19.3 Directors' recommendation**

The Directors unanimously recommend that shareholders vote in favour of resolution 19.

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## **20. APPROVAL OF EMPLOYEE SHARE OPTION PLAN**

### **20.1 Background**

The Directors consider that it is desirable to establish an employee equity incentive plan pursuant to which employees may be offered the opportunity to be granted options (**ESOP Options**) to acquire Shares. Accordingly, subject to the Acquisition completing, the Directors propose to adopt the employee share option plan (**Plan**).

The purpose of the Plan is to:

- (a) reward employees and consultants of the Company;
- (b) assist in the retention and motivation of employees and consultants of the Company;

- (c) provide an incentive to employees and consultants of the Company to grow shareholder value by providing them with an opportunity to receive an ownership interest in the Company.

The Board is seeking shareholder approval for the Plan in accordance with the ASX Corporate Governance Council's Principles and Recommendations.

In addition, approval is sought under Listing Rule 7.2 (Exception 9(b)) which provides an exemption from the Listing Rule 7.1 15% annual limit on Securities issued under an employee share incentive scheme provided, within three years before the date of issue, shareholders have approved the issue of Securities under the Plan. In the absence of such approval, the issue can still occur but is counted as part of the Listing Rule 7.1 15% limit which would otherwise apply during a 12 month period.

This resolution is conditional on the passing of all of the Essential Resolutions.

## **20.2 Regulatory requirements - Listing Rules**

The following information is provided to shareholders for the purpose of Listing Rule 7.2 Exception 9(b):

- (a) this is the first approval sought under Listing Rule 7.2 Exception 9(b) with respect to the Plan, and accordingly, no ESOP Options have previously been issued under the Plan;
- (b) a summary of the terms of the Plan is set out in Schedule 12; and
- (c) a voting exclusion statement for resolution 20 is included in the Notice of Meeting preceding this Explanatory Statement.

## **20.3 Regulatory requirements - Corporations Act**

The Corporations Act restricts the benefits that can be given to persons who hold a “managerial or executive office” (as defined in the Corporations Act) on leaving their employment with the Company or any of its related bodies corporate.

Under section 200B of the Corporations Act, a Company may only give a benefit in connection with them ceasing to hold a managerial or executive office if the benefit is approved by shareholders or an exemption applies.

The term “benefit” has a wide meaning and may include benefits resulting from the Board exercising certain discretions under the rules of the Plan.

If shareholder approval is given under this resolution 20 the Company will still be required to comply with Listing Rules 10.18 and 10.19, which places restrictions on the circumstances in which termination benefits can be paid and a cap on the value of termination benefits that can be paid to officers of the Company.

## **20.4 Details of termination benefit**

The Board possesses the discretion to determine, where a participant ceases employment before vesting or exercise of their ESOP Options, that some or all of their ESOP Options do not lapse.

The exercise of this discretion may constitute a “benefit” for the purposes of section 200B of the Corporations Act.

In addition, a participant may become entitled to accelerated vesting or automatic vesting of ESOP Options if there is a change of control of the Company. This accelerated or automatic vesting of ESOP Options may constitute a “benefit” for the purposes of section 200B of the Corporations Act.

The Company is therefore seeking shareholder approval for the exercise of the Board's discretions and for the provision of such accelerated or automatic vesting rights in respect of any current or future participant in the Plan who holds:

- (a) a managerial or executive office in the Company (or any of its related bodies corporate) at the time of leaving or at any time in the three years prior to their leaving; and
  - (b) ESOP Options under the Plan at the time of their leaving.
- The Board's current intention is to only exercise the above discretion:
- (a) where the employee or consultant leaves employment without fault on their part; and

- (b) so as only to preserve that number of unvested ESOP Options as are pro-rated to the date of leaving.

Provided shareholder approval is given, the value of these benefits may be disregarded when applying section 200F(2)(b) or section 200G(1)(c) of the Corporations Act (that is, the approved benefit will not count towards statutory cap under the legislation).

## **20.5 Value of termination benefits**

The value of termination benefits that the Board may give under the Plan cannot be determined in advance. This is because various matters will or are likely to affect that value. In particular, the value of a particular benefit will depend on factors such as the Company's share price at the time of vesting and the number of ESOP Options that vest.

The following additional factors may also affect the benefit's value:

- (a) the participant's length of service and the portion of vesting periods at the time they cease employment;
- (b) the status of the employment hurdles attaching to the ESOP Options at the time the participant's employment ceases; and
- (c) the number of unvested ESOP Options that the participant holds at the time they cease employment or at the time the change of control occurs (as applicable).

## SCHEDULE 1 – GLOSSARY

In this Notice of Meeting and Explanatory Statement, unless the context otherwise requires, the following terms bear the following meanings:

<b>Advisor Securities</b>	(a) 290,424,561 Ordinary Shares; and (b) 55,884,621 Performance Rights, each on a pre-Consolidation basis, to be issued to the Advisors (or their nominees) on the terms set out in the Notice of Meeting and Explanatory Statement.
<b>Advisors</b>	(a) CPS Capital; (b) Gemelli Nominees; and (c) Dr Stewart Washer.
<b>Announcement Date</b>	means 28 September 2016, being the date the Takeover Bid was announced on ASX.
<b>Associate</b>	has the meaning given in Part 1.2, Division 2 of the Corporations Act.
<b>ASIC</b>	the Australian Securities and Investments Commission.
<b>ASX</b>	ASX Limited ACN 008 624 691, or where the context requires, the Australian Securities Exchange which it runs.
<b>AusCann</b>	AusCann Group Holdings Ltd ACN 601 953 860, an unlisted public company incorporated and existing in Australia.
<b>AusCann Option</b>	an option to acquire an AusCann Share.
<b>AusCann Share</b>	a fully paid ordinary share in the capital of AusCann.
<b>Bid Conditions</b>	the conditions to the Takeover Bid, as summarised in Schedule 6.
<b>Bidder's Statement</b>	the bidder's statement to be issued by the Company in connection with the Takeover Bid.
<b>Board</b>	the board of Directors.
<b>Business Day</b>	a day (other than a Saturday or a Sunday) on which banks in Perth, Western Australia are open for normal business.
<b>Canopy</b>	Canopy Growth Corporation (formerly Tweed Marijuana Inc.), a company incorporated and existing in Canada and listed on the TSX Venture exchange as CGC.
<b>Canopy Options</b>	153,552,779 options to acquire Shares at an exercise price of \$0.01 (on a pre-Consolidation basis) with an expiry date 36 months from the date of issue and otherwise on the terms set out in Schedule 10.
<b>Chairman</b>	the chairman of the Meeting.
<b>Company</b>	TW Holdings Limited ACN 008 095 207, a public company incorporated and existing in Australia and listed on the ASX.
<b>Company secretary</b>	the company secretary of the Company.

<b>Completion</b>	completion of the sale and purchase of the AusCann Shares and AusCann Options in accordance with the Share Purchase Agreements, the Takeover Bid and the Option Purchase Agreement.
<b>Consideration Securities</b>	(a) 2,934,183,790 Ordinary Shares; and (b) 564,607,029 Performance Shares, (on a pre-Consolidation basis) to be issued to the Vendors on the terms set out in this Notice of Meeting and Explanatory Statement.
<b>Consolidation</b>	the consolidation of Shares proposed under resolution 2.
<b>Constitution</b>	the constitution of the Company from time to time including as at the date of this Notice, the document adopted at a General Meeting of shareholders on 30 November 2010, and pending the approval of resolution 19, the new document thereby adopted.
<b>Corporations Act</b>	the <i>Corporations Act 2001</i> (Cth).
<b>court</b>	has the meaning given to the term "Court" (in capitalised form) in section 58AA of the Corporations Act.
<b>CPS Capital</b>	CPS Capital Group Pty Ltd ACN 088 055 636.
<b>Director</b>	a director of the Company.
<b>Director Option</b>	an option to acquire a Share at an exercise price of \$0.0105 (on a pre-Consolidation basis) with an expiry date 36 months after the date of issue and otherwise on the terms set out in Schedule 9.
<b>dollar, \$, A\$ or AUD</b>	the lawful currency for the time being of the Commonwealth of Australia.
<b>ESOP Options</b>	has the meaning given in section 20.1 of this Explanatory Statement.
<b>Essential Resolutions</b>	each of resolutions 1 to 10 (inclusive) and 12 to 18 (inclusive)
<b>Explanatory Statement</b>	this explanatory statement which accompanies and forms part of the Notice of Meeting.
<b>Gemelli Nominees</b>	Gemelli Nominees Pty Ltd ACN 107 999 388.
<b>General Meeting or Meeting</b>	the general meeting of shareholders convened by the Notice of Meeting, or any meeting adjourned thereof.
<b>Glossary</b>	this glossary of terms.
<b>Government Agency</b>	any government or governmental, semi-governmental, administrative, monetary, fiscal or judicial body, department, commission, authority, tribunal, agency or entity in any part of the world.
<b>Independent Expert or RSM</b>	RSM Corporate Australia Pty Ltd ACN 050 508 024.
<b>Independent Expert's Report</b>	The report prepared by the Independent Expert and accompanying this Notice of Meeting in which the Independent Expert comments on the fairness and reasonableness of the issues under the Essential Resolutions to non-associated shareholders.

<b>Item</b>	an Item of a Schedule.
<b>Key Management Personnel</b>	has the meaning given in the Listing Rules.
<b>Listing Rules</b>	the official listing rules of the ASX from time to time.
<b>Notice of Meeting or Notice</b>	this notice of general meeting.
<b>ND Act</b>	the <i>Narcotic Drugs Act 1967</i> (Cth).
<b>Offer</b>	each offer to acquire an AusCann Share under the Takeover Bid.
<b>Offer Period</b>	the period that the Offers are open for acceptance.
<b>Option Purchase Agreement</b>	the agreement whereby the Company will acquire the AusCann Options from Canopy.
<b>Pathways Corporate</b>	Pathways Corporate Pty Ltd ACN 166 523 771.
<b>Performance Rights</b>	the rights to be issued by the Company on the terms set out in Schedule 8.
<b>Performance Shares</b>	the performance shares to be issued by the Company on the terms set out in Schedule 7.
<b>Plan</b>	has the meaning given in section 16.4(a) of this Explanatory Statement.
<b>Prescribed Occurrence</b>	the occurrence of any of the occurrences listed in section 652C of the Corporations Act.
<b>Proposed Transaction</b>	the acquisition by the Company of 100% of the AusCann Shares and AusCann Options.
<b>Prospectus</b>	a prospectus in compliance with the requirements of the Corporations Act and the Listing Rules to be prepared by the Company as contemplated under this Notice of Meeting and Explanatory Statement.
<b>Proxy Form</b>	the proxy form accompanying this Notice of Meeting
<b>Public Offer</b>	the offer of Shares pursuant to the Prospectus as contemplated in resolution 10 and considered in section 10 of the Explanatory Statement.
<b>Quotation</b>	official quotation as defined in the Listing Rules.
<b>Re-compliance</b>	the reinstatement of Shares to Quotation (other than any Shares that may be designated “restricted Securities” under the Listing Rules) if required by ASX after the Company re-complies with Chapters 1 and 2 of the Listing Rules to the ASX’s satisfaction.
<b>Related Body Corporate</b>	has the meaning given to that term in sections 9 and 50 of the Corporations Act.
<b>Related Party</b>	has the meaning given to that term in sections 9 and 228 of the Corporations Act.
<b>Relevant Interest</b>	has the meaning given to that term in sections 608 and 609 of the Corporations Act.

<b>resolution</b>	a resolution set out in the Notice.
<b>RG</b>	a regulatory guide published by ASIC.
<b>Schedule</b>	a schedule of the Explanatory Statement.
<b>section</b>	(a) where used in respect of act of parliament, a section of that act; and (b) otherwise, a section of the Explanatory Statement.
<b>Securities</b>	has the meaning given to that term in section 92 of the Corporations Act.
<b>Share Purchase Agreements</b>	the agreements entered into by the Company with certain AusCann Shareholders to acquire their AusCann Shares
<b>Shares or Ordinary Shares</b>	fully paid ordinary shares in the capital of the Company.
<b>shareholders</b>	the holders of Shares from time to time.
<b>SPA Vendors</b>	the current holders of Securities in AusCann who have entered into Share Purchase Agreements.
<b>Strategic Alliance Agreement</b>	has the meaning given to that term in Item 8.2 of Schedule 2.
<b>Takeover Bid</b>	has the meaning given in Section 1.1 of this Explanatory Statement.
<b>Takeover Panel</b>	the Australian Takeovers Panel.
<b>Target's Statement</b>	the target's statement to be issued by AusCann in response to the Bidder's Statement
<b>TWH options</b>	an option to acquire a Share.
<b>Vendors</b>	all of the current holders of Securities in AusCann, including holders of AusCann Shares and AusCann Options.
<b>Voting Power</b>	has the meaning given to that term in Section 610 of the Corporations Act.
<b>Voting Shares</b>	has the meaning given to that term in Section 9 of the Corporations Act.
<b>Washer Nominees</b>	Mal Washer Nominees Pty Ltd ACN 008 822 446.
<b>WST</b>	Western Standard Time, being the time in Perth, Western Australia.

## SCHEDULE 2 – DETAILS OF PROPOSED TRANSACTION

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### 1. BACKGROUND

The Company is an Australian public company listed on ASX which has, in recent years, principally been focused on wine operations. The Company has been seeking further investment opportunities outside of the wine industry. In the event the Proposed Transaction proceeds, the Company will discontinue its interest in the wine industry and dispose of any relevant assets.

AusCann was established in 2014 to bring world's best practice into Australia for the cultivation and manufacture of high value medicinal cannabis products. Its founding shareholders and directors comprise a group of high profile and seasoned executives with backgrounds in government, medicine, law enforcement, bio-pharmaceuticals and capital markets.

AusCann's approach is to build strong and long-lasting partnerships and collaborations with leading groups across the globe to ensure that AusCann remains at the forefront of the continually evolving medical cannabis landscape in Australia.

These collaborations include partnerships with European breeding companies, leading universities in Australia, clinical stage biotech companies and US-based groups dealing direct with patients and with a deep understanding of treatment regimes including dosing and protocols.

AusCann continues to play a leading role in the national debate around providing a regulated scheme for patients in need to access cannabis-based medicines.

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### 2. OVERVIEW OF THE TRANSACTION

The Company is proposing to acquire 100% of the issued share capital in AusCann by way of the issue in aggregate of consideration on a pre-Consolidation basis of 2,934,183,790 Shares and 564,607,029 Performance Shares to the AusCann Shareholders (in proportion to their existing holdings in AusCann).

The Company and certain AusCann Shareholders entered into Share Purchase Agreements in respect of the Proposed Transaction. A summary of the Share Purchase Agreements is set out in Item 8.1 of Schedule 3 of this Explanatory Memorandum.

To the extent that the Company has not entered into Share Purchase Agreements with the holders of AusCann Shares, the acquisition of AusCann Shares is proposed to be effected by means of scrip off market takeover offers by the Company to acquire all of the AusCann Shares (**Takeover Bid**). The Share Purchase Agreements and the Takeover Bid are subject to the conditions set out in Schedule 6.

In addition to the offers under the Takeover Bid and the Share Purchase Agreements, the Company will also be making a private offer to acquire all of the AusCann Options. These options are currently held exclusively by Canopy. Under the terms of this offer, Canopy will be issued the Canopy Options on the terms set out in Schedule 10. The offer to acquire the AusCann Options will be conditional on the Takeover Bid becoming unconditional.

Under the Takeover Bid and the Share Purchase Agreements the consideration offered for each AusCann Share is one (1) Share and approximately 0.1924 Performance Shares.

As at the date that AusCann became subject to Chapter 6 of the Corporations Act, being 26 October 2016, TWH had Voting Power of approximately 32.7% in AusCann by virtue of the Share Purchase Agreements entered into with 23 of the AusCann Shareholders. AusCann became subject to Chapter 6 of the Corporations Act on the above date by virtue of the number of shareholders in AusCann exceeding 50, as stipulated by section 606(1)(a)(ii) of the Corporations Act. It is proposed that the AusCann Shares not subject to acquisition under the Share Purchase Agreements will be acquired under the Takeover Bid.

Completion will only occur under the Share Purchase Agreements if the Bid Conditions are satisfied or waived (to the extent capable of being waived).

The Takeover Bid will be subject to a number of defeating conditions including:

- (a) Shareholders approving the Essential Resolutions;
- (b) the Company obtaining subscriptions for at least \$3 million pursuant to the Public Offer;
- (c) the Company having a Relevant Interest in at least 90% of the AusCann Shares on issue at the end of the Offer Period;
- (d) the Company receiving conditional approval from ASX to have its Securities reinstated to trading and those conditions being satisfied to the reasonable satisfaction of the Company and AusCann;
- (e) completion occurring under the Share Purchase Agreements;
- (f) the Company and AusCann each obtaining all necessary third party approvals to complete the Proposed Transaction (including conditional approval of ASX for the Company's Shares to be reinstated to trading on the Official List); and
- (g) Canopy entering into the Option Purchase Agreement with the Company in relation to the AusCann Options on terms materially the same as those set out in this document.

If the Bid Conditions are not satisfied or waived before the end of the Offer Period the Takeover Bid, including if any of the Essential Resolutions are not passed, the Proposed Transaction will not proceed.

The Bid Conditions are summarised in Schedule 6.

As a result of the Takeover Bid, the Share Purchase Agreements and the Option Purchase Agreement, it is intended that AusCann will become a wholly owned subsidiary of the Company and the holders of AusCann Shares and Options will become security holders in the Company.

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### 3. POSITION OF CANNABIS IN AUSTRALIA

Australia is a signatory to three international drug control treaties that aim to restrict production, manufacture, export, import, distribution, trade and possession of narcotic drugs (including cannabis) exclusively to medical and scientific purposes.

The three treaties are:

- (a) Single Convention on Narcotic Drugs (1961);
- (b) Convention on Psychotropic Substances (1971); and
- (c) United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988).

Under the Single Convention on Narcotic Drugs 1961 (Convention) Australia has the obligation to control, supervise and report on various stages of cannabis cultivation, production and manufacture. The purpose of the Convention is to establish a framework to both prevent abuse and diversion of controlled substances such as cannabis, and to facilitate the availability of these substances for medical and scientific purposes. The enabling legislation for these obligations is the *Narcotic Drugs Act 1967* (Cth) (**ND Act**).

On 29 February 2016 the Narcotic Drugs Amendment Bill 2016 (Bill) was given Royal Assent. The Bill amends the ND Act to establish a licensing scheme for the cultivation of cannabis for medical and scientific purposes. There were already mechanisms in place for the licensing of the manufacture of narcotics under the ND Act and access of medicinal cannabis for medical and scientific use through the *Therapeutic Drugs Act 1989* (Cth). Although access schemes have been available they have not been extensively used as accessing international cannabis products for medical or scientific purposes. The amended ND Act will allow Australia to develop a safe, legal and sustainable local supply of medicinal cannabis products.

The deadline in which all provisions of the Act come into force and relevant regulations and subsidiary legislation are to be implemented, is 30 October 2016. Applicants will then be able to apply for relevant licences to cultivate, produce and/or manufacture.

The Commonwealth Department of Health, through the newly established Office of Drug Control (**ODC**), will license those who cultivate, produce and manufacture cannabis products for medical and scientific use. The ODC is not only responsible for administering the ND Act but is also responsible for

parts of the *Customs (Prohibited Imports) Regulations 1956* and *Customs (Prohibited Exports) Regulations 1958* relating to approval of the import and export of cannabis products. The Therapeutic Goods Administration (TGA) regulates the manufacture, registration and supply of medicinal cannabis products as it does for other therapeutic goods.

### 3.1 Cultivation, production and manufacture licences

There are two types of cultivation and production licences and permits under the ND Act, one that authorises the cultivation and production of cannabis for manufacture into medicinal cannabis products; the second that authorises research into the cannabis plant that is to be used for medicinal purposes. The broad approach to research licences includes research and related scientific purposes, such as growing conditions, development of phytochemical content of different strains, ensuring consistency in yields and other matters related to ensuring a safe, consistent raw material.

Licences authorise the cultivation of plants, the production of cannabis and the undertaking of activities related to cultivation or production. Production is the separation of the flowering tops of the cannabis plant and cannabis resin from the plant. Licences may be granted to undertake both cultivation and production or these can be separate licences. Individual permits will indicate the type or strain of plant that may be cultivated and the quantity. More than one permit can be granted in relation to a licence concurrently.

A manufacturing licence authorise the manufacture of cannabis products and related activities such as the supply, packaging, transport, storage, possession, control, disposal or destruction of the product. As with cultivation licences, a permit is required which specifies the quantity and period in which the product may be manufactured.

#### (a) Supply arrangements

Licence applicants need to demonstrate genuine supply arrangements. For example, a condition of granting a cultivation and production licence and permit may be the demonstration of a clear relationship between the cultivator and/or producer and a manufacturer. An applicant will not be able to apply based on speculation that they will be able to supply a market.

A manufacturing licence will not be granted unless the ODC is satisfied that any manufactured product will be for patients in clinical trials, patients whose access to the product has been approved, for instance by an authorised medical practitioner, or where the product has been approved for general marketing in Australia by the TGA.

#### (b) Fit and Proper Person

A strict 'fit and proper person' test will be applied to the licence applicant, directors, relatives and relevant business associates. Consideration of a range of matters including criminal history, connections, associates and family, financial status, business history, capacity to comply with licensing requirements and whether the relevant persons are of 'good repute' taking into account their character, honesty and professional and personal integrity. Licence holders will also be expected to remain 'fit and proper'.

In addition to a licence from the ODC granted under the ND Act, manufacturers will also require a licence from the TGA granted under the *Therapeutic Goods Act 1989* (Cth) for manufacture of a therapeutic good.

### 3.2 Export

Provision has been made to allow the Commonwealth to control the timing on exports subject to successful implementation of the domestically focussed system. This has been deemed necessary by the Commonwealth to ensure the system of controls are robust, demonstrating to the internationally community, in particular the International Narcotics Control Board and potential trading partners, that Australia has an appropriate system for managing the risks of diversion.

A comprehensive suite of regulatory controls, to assist in ensuring the integrity of the system, include: powers to give directions to licence holders; of inspection, monitoring and investigation; to issue infringement notices and seek civil penalties; to accept enforceable undertakings and to seek injunctions.

### 3.3 State and Territory governments

The Commonwealth will control all regulatory aspects of the cultivation of cannabis for medicinal purposes through one national scheme. Manufacture, however, will be a joint responsibility between the Commonwealth and the States and Territories. Manufacturers will also require a licence to manufacture under the relevant state legislation. In Western Australia the relevant legislation is the *Poisons Act 1964* (WA). This means a manufacturer of medical cannabis will require 3 licences – one from the ODC granted under the ND Act, one from the TGA granted under the *Therapeutic Drugs Act 1989* (Cth) and one from the relevant State or Territory Health Department, in Western Australia granted under the *Poisons Act 1964* (WA).

Patient access to any cannabis products manufactured under the scheme is also a joint responsibility, with supply being controlled by provisions under the *Therapeutic Goods Act 1989* (Cth) working in tandem with State and Territory drugs and poisons legislation.

The ODC has advised that it is currently consulting with States and Territories and intends to issue guidelines, along with the regulations, for industry in respect to cultivation, manufacture and patient access by end of October 2016.

### 3.4 Access to medicinal cannabis in Australia

Australia has a national classification system that controls how medicines and poisons are made available to the public. Medicines and poisons are classified into schedules according to the level of regulatory control over the availability of the medicine or poison, required to protect public health and safety.

The schedules are published in the *Standard for the Uniform Scheduling of Medicines and Poisons* (**SUSMP**) and are given legal effect through State and Territory legislation. The SUSMP is legally referred to as the Poisons Standard.

Poisons are not scheduled on the basis of a universal scale of toxicity. Although toxicity is one of the factors considered, and is itself a complex interplay of factors, the decision to include a substance in a particular schedule with the Poisons Standard also takes into account many other criteria such as the purpose of use, potential for abuse, safety in use and the need for the substance.

The Poisons Standard lists poisons in ten schedules according to the degree of control recommended to be exercised over their availability to the public.

Poisons for therapeutic use (medicines) are mostly included in schedules 2, 3, 4 and 8 with progression through these schedules signifying increasingly restrictive regulatory controls.

Schedule 9 of the SUSMP contains substances that should be available only for teaching, training, medical or scientific research including clinical trials conducted with the approval of Commonwealth and/or State and Territory health authorities. Aside from some specific cannabinoids discussed below, cannabis and cannabis extracts are currently schedule 9 substances and have only been available for teaching, training, medical or scientific research to date.

On 31 August the TGA advised that it will amend the SUSMP as follows, with an implementation date of 1 November 2016:

- (a) new schedule 8 entries for cannabis (including seeds, extracts, resins and the plant, and any part of the plant) and a particular cannabis cannabinoid compound –tetrahydrocannabinols (when extracted from cannabis) for human therapeutic use,
- (b) new appendix D Item 1 entries for cannabis and tetrahydrocannabinols, and
- (c) new appendix K entries for cannabis and tetrahydrocannabinols.

For both cannabis and tetrahydrocannabinols the schedule 8 entries are further restricted to substances:

- (a) where the cultivation, production and manufacture of the substances in Australia is only under the Narcotic Drugs Act 1967; and
- (b) where the substances are imported into Australia and/or supplied in accordance with the Therapeutic Goods Act 1989.

The new appendix D Item 1 entries for cannabis and tetrahydrocannabinols place an additional control on the substances such that the substances will only be "available from or on the prescription or order

of an authorised medical practitioner" where the medical practitioner has been authorised by the "appropriate authority" as defined in Part 1 paragraph 1(1) of the SUSMP which are generally senior health executives of the States and Territories.

The new appendix K entries for cannabis and tetrahydrocannabinols are due to the potential sedation effect of these substances and place a requirement for products including these substances to be labelled with a warning regarding their sedation potential.

The schedule 8 entry of cannabis means individuals will be able to have appropriate cannabinoid products prescribed where the medical practitioner is appropriately authorised to prescribe them.

The schedule 8 entry for cannabis includes the plant, its seeds, its extracts and derivatives of the extracts, and the entry for tetrahydrocannabinols is for tetrahydrocannabinols extracted from, or derived from the extracts, of cannabis and does not include synthetic tetrahydrocannabinols.

Preparations containing another cannabis derived compound, cannabidiol (CBD), which contains  $\leq 2\%$  of other cannabinoids, are already a schedule 4 entry. Other schedule 8 entries are two synthetic preparations used for chemotherapy induced nausea and vomiting – Dronabinol (synthetic delta 9 THC) and Nabilone (synthetic cannabinoid similar to THC), and the botanical extract Nabiximols (containing THC and CBD in approx. equal proportions – in a buccal spray for MS).

Overseas cannabis substances can be imported under the *Customs (Prohibited Imports) Regulations 1956* (Cth) with approval by the Commonwealth ODC.

Any supply and import of products containing these substances is still required to comply with the *Therapeutic Goods Act* and the *Therapeutic Goods Regulations 1990* (Cth). Any product containing these substances not on the Australian Register of Therapeutic Goods (**ARTG**) requires an exemption or approval to be legally supplied under the *Therapeutic Goods Act*.

On a national level there are currently a number of pathways for access to cannabis for medicinal use through the *Therapeutic Goods Act*:

- (a) medicines registered on the ARTG;
- (b) clinical trials; and
- (c) the Special Access Scheme (**SAS**) and Authorised Prescribers Scheme (**APS**).

To be registered on the ARTG a robust dossier of clinical trial and other data is required. The SAS pathway has been used to prescribe imported medicinal cannabis product in Australia. Access under the SAS is undertaken by application to the TGA on an individual basis whereas under the APS the TGA approves a medical practitioner to prescribe defined medications that are not currently listed on the ARTG to patients with defined conditions.

For an Australian medical practitioner to prescribe medicinal cannabis they are required to adhere to the SAS or APS scheme requirements for supplying a product not included on the ARTG, as well as adhering to State or Territory legislation regarding controls (such as gaining approval from Senior Health executives) placed on products that has been included in Appendix D of the SUSMP.

### 3.5 Clinical studies

To undertake a clinical study with schedule 8 substances, such as full spectrum cannabis plant extracts as proposed by AusCann, a poisons permit is required under section 25 of the *Poisons Act 1964* (WA). This is applied for using a prescribed form.

AusCann does not intend to commence its clinical studies prior to the rescheduling of cannabis on 1 November 2016. If it did it would need to do so in accordance with the requirements for a schedule 9 substance. This requires a R&D licence under section 41 of the *Poisons Act 1964* (WA). There is not a prescribed form for this application and an application must be made to, and protocol approved by the Western Australia Department of Health.

Human Research Ethics Committees (**HRECs**) play a central role in the Australian system of ethical oversight of research involving humans. HRECs review research clinical study proposals involving human participants to ensure that they are ethically acceptable and in accordance with relevant standards and guidelines. There are more than 200 HRECs in institutions and organisations across Australia that can review and provide the necessary approval for a study to proceed.

As Australian produced medicinal cannabis is not yet available, product needs to be imported into Australia for any clinical studies currently been undertaken. An application to the ODC for a licence and permit to import under the *Customs (Prohibited Imports) Regulations 1956* (Cth), and a State licence or permit under the *Poisons Act 1964* (WA) are required to undertake a clinical study.

The study also needs to be registered with the TGA using either the Clinical Trial Notification (**CTN**) or Clinical Trial Exemption (**CTX**) schemes, as with all clinical studies. Whether the CTN or CTX scheme is used is a consideration of the sponsor of the study (such as the AusCann) and the HREC that reviews the protocol. A determining factor for a HREC may be whether the committee has access to appropriate scientific and technical expertise in order to assess the safety of the product.

To conduct a clinical trial in Australia, the trial must have an Australian sponsor. The sponsor may be an individual (for example a medical practitioner), a body or organisation (for example hospitals, area health services, non-government organisations), or a company (for example, AusCann or a Contract Research Organisations (**CROs**)). The TGA would deal directly with the Australian sponsor on all matters relating to the trial.

The CTN Scheme is a notification scheme and the TGA does not review any data relating to the clinical trial. All material relating to the proposed trial, including the trial protocol is submitted directly to the HREC and the HREC is responsible for assessing the scientific validity of the trial design, the safety and efficacy of the medicine or device and the ethical acceptability of the trial process, and for approval of the trial protocol. The institution or organisation at which the trial will be conducted gives the final approval for the conduct of the trial at the site, having due regard to advice from the HREC.

The CTX Scheme is an approval process and a sponsor submits an application to conduct clinical trials to the TGA for evaluation and comment. A TGA delegate decides whether or not to object to the proposed usage guidelines for the product. The sponsor may conduct any number of clinical trials under the CTX application without further assessment by the TGA, provided use of the product in the trials falls within the original approved usage guidelines. The TGA must be notified of each trial conducted.

Access to unregistered medicines for clinical trials requires seeking the approval of a HREC and notifying the TGA, or seeking approval of both a HREC and the TGA, depending upon the risks associated with the clinical trial proposal.

The following tasks are being undertaken in respect of AusCann's proposed clinical studies:

#### *Treatment resistant childhood epilepsy study*

Appropriate product has been identified in Canada for this study. Meetings have been held with a local Perth clinician who is to be "Principal Investigator" of the study, and prescribing clinicians in Canada on dosage, appropriate patient groups, potential adverse events and other considerations for drafting of the protocol. The first draft of the protocol has been completed and is currently under review.

All clinical trials undertaken in Australia must have an up-to-date "investigator's brochure". The investigator's brochure has been completed for this study. This document is a compilation of the clinical and non-clinical data available on the experimental products intended for use in the clinical trial in question. It provides trial organisers and staff with an understanding of the rationale of the trial, in order to inform their compliance with the protocol requirements. The information enables a risk/benefit assessment of the appropriateness of the proposed trial, of vital importance to HREC considerations in the conditions that it may place on approval of the study.

The Principal Investigator at PMH has already provided the Department of Health with a synopsis of the study that is to be undertaken.

AusCann is expecting to submit the protocol for this study to a HREC in late 2016.

#### *Chronic pain study*

We have commenced work with an Australian clinical trial research organisation in respect to study design and the drafting of the protocol for this study.

Appropriate product has been identified and the first draft of the investigator's brochure has been drafted. Site locations and selection of the principal investigator is currently being finalised.

AusCann is expecting to submit the protocol for this study to the HREC in late 2016.

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#### 4. AUSCANN BUSINESS

(A reference to “the Company” in this Item 4 is a reference to the Company or AusCann in its capacity as a subsidiary of the Company following Completion, as the context requires.)

The proposed Directors believe that patients have the right to high quality, economical and clinically validated cannabis medicines.

The Company will have the ability to deliver high quality, economical and clinically validated cannabis medicines by:

- (a) having access to expertise and relevant intellectual property in respect to:
  - (i) plant genetics and breeding;
  - (ii) cultivation and production techniques;
  - (iii) manufacturing techniques;
  - (iv) cannabis medicines that are currently being prescribed for patients for a range of conditions internationally; and
  - (v) undertaking clinical studies in Australia;
- (b) having the expertise to operate under Australian strict cultivation and manufacturing requirements; and
- (c) being able to supply full spectrum plant extracts rather than synthetic or single molecule preparations.

The Company’s business model will be based on:

- (a) securing access to leading medicinal cannabis plant genetics and establishing a genetics breeding program to develop further strains;
- (b) securing access to leading cultivation, production and manufacturing expertise and developing best practice in respect to full spectrum plant extracts; and
- (c) partnering with leading researchers for ongoing evaluation of the efficacy AusCann’s products for a range of medical conditions.

The Company’s main objectives on completion of the Proposed Transaction are:

- (a) having its Securities reinstated to trading on the ASX;
- (b) undertaking research into, and development of, new medicinal cannabis strains, cultivation and extraction techniques;
- (c) undertaking research into the clinical efficacy of medicinal cannabis products and delivery mechanisms for various medical conditions;
- (d) obtaining relevant licensing for the cost effective cultivation and manufacture of high quality, clinically effective medicinal cannabis in Australia once regulations permit; and
- (e) the provision of relevant information to establish the Australian medical community’s trust and confidence in the prescription of AusCann’s medicinal cannabis products.

##### 4.1 Clinical efficacy and analytical work

The Company will support robust clinical trials that provide quality evidence of the efficacy of the medicinal cannabis products and delivery mechanisms that the Company intends to produce for targeted medical conditions. These studies will assist in development of confidence by the medical community to prescribe these products and for regulators to allow products to be prescribed for targeted medical conditions. The initial focus for clinical research is treatment resistant childhood epilepsy and chronic pain. Medicinal cannabis products will initially be sourced from the Company’s Canadian partner Canopy Growth Corp. Once the cultivation, production and manufacture licensing regime is established in Australia, the Company intends to supply clinical studies with its locally developed products. These clinical studies will also be deemed a valid supply under the ND Act for domestic licensing purposes.

The Company will undertake chemical analysis of sourced medicinal cannabis extracts to support its clinical investigations. This analysis will be undertaken using the Company's analytical equipment and Murdoch University expertise and facilities.

Clinical trials may be undertaken under existing regulatory frameworks using imported products as outlined above. These clinical trial and analytical activities, which are budgeted for in the use of funds table below, are not dependent upon AusCann obtaining a licence to cultivate and/or manufacture under the ND Act.

AusCann is currently developing clinical trial protocols with clinicians for these studies. Once completed these protocols will then be submitted for HREC approval and R&D licence applications. Once a R&D licence is obtained then AusCann may apply for a licence and permit to import the cannabis products.

## **4.2 Education/Outreach**

Another of the Company's key objectives after reinstatement is to provide relevant information to the Australian medical community to establish trust and confidence in the prescription of the Company's medicinal cannabis products. This will be done through the provision of information material as well as bringing in clinicians and researchers from overseas who have experience in either the prescription of medicinal cannabis for their patients or undertake research in the field. The Company will arrange regular roadshow platforms in each city in which these international clinicians and researchers can engage with the Australian medical community.

## **4.3 New medicinal cannabis strains, cultivation and extraction techniques**

Under the research alliance with Murdoch University/State Agriculture Biotechnology Centre, the Company intends to undertake propagation investigation projects such as biosecurity, chemotyping and cultivation modelling.

The Company and Murdoch University intend to undertake research into biosecurity issues pertaining to the importation of high value clonal propagation material of cannabis species. Cultivation of clonal propagation medicinal cannabis material is required for the manufacture of full spectrum medicinal cannabis products. Full spectrum medicinal cannabis products are full spectrum extracts from the female flower buds of the cannabis plant. These products include the full spectrum of cannabinoids, flavonoids and other pharmacologically active compounds present in the female flower buds. To meet acceptable quality standards, phytomedicines, such as full spectrum medicinal cannabis, need to be cultivated using a standard process which ensures a reproducible pharmaceutical quality product.

When pharmacologically active ingredients are extracted from botanical raw material, as with medicinal cannabis, consistency in the chemical profile of the individual plants that contribute to a particular batch is of importance. Detailed chemical analysis of plant chemical profiles will be undertaken in the specialist facilities of Murdoch University's State Agricultural Biotechnology Centre.

AusCann and Murdoch University intend to build greenhouses to model optimum conditions for yield and quality consistency of medical cannabis compounds. AusCann is investigating combining the benefits of outdoor and indoor grow by utilising automated retractable roof greenhouses that can optimise growing conditions whilst protecting in-ground crops from adverse weather events. AusCann and Murdoch University can investigate these variables without cultivating cannabis plants and prior to being able to apply for a licence to cultivate under the amended ND Act. The undertaking of the greenhouse modelling activities, which are budgeted for in the use of funds table below, may be undertaken without AusCann or Murdoch having a licence to cultivate and/or manufacture under the ND Act. Design work for these activities has commenced.

Building upon the chemical characterisation expertise for the analysis of produced and sourced medicinal cannabis products, the collaboration team will also undertake chemotyping of cannabis plants to ascertain effectiveness of the modelling conditions.

Once the Company and Murdoch University can apply for a research and development cultivation licence under the ND Act the parties will and drawing upon the University's expertise to build up the knowledge base in developing improved medicinal cannabis varieties. A key component of this research will be analytical techniques for resolution of the chemical components of the varieties, for profile characterisation and consistency.

The Company will enter into a breeding collaboration with Spanish plant breeding company PhytoPlant Research SL to develop high yielding strains with desired medical chemotypes which also display environmental compatibility with Australian conditions.

Under the current heads of agreement with PhytoPlant Research, SL AusCann is granted exclusivity in the Australian market over certain strains of interest to it including but not limited to high yielding strains containing particular cannabis compounds of medical interest. AusCann is also granted exclusivity in the Australian market for any relevant intellectual property and know-how in terms of extraction protocols that PhytoPlant has developed.

#### 4.4 Licensing

Proposed Activities	Licensing requirements	Licence status
Horticultural R&D (incl. breeding, sourcing varieties)	There are state building, environmental and local government approvals and requirements in respect to the construction and use of greenhouse facilities at Murdoch University. These approval processes are procedural with standard conditions that would need to be complied with. As cannabis will not be grown in the greenhouse modelling activities specific licensing or permits in respect to cannabis are not required.	To be applied for upon completion of plans.
Analytical testing	The analytical testing of medicinal cannabis products for use in clinical trials will be covered by the same licences and permits required for undertaking clinical trials as outlined in Item 4.4(a) below.	AusCann is in the process of obtaining relevant licences and permits to undertake this work. Working with clinicians it has commenced drafting of the clinical trial protocols required for the application process.
Clinical trials	Please see outline of approvals and permits required for undertaking a clinical trial in Item 4.4(a) below.	AusCann is in the process of obtaining relevant licences and permits to undertake this work. Working with clinicians it has commenced drafting of the clinical trial protocols required for the application process.
Medical Education	No licencing or permits are required for the provision of education material to authorised medical clinicians.	Not applicable

##### (a) Clinical efficacy and analytical work

AusCann is in the process of obtaining relevant licences and permits to undertake this work. Working with clinicians it has commenced drafting of the clinical trial protocols required for the application process.

*WA State permits*

A licence is required under the *Poisons Act 1964* (WA) to undertake the proposed clinical efficacy and analytical work.

The application process and licensing conditions are dependent upon whether the medicinal cannabis product being used is classed as a schedule 8 or schedule 9 substance in the Poisons Standard. As outlined in 3.4 the TGA issued a final decision on 31 August 2016 which advised that cannabis products would be rescheduled to schedule 8 on 1 November 2016. The *Poisons Act 1964* (WA) provides that the Commonwealth Poison Standard scheduling is applied to the WA Poisons Standard. This means that the rescheduling by the TGA would apply to WA.

The rescheduling will occur prior to AusCann commencing its analytical work and clinical studies, however licences and permits can be sought for either schedule 9 or 8 substances.

(i) Schedule 9 substances

A licence is applied for the manufacture, preparation, possession or use of a schedule 9 substance for educational, experimental or research purposes in accordance with s41 of the *Poisons Act 1964* (WA). There is no set application form to undertake research involving schedule 9. An application outlining the research is submitted to the Department of Health for approval and issue of a licence.

(ii) Schedule 8 substances

To undertake clinical efficacy and analytical work with schedule 8 substances a poisons permit is required under section 25 of the *Poisons Act 1964* (WA) and reg 10/10A of the *Poisons Regulations 1964* (WA). A permit under reg 10 authorises the purchase of sch 8 substances for research purposes, the relevant permit being Form 8 in Appendix A of the Regulations. Government departments and/or hospitals apply under reg 10A and the relevant permit is Form 13 in Appendix A of the Regulations.

Both permits are applied for using the same standard prescribed form which is available on the WA Health website. AusCann considers the process to be procedural and standard conditions need to be complied with. In particular the safe requirements for storage of schedule 8 substances. Hospitals and other medical facilities where AusCann's clinical studies are to be undertaken are likely to already hold such permits and have the appropriate facilities for handling and storage of schedule 8 substances.

*Commonwealth licensing requirements*

As outlined above in 3.5 clinical studies need to be registered with the TGA using either the Clinical Trial Notification (CTN) or Clinical Trial Exemption (CTX) schemes, as with any clinical studies being undertaken in Australia.

Whether the CTN or CTX scheme is used will be dependent upon the HREC that reviews the protocol. A determining factor for a HREC may be whether the committee has access to appropriate scientific and technical expertise in order to assess the safety of the product. AusCann intends submitting its clinical trial protocols to HRECs for approval and using the CTM scheme.

The CTN Scheme is a notification scheme and the TGA does not review any data relating to the clinical trial that are simply notified that a HREC has approved the trial protocol. The CTX Scheme is an approval process and under this scheme AusCann would submit an application to conduct the proposed clinical trials to the TGA for evaluation and comment. AusCann may conduct any number of clinical trials under the CTX application without further assessment by the TGA, provided use of the product in the trials falls within the original approved usage guidelines. The TGA must be notified of each trial conducted.

As AusCann intends to use Canadian product it will apply for a licence and permit to import under Reg 5 of the *Customs (Prohibited Imports) Regulations 1956* (Cth). Licences are issued annually and do not grant approval to import but allows an applicant to apply for a permit to import. A permit is required for each specific consignment that is imported. Applications are reviewed and approved by the Office of Drug Control (previously the Drug Control Section of the TGA).

A WA state permit permitting the use of the product is required to obtain a licence and permit to import. A standard application form for a licence and permit are available through the Office of Drug Control website. This process is procedural and would require compliance with standard conditions in respect to a schedule 8 or 9 substance.

(b) Cultivation, production and manufacture in Australia

The Narcotic Drugs Amendment Bill 2016 was passed by the Commonwealth Parliament in February 2016 which amended the ND Act to provide for a licensing scheme for the cultivation, production and manufacture of cannabis for medical and scientific purposes. The deadline in which all provisions of the legislation come into force and relevant regulations and subsidiary legislation are to be implemented by is 30 October 2016. Applicants will then be able to apply for relevant licences to cultivate, produce and/or manufacture.

There is a significant commercial opportunity to establish one or more grow operations in Western Australia due to:

- (a) AusCann's collaboration with Murdoch University and the SABC;
- (b) the ability to lease appropriate land; and
- (c) the potential to enter into lease agreements with existing TGA approved manufacturing sites.

In order to implement this strategy, the Company intends to: complete AusCann's current feasibility studies on establishing production operations in Western Australia. This will include an assessment of:

- (a) economic potential;
- (b) appropriate physical locations;
- (c) regulatory requirements;
- (d) security needs; and
- (e) infrastructure and personnel requirements.

On completion of the above and subject to satisfying all regulatory hurdles, the Company intends to immediately commence building one or more growing operations. This may require additional financing (debt, equity or third party) in the future.

#### 4.5 Other International opportunities

The Company will look to capitalise on other opportunities in the medical cannabis sector including, without limitation acquisition or investment in other international plant breeders, producers and suppliers whether in Australia and overseas.

#### 4.6 Use of funds

The Company intends to use its existing financial resources and the funds raised from the Public Offer as follows:

Funds available	Minimum Subscription (\$3,000,000)	Percentage <sup>3</sup> of Funds (%)	Maximum Subscription (\$5,000,000)	Percentage <sup>3</sup> of Funds (%)
<b>Source of funds</b>				
Company existing cash reserves <sup>1</sup>	\$370,270	6%	\$370,270	4%
AusCann existing cash reserves <sup>1</sup>	\$2,960,890	47%	\$2,960,890	36%
Funds raised from the Public Offer	\$3,000,000	47%	\$5,000,000	60%
<b>Total</b>	<b>\$6,331,160</b>	<b>100%</b>	<b>\$8,331,160</b>	<b>100%</b>
<b>Allocation of funds</b>				

Funds available	Minimum Subscription (\$3,000,000)	Percentage <sup>3</sup> of Funds (%)	Maximum Subscription (\$5,000,000)	Percentage <sup>3</sup> of Funds (%)
Horticultural R&D (incl. breeding, sourcing varieties)	\$1,200,000	19%	\$1,800,000	22%
Analytical testing	\$300,000	5%	\$330,000	4%
Clinical trials	\$2,800,000	44%	\$3,600,000	43%
Medical Education	\$240,000	4%	\$330,000	4%
Licence application & implementation	\$100,000	2%	\$150,000	2%
Costs of the Proposed Transaction	\$530,000	8%	\$650,000	8%
General working capital <sup>2</sup>	\$1,161,160	18%	\$1,471,160	18%
<b>Total</b>	<b>\$6,331,160</b>	<b>100%</b>	<b>\$8,331,160</b>	<b>100%</b>

**Notes:**

1. These funds represent cash held by the Company and AusCann at 30 June 2016. The Company and AusCann have incurred and expect to incur further costs within the ordinary course of their respective businesses and in association with the Acquisition which will diminish this amount prior to Completion.
2. Working capital includes the general costs associated with the management and operation of the business including administration expenses, management salaries, directors' fees, rent and other associated costs.
3. Percentages are rounded to the nearest whole number.

The above table is a statement of current intentions as of the date of this Notice. As with any budget, intervening events and new circumstances have the potential to affect the manner in which the funds are ultimately applied. The Board reserves the right to alter the way funds are applied on this basis.

## 5. STRATEGIC RELATIONSHIPS AND AGREEMENTS

### 5.1 Phytoplant Research

Established in 2008, Phytoplant Research is a private Spanish company which is internationally regarded for producing high quality, proprietary medicinal plants. Phytoplant specialises in techniques for the selection and genetic improvement of medicinal plants, under the standards of Good Agricultural Practice. In addition, Phytoplant has expertise in the extraction, isolation and purification of bioactive plant components to the standards of Good Manufacturing Practice.

AusCann has entered into a non-binding heads of agreement with Phytoplant focussed on securing plants with desired chemotypes which also display environmental compatibility with Australian conditions, and drawing upon expertise to produce commercially viable, quality products.

Under the agreement, AusCann is granted exclusivity in the Australian market over certain strains of interest to it including but not limited to high yielding strains containing particular cannabis compounds of medical interest. AusCann is also granted exclusivity in the Australian market for any relevant intellectual property and know-how in terms of extraction protocols that Phytoplant has developed. The parties will also collaborate on a joint breeding program under which AusCann will provide

suitable growing conditions and analytical labs either directly or through its other partnerships including but not limited to Murdoch University. Refer to Item 8.4 of this Schedule for the material terms of the agreement between AusCann and Phytoplant Research.

## **5.2 Murdoch University and the Western Australia State Agricultural Biotechnology Centre**

Based in Western Australia, Murdoch University undertakes world-class research in agricultural sciences, including genetics and biotechnology. The University is home to the Western Australian State Agricultural Biotechnology Centre which has platform technologies, world-class facilities for, and world-class researchers in, agricultural research.

AusCann has entered into a five-year research alliance, focussed on cultivation and development of targeted medicinal cannabis strains for the effective treatment of various medical conditions, which are suited to Australian growing conditions. Refer to Item 8.5 of this Schedule for the material terms of the agreement between AusCann and Murdoch University.

## **5.3 Canopy Growth Corporation**

Canopy Growth Corporation was the first publically traded, federally regulated cannabis producer in North America and remains the largest and most diversified. Listed on the TSX Venture Exchange, Canopy has a market capitalisation in excess of Cdn\$300,000,000. Core brands under Canopy are Tweed (a highly recognised cannabis brand) and Bedrocan Canada (a producer and seller of genetically standardised cannabis varieties). Canopy operates two indoor production facilities and a large greenhouse with more than 46,400 square metres of production capacity.

The alliance provides AusCann with access to expertise and intellectual property in the cultivation, manufacture and supply of high quality medicinal cannabis products.

Refer to Item 8.5 of this Schedule for the material terms of the agreement between AusCann and Canopy Growth Corporation.

## **5.4 Aunt Zelda Incorporated**

Aunt Zelda Incorporated was established under California law in 2011 and is focussed upon the formulation of high quality cannabis-based medicines. Since inception, Aunt Zelda has developed significant intellectual property around the appropriate formulations and protocols to treat specific medical conditions and amassed a valuable database of patient records. Considerable brand equity has been established in "Aunt Zelda's" brand with a growing profile in California.

AusCann has entered into a non-binding heads of agreement with Aunt Zelda for exclusive access to their brand and product range in the Australian and New Zealand market. In addition, the heads of agreement includes access to techniques and data around extraction and formulation for medical conditions. Refer to Item 8.6 of this Schedule for the material terms of the agreement between AusCann and Aunt Zelda Incorporated.

## **5.5 Zelda Therapeutics Pty Ltd**

Zelda Therapeutics Pty Ltd was established in August 2015 as a special purpose vehicle that has secured an exclusive, global licence to a set of human patient data being treated with cannabinoid-based medicines. This data has been generated by a Californian group, Caziwell Inc, incorporating the activities of Aunt Zelda.

The focus of Zelda is to design certain human clinical trials leveraging the already existing anecdotal patient data.

Zelda intends to source medicinal cannabis plant and extract material for its Australian based and international clinical trials from AusCann.

Zelda Director Mr Harry Karelis is a significant shareholder of AusCann and a proposed director of the Company.

Refer to Item 8.7 of this Schedule for the material terms of the agreement between AusCann and Zelda Therapeutics Pty Ltd.

## **5.6 Hidden Garden Sustainable Farms Ltd**

Hidden Garden Sustainable Farms Ltd is an Australian based Company established to develop horticultural projects focussed on providing affordable, high quality, fresh produce to local communities. Hidden Garden has a focus on sustainable farming in remote communities.

AusCann has entered into a non-binding heads of agreement with Hidden Garden to explore the possibility of cultivation of medicinal cannabis on the Australian Commonwealth territory of Christmas Island for the export market. Hidden Garden has recently been granted a 21-year agricultural lease over 55 acres of prime Commonwealth land. Under the heads of agreement Hidden Garden is to provide suitable growing areas on Christmas Island, including open fields and greenhouses, for the growing of AusCann's genetics and to assist with growing expertise and on site management. Refer to Item 8.8 of this Schedule for the material terms of the agreement between AusCann and Hidden Garden Sustainable Farms Ltd.

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## 6. EXISTING DIRECTOR PROFILES

### 6.1 Mr David Wheeler

Mr Wheeler has more than 30 years' executive management experience through general management, CEO and managing director roles across a range of companies and industries. He has worked on business projects in the USA, UK, Europe, New Zealand, China, Malaysia and the Middle East. He has been a Fellow of the Australian Institute of Company Directors (FAICD) since 1990.

### 6.2 Mr Nicholas Calder

Mr Calder is a chartered accountant and registered company auditor. He was a partner of PKF Mack & Co from 2006 to 2012 before commencing NK Advisory, which provides corporate, strategic and company secretarial services to a number of oil and gas, mining and manufacturing companies based in Perth, Western Australia. He graduated from the University of Western Australia with a Bachelor of Commerce degree.

### 6.3 Mr Simon Taylor

Mr Taylor is a geologist with over 25 years' experience in exploration, project assessment and development in the resources sector. He has had a diversified career as a resources professional, providing services to resource companies and financial corporations at both a technical and corporate level. Mr Taylor's experience has been predominantly overseas but has also covered projects in Australia. He is a member of the Australian Institute of Geoscientists and a graduate of Sydney University.

Directorships of listed entities in the past three years: Chesser Resources Limited (ASX: CHZ), Oklo Resources Limited (ASX: OKU), King Solomon Mines Limited (ASX: KSO) and Aguia Resources Limited (ASX: AGR).

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## 7. PROPOSED DIRECTORS

The proposed Directors after completion of the Proposed Transaction are Dr Mal Washer, Ms Elaine Darby, Mr Harry Karelis, Mr Bruce McHarrie, the Hon Cheryl Edwardes and Mr Bruce Linton. Profiles of each proposed Director are included in the Explanatory Statement under sections 12 through 17 respectively.

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## 8. SUMMARY OF MATERIAL AGREEMENTS

### 8.1 TWH and AusCann Heads of Agreement

On 17 March 2016, the Company announced the execution of a non-binding heads of agreement with AusCann in relation to the Proposed Transaction, in consideration of which the Company paid AusCann an exclusive option fee in the amount of \$250,000. As announced to ASX on 9 May 2016, on or around 7 May 2016 the Company entered into a binding heads of agreement with AusCann in relation to acquiring 100% of the issued capital of AusCann (**Heads of Agreement**).

The terms and conditions of the Heads of Agreement have in practice been superseded by the terms and conditions of the Share Purchase Agreement, the Option Purchase Agreement and the Bid Implementation Agreement, as set out below, although none of the terms of those agreements are materially inconsistent in effect from those in the Heads of Agreement.

### 8.2 Share Purchase Agreements

The Company has entered into Share Purchase Agreements with certain of the holders of AusCann Shares.

The material terms of the Share Purchase Agreements are:

- (a) (**Acquisition**): In each case, the Company agrees to acquire the relevant Securities from the AusCann Shareholder in exchange for the issue of Shares and Performance Shares;
- (b) (**Conditions Precedent**): Completion under each Share Purchase Agreement is effectively conditional upon and subject to satisfaction of the Bid Conditions;
- (c) (**Consideration**): The consideration payable to each AusCann Shareholder who has executed a Share Purchase Agreement varies according to the number of AusCann Shares they hold. The combined total consideration under the Share Purchase Agreements is 957,718,474 Shares and 184,287,904 Performance Shares (on a pre-Consolidation basis);
- (d) (**Warranties and indemnities**): Each Share Purchase Agreement contains some standard warranties and indemnities given by the AusCann Shareholders.

The Share Purchase Agreements otherwise contain clauses typical for agreements of this nature.

### 8.3 Option Purchase Agreement

In accordance with the Strategic Alliance Agreement, the Company has agreed to issue Canopy 153,552,779 TWH options on the terms and conditions set out in Schedule 10 (**Canopy Options**).

The material terms of the Option Purchase Agreement are:

- (a) (**Acquisition**): The Company agrees to acquire 153,552,779 AusCann Options from Canopy;
- (b) (**Conditions Precedent**): Completion under the Option Purchase Agreement is conditional upon and subject to satisfaction of the Bid Conditions;
- (c) (**Consideration**): The consideration payable to Canopy is the Canopy Options;
- (d) (**Warranties and indemnities**): The Option Purchase Agreement contains some standard warranties and indemnities given by Canopy.

The Option Purchase Agreement otherwise contains clauses typical for agreements of this nature.

### 8.4 Bid Implementation Agreement

The Company and AusCann have entered into the Bid Implementation Agreement for the purpose of facilitating the Takeover Bid under which the Company will make a conditional off-market offer for all of the shares in AusCann that it is not entitled to under the Share Purchase Agreements.

The Bid Implementation Agreement contains terms and conditions customary for agreements of that nature as they relate to facilitation of the Takeover Bid, exclusivity, announcements, termination and the Bid Conditions. It also acknowledges that Shares and Performance Shares issued to AusCann shareholders accepting offers under the Takeover Bid may be subject to escrow requirements imposed by ASX under the Listing Rules.

The Bid Implementation Agreement provides that the Company will offer one Share and approximately 0.1924 Performance Shares for every one AusCann Share held. Offers will only be made to all AusCann Shareholders, although some AusCann Shareholders have already entered into Share Purchase Agreements. The Offers made under the Takeover Bid are for acquisition of Shares and Performance Shares at the same ratio as under the Share Purchase Agreements.

## 8.5 Strategic Alliance Agreement

As announced by the Company on 9 May 2016, AusCann entered into a strategic alliance agreement with Canopy Growth Corporation (Canopy) (**Strategic Alliance Agreement**). Under the arrangement, Canopy will offer its expertise in a number of areas including production, quality assurance and operations, and provide strategic advisory services to AusCann in exchange for Shares constituting 15% of the issued capital in AusCann as well as options to acquire a further 5% of that issued capital.

Canopy is listed on the TSX Venture Exchange and has a market capitalisation over A\$300,000,000. Canopy's headquarters are in Ontario, Canada. Canopy is the largest legal cannabis producer in the world.

The material terms of the Strategic Alliance Agreement are as follows:

- (a) **(Consulting Services)** Canopy will provide consulting services to AusCann for an initial term of 3 years, utilising its vast range of expertise and intellectual property in cultivation, manufacturing and supply of high quality medicinal cannabis.
- (b) **(Licence)** Canopy has agreed to grant to AusCann a non-exclusive, irrevocable, royalty-free, non-transferable, non-sublicensable licence to access Canopy's intellectual property, proprietary materials, cannabis genetics and product materials as reasonably required by AusCann for use in development of AusCann's cannabis products and clinical studies.
- (c) **(Consideration)** As consideration for the provision of the services by Canopy, AusCann has agreed to issue a 15% stake in AusCann, being 460,658,336 AusCann Shares (on a pre-Consolidation basis), and will be subject to a voluntary three-year escrow period. These AusCann Shares are to be acquired by the Company pursuant to the Takeover Bid. Further, Canopy has been granted 153,552,779 AusCann options at an exercise price per option of \$0.01 (pre-Consolidation) with an expiry date of 36 months from the date of the Prospectus. These options are to be acquired by the Company in accordance with the terms of the Option Purchase Agreement.
- (d) **(Board Nominee)** During the term of the Strategic Alliance Agreement, Canopy shall have the right to nominate 1 non-executive Director to the Board who shall be subject to retirement and rotation in accordance with the Listing Rules.
- (e) **(Intellectual Property)** The intellectual property generated or improved upon as a result of the services provided by Canopy shall be the sole and exclusive property of Canopy. The intellectual property related to the cannabis product, being the physical cannabis plant, extracts, oils and any other physical cannabis derived products shall be the sole and exclusive property of AusCann.
- (f) The Strategic Alliance Agreement otherwise contains clauses typical for agreements of this nature.

## 8.6 Phytoplant Research Agreement

In November 2015 AusCann entered into a research heads of agreement with Phytoplant Research S.L. (**Phytoplant**), a Spanish company that is active in the field of phytotherapy research and specialises in developing industrial chain medicinal plants.

AusCann has been granted exclusivity in the Australian market over certain cannabis strains and intellectual property rights at no up-front cost to AusCann. Further, Phytoplant will provide know-how and support in establishing the particular varieties with the aim of securing plant breeder's rights in Australia.

In consideration, AusCann will provide to Phytoplant suitable growing conditions including open fields, greenhouses and analytical labs. Further, Phytoplant will be entitled to end-point royalties based on net sales to be negotiated and agreed upon by the parties.

## 8.7 Murdoch University Research Agreement

AusCann and Murdoch University are parties to a memorandum of understanding for a five year research and development alliance focussed on:

- (a) the development and cultivation of strains of medicinal cannabis specific to Australian growing conditions using the expertise of the State Agricultural Biotechnology Centre (which is based at Murdoch University); and
- (b) production of whole plant extracts, and testing of therapeutic products to meet the needs of Australian patients.

## 8.8 Aunt Zelda Agreement

AusCann has entered into a non-binding heads of agreement with privately owned, California-based company, Caziwell Inc./ Aunt Zelda's Group (**Aunt Zelda**) for exclusive access to the "Aunt Zelda" brand and product range in the Australian and New Zealand market. The key terms of the Aunt Zelda Agreement are as follows:

- (a) (**Intellectual property rights**) AusCann is granted exclusive rights to the Australian and New Zealand markets for the production of Aunt Zelda branded medicinal cannabis products.
- (b) (**Term**) The initial term is 5 years, and is automatically extended a further 5 years' subject to minimum key performance indicators being achieved.
- (c) (**Consideration**) AusCann will pay an up-front exclusive licensing fee of \$US50,000 upon receipt of necessary approvals to begin the manufacture and/or sale of Aunt Zelda products or becoming listed on a public exchange, whichever comes first.
- (d) (**Royalty**) AusCann must pay an ongoing royalty to Aunt Zelda of 5% of sales revenue generated through the sale of the Aunt Zelda branded products.
- (e) (**Exclusivity**) AusCann is permitted the exclusive jurisdiction of the areas of Australia and New Zealand, however, upon the change in control of AusCann either at a shareholder or Board level, exclusivity will be maintained at Aunt Zelda's discretion. Further, to maintain exclusivity, AusCann must generate minimum annual income to Aunt Zelda of US\$50,000.
- (f) (**Preferred supplier**) Subject to agreement as to pricing, the parties agree to collaborate on extraction and manufacturing operations so that AusCann is the preferred global supplier of input materials and/or finished product of Aunt Zelda products to other Aunt Zelda licensees in international markets where it is legal to do so.

## 8.9 Zelda Therapeutics Agreement

On or around 6 May 2016, AusCann entered into a preferential supplier agreement with Zelda Therapeutics Pty Ltd (**Zelda**) (**Zelda Therapeutics Agreement**). Zelda Therapeutics is a specialist clinical-trials focused bio-pharmaceutical company intending to fast-track pre-clinical research and clinical trial activities using cannabinoid-based medicines. They wish to secure a stable supply of GMP-grade cannabinoid-based medicines for use in these activities.

The key terms of the Zelda Therapeutics Agreement are as follows:

- (a) (**Preferential supplier**) The parties agree for AusCann to be Zelda Therapeutics' preferred supplier of cannabinoid-based medicines for Zelda Therapeutics' research and clinical activities.
- (b) (**Regulatory standards**) AusCann is to produce medicines to the required regulatory standard.
- (c) (**Global markets**) Subject to formalising pricing agreements between the parties, AusCann is to be Zelda Therapeutics' preferred supplier of cannabinoid-based medicines for research and clinical activities conducted by Zelda Therapeutics in other global markets.

The Zelda Therapeutics Agreement otherwise contains clauses typical for an agreement of this nature.

## 8.10 Hidden Garden Agreement

AusCann and Hidden Garden Sustainable Farms Ltd (**Hidden Garden**) have entered into a non-binding heads of agreement to explore the possibility of cultivation of medicinal cannabis on the Australian Commonwealth territory of Christmas Island for the export market. Hidden Garden is an Australian based company established to develop horticultural projects focussed on providing affordable, high quality, fresh produce to local communities. Hidden Garden has a focus on sustainable farming in remote communities.

Hidden Garden has been granted a 21-year agricultural lease over 55 acres of prime Commonwealth land. The key terms of the Hidden Garden agreement are as follows:

- (a) (**Growing areas and expertise**) Hidden Garden is to provide suitable growing areas to AusCann on Christmas Island, including open fields and greenhouses, for the growing of AusCann's genetics. Hidden Garden will also assist with growing expertise and on site management of AusCann's crops.
- (b) (**Contract grower**) Hidden Garden will be AusCann's contract grower of AusCann's genetics on Christmas Island for any growing activities not directly conducted by AusCann.
- (c) (**Exclusive supply**) Hidden Garden will exclusively supply to AusCann all medicinal cannabis grown on Hidden Garden leases.

The terms of the Hidden Garden agreement serve to establish the framework for further negotiations for a definitive, binding legal agreement between the parties.

## 8.11 Lead Manager Mandate

On 7 July 2016 the Company entered into a capital raising and corporate advisory mandate with CPS Capital under which CPS Capital was appointed lead manager to the Public Offer (**Lead Manager Mandate**).

The material terms of the Lead Manager Mandate are as follows:

- (a) CPS Capital has been engaged to provide corporate advisory and capital raising services on an exclusive basis, including acting as lead manager to the Public Offer.
- (b) CPS Capital has agreed to place, on a best endeavours basis, up to 15,000,000 Shares at an issue price of \$0.20 (on a post-Consolidation basis), to raise up to \$3,000,000, which amount may be increased to \$5,000,000 should there be sufficient demand.
- (c) The Company must pay the following fees to CPS Capital:
  - (i) a capital raising fee equal to 6% on all funds raised under the Public Offer; and
  - (ii) a corporate advisory fee of \$5,000 per month for a period of 12 months from the date of the Lead Manager Mandate.

The Lead Manager Mandate otherwise contains terms and conditions considered typical for agreements of this nature.

## 8.12 Agreements with executives

### Mr Harry Karelis

On 1 March 2016 AusCann entered into a consultancy service agreement with Gemelli Nominees Pty Ltd (**Gemelli Nominees**) (**Consultancy Agreement**). Under the Consultancy Agreement, Gemelli Nominees Pty Ltd has nominated executive director, Mr Harry Karelis, as the nominated person to perform the services set out in the Consultancy Agreement. The material terms of the Consultancy Agreement are as follows:

- (a) Term, position and duties

Gemelli Nominees has been engaged for a term of 12 months, from 1 March 2016, unless the agreement is validly terminated by either party earlier. Mr Harry Karelis has been appointed as an executive director of AusCann. During the term of the agreement, Mr Karelis is able to provide services of any kind to any other person provided that those services do not conflict with the best interests of AusCann or adversely affect his ability to provide his services to the AusCann.

- (b) Remuneration
  - (i) Gemelli Nominees will be paid a monthly consultancy fee of \$10,000 (exclusive of GST) for the provision of at least 16 hours work each week. The fee will be reviewed annually. Gemelli Nominees and Mr Karelis are not entitled to payment by AusCann of salary, holiday pay, sick pay, severance pay, long service leave or any other entitlement which an employee has in respect of their employment.
  - (ii) At AusCann's discretion and subject to obtaining applicable regulatory approvals, Gemelli Nominees is also entitled to a performance-based bonus over and above the consultancy fee.
  - (iii) Gemelli Nominees is entitled to reimbursement of reasonable expenses and expenditure.
- (c) Termination
 

AusCann may terminate the Consultancy Agreement at any time upon certain occurrences including, but not limited to, Gemelli Nominees going into liquidation, or Mr Karelis being convicted of a major criminal offence. Further, AusCann may also terminate the Consultancy Agreement by giving written notice. Gemelli Nominees may also terminate the Consultancy Agreement without cause.

### **Ms Elaine Darby**

AusCann has entered into an employment agreement with proposed Director, Ms Elaine Darby (**Employment Agreement**). The material terms of the Employment Agreement are as follows:

- (a) Term, position and duties
 

From 3 December 2015 until such time as she resigns or the Employment Agreement is terminated, Ms Darby is employed by AusCann in the position of Managing Director. During the term of her employment, Ms Darby must render her services exclusively for AusCann.
- (b) Salary
  - (i) Ms Darby receives a base salary of \$200,000 per annum as compensation for her services (**Base Salary**). The Base Salary is subject to annual review by AusCann.
  - (ii) Ms Darby's Base Salary is inclusive of director's fees and is intended to cover all the services that she may perform for AusCann.
  - (iii) Ms Darby is entitled to receive all reasonable expenses incurred in the fulfilment of her duties, in addition to compulsory superannuation contributions up to the maximum salary cap.
- (c) Termination
  - (i) Ms Darby's position may be terminated at any time by either party giving 3 months' written notice. AusCann may terminate her employment at any time without notice if she engages in serious misconduct that is shown to demonstrably impact on AusCann's share price.
  - (ii) If AusCann terminates Ms Darby's employment without cause, she will be entitled to a severance payment for past services rendered equal to 6 months' base salary, which will be in addition to any payment made in lieu of notice or for redundancy.
- (d) Change in control
 

If a change occurs in the control of AusCann, the Employment Agreement shall continue. Should Ms Darby's position change as a result of a change in control, the Employment Agreement will no longer apply to her employment unless Ms Darby and AusCann agree to enter a new written employment agreement or to vary the Employment Agreement in writing.

## **8.13 Deeds of indemnity, insurance and access**

The Company has entered into a deed of indemnity, insurance and access with each of its Directors and will enter such deeds with each of the proposed Directors. Under these deeds, the Company agrees to indemnify each officer to the extent permitted by the Corporations Act against any liability arising as a result of the officer acting as an officer of the Company. The Company is also required to

maintain insurance policies for the benefit of the relevant officer and must also allow the officers to inspect Board papers in certain circumstances.

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## 9. ADVANTAGES OF THE ACQUISITION

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to shareholders' decisions on how to vote on the proposed resolutions:

- (a) the Company will be exposed to a rapidly growing industry, and shareholders have the ability to gain exposure to future opportunities;
- (b) the appointment of the proposed Directors will add relevant experience, skills and networks to the Board to assist with the growth of the Company;
- (c) the Company's ability to raise funds and attract strategic investors may be improved;
- (d) the Proposed Transaction may encourage new investors in the Company which may lead to increased liquidity of Shares and greater trading depth than currently experienced by shareholders; and
- (e) Shareholders may be exposed to further debt and equity opportunities that it did not have prior to the Proposed Transaction.

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## 10. DISADVANTAGES OF THE ACQUISITION

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to shareholders' decisions on how to vote on the proposed resolutions:

- (a) the Company will be changing the nature and scale of its activities to include the cultivation, manufacture and supply of medicinal cannabis which may not be consistent with the objectives of shareholders;
- (b) the Proposed Transaction will involve the issue of a substantial number of new Securities which will have a dilutionary effect on the current holdings of shareholders; and
- (c) there are risk factors involved in the change in nature and scale of the Company's activities and associated acquisition of AusCann. Some of those risks are set out in Item 16 below.

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## 11. PUBLIC OFFER

The Company proposes to lodge the Prospectus with ASIC during the period between the date of the Notice and the General Meeting.

Under the Prospectus, the Company proposes to:

- (a) raise a minimum of \$ 3,000,000 and up to \$5,000,000 by the issue of up to 25,000,000 Shares at an issue price of \$0.20 per Share (on a post-Consolidation basis);
- (b) issue the Consideration Securities to the Vendors; and
- (c) issue the Advisor Securities to the Advisors.

The issue of Securities under the Prospectus is conditional on:

- (a) all Essential Resolutions being passed at the General Meeting;
- (b) a minimum subscription of 15,000,000 Shares (on a post-consolidation basis) to raise \$3,000,000 being achieved; and
- (c) completion of the Proposed Transaction.

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## 12. INDICATIVE TIMETABLE

The table below shows the expected timing for completion of the Proposed Transaction and the matters contemplated by the resolutions, subject to compliance with regulatory requirements. These

dates are indicative only and are subject to change. The Directors reserve the right to amend the timetable without notice.

Announcement of the Takeover Bid	28 September 2016
Lodgement of Prospectus with ASIC and Public Offer opens	3 October 2016
Bidder's Statement lodged with ASIC and served on AusCann	5 October 2016
Despatch of the Bidder's Statement to AusCann shareholders – Takeover Bid offer period commences	7 October 2016
Target's Statement lodged with ASIC and served on TWH	12 October 2016
Despatch of the Target's Statement to AusCann shareholders	14 October 2016
Suspension of the Company's Securities from trading on ASX at the opening of trading	31 October 2016
General Meeting	31 October 2016
Takeover Bid close (unless Offer Period extended)	7 November 2016
Public Offer closes	30 November 2016
Re-instatement to trading of TWH on ASX	14 December 2016

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## 13. EFFECT OF THE ACQUISITION ON THE COMPANY

### 13.1 Pro forma statement of financial position

Set out in Schedule 4 is the pro forma consolidated historical statement of financial position as at 30 June 2016 for both the minimum and maximum fundraising scenarios under the Public Offer.

### 13.2 Capital structure

The capital structure of the Company both before and following the Proposed Transaction and the associated issues of Securities under the resolutions proposed at the Meeting are shown in Schedule 5, for both the minimum and maximum fundraising scenarios under the Public Offer.

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## 14. INDEPENDENT EXPERT'S REPORT

In circumstances where shareholder approval is sought for certain control transactions under Section 611 of the Corporations Act and otherwise under Listing Rule 10.1 or 10.9, an Independent Expert's report is required to be provided to shareholders. The Company does not consider that any approval is required under section 611 of the Corporations Act but is required under Listing Rule 10.1.

In other circumstances, such as where shareholder approval is sought under section 208 of the Corporations Act for a Related Party transaction, ASIC encourages the provision of a valuation by an Independent Expert where, for example, the relevant transaction is significant from the point of view of the Company, even though there is no legal requirement for the provision of an Independent Expert's report.

The Directors have engaged the Independent Expert to provide the Independent Expert's Report to assist the non-associated shareholders in deciding how to vote on the relevant resolutions.

The Independent Expert's Report concludes that the proposed transactions are FAIR AND REASONABLE to non-associated shareholders of the Company.

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**15. INTENTIONS IF ACQUISITION DOES NOT PROCEED**

In the event the resolutions do not pass and the acquisition does not proceed, the Company will continue to evaluate opportunities for asset and business acquisitions to provide a return to shareholders.

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**16. RISKS – CHANGE IN NATURE AND SCALE OF ACTIVITIES**

Shareholders should be aware that if the resolutions are approved, the Company will be changing the nature and scale of its activities which will, because of its nature, be subject to various risk factors. These risks are both specific to the industry in which the Company operates and also relate to the general business and economic environment in which the Company will operate. An investment in the Company is not risk-free and prospective new investors along with existing shareholders should consider the risk factors described below together with the information contained elsewhere in the Notice and Explanatory Statement. The following is not intended to be an exhaustive list of the risk factors to which the Company will be exposed as a result of the Proposed Transaction and changing the nature and scale of its activities.

Based on the information available, the principal risks facing the Company upon completion of the Proposed Transaction will be as follows (a reference to “the Company” in this Item 16 is a reference to the Company or AusCann in its capacity as a subsidiary of the Company following Completion, as the context requires):

**16.1 Risks related to the Public Offer**

**(a) Re-Quotation of Shares on ASX**

- (i) The acquisition of AusCann constitutes a significant change in the nature and scale of the Company's activities and the Company needs to re-comply with Chapters 1 and 2 of the Listing Rules as if it were seeking admission to the official list of ASX.
- (ii) There is a risk that the Company may not be able to meet the requirements of ASX for re-quotation of its Shares on ASX. Should this occur, the Shares will not be able to be traded on ASX until such time as those requirements can be met, if at all. Shareholders may be prevented from trading their Shares should the Company be suspended until such time as it does re-comply with the Listing Rules.

**(b) Dilution risk**

- (i) The Company currently has 602,362,410 Shares on issue (on a pre-Consolidation basis). On completion of the Proposed Transaction, the Company proposes to issue the Consideration Securities under the Share Purchase Agreements, the Option Purchase Agreement and the Takeover Bid, the Advisor Securities and Shares to raise up to \$5 million under the Public Offer.
- (ii) If the minimum amount of \$3 million is raised under the Public Offer, the existing Shareholders will retain approximately 12.69% of the issued capital of the Company, with the AusCann Shareholders and the Advisors holding a total of 80.99%, and the investors under the Public Offer holding 6.32% of the issued capital of the Company respectively.
- (iii) If the maximum amount of \$5 million is raised under the Public Offer, the existing Shareholders will retain approximately 12.18% of the issued capital of the Company, with the AusCann Shareholders and the Advisors holding a total of 77.71%, and the investors under the Public Offer holding 10.11% of the issued capital of the Company respectively.
- (iv) There is also a risk that the interests of Shareholders will be further diluted as a result of future raisings required in order to fund the development of the business.

(b) **Liquidity risk**

On completion of the Proposed Transaction, the Company proposes to issue 3,224,608,351 Shares (on a post-Consolidation basis) to the AusCann Shareholders and the Advisors. A portion of these Securities may be subject to escrow restrictions in accordance with Chapter 9 of the Listing Rules. Based on the post-Completion capital structure, these Shares will equate to up to approximately 75% of the post-Completion issued capital (assuming \$5 million is raised under the Public Offer). This could be considered an increased liquidity risk as a large portion of issued capital may not be able to be traded freely for a period of time.

(c) **Contractual risk**

- (i) Pursuant to the Share Purchase Agreements (summarised in Item 8.2) and the Takeover Bid, the Company intends to acquire 100% of AusCann, subject to the satisfaction of certain conditions precedent.
- (ii) The ability of the Company to achieve its stated objectives will depend on the performance by the parties of their obligations under the Share Purchase Agreements and the balance of the AusCann Shareholders accepting under the Takeover Bid. If any party defaults in the performance of their obligations or fails to accept their respective offer under the Takeover Bid, it may be necessary for the Company to approach a court to seek a legal remedy, which can be costly.

## **16.2 Risks related to the Company's operations**

(a) **Current business model reliant on legislative changes**

As set out in Item 4 of this Schedule, the Company's business model is reliant on AusCann obtaining the necessary licences and approval to commence operations in accordance with its business model.

The regulatory system for the cultivation and manufacture of cannabis in Australia will not, at the date of this document, commence until 30 October 2016. At this time AusCann will apply for the licences and undertake the necessary requirements for approval to produce in Australia. At this stage the length of time for the license process to reach a decision is unknown. There is a risk that the Commonwealth or States may amend or change their approach to the regulatory system. Further changes in governments, regulations and policies may have an adverse impact on the Company.

The Company's clinical study and analytical activities, educational outreach program and the greenhouse modelling component of its horticultural R&D activities are not dependent upon the Company obtain licences and permits under this new cultivation and manufacture regulatory system.

The Company's clinical study activities are reliant on obtaining the relevant licences and permits under the existing regulatory system in respect to R&D and importation of schedule 8 and 9 substances, such as cannabis products, as outlined in Item 3 of this Schedule.

(b) **Risk of adverse publicity**

The cultivation, production, manufacture, possession and distribution of controlled substances by the Company and the regulatory approval needed to continue the enterprise may generate public controversy. Political and social pressures and adverse publicity could lead to delays in approval of, and increased expenses for, the Company's products. These pressures could also limit or restrict the introduction and marketing of the Company's products. Adverse publicity from cannabis misuse or adverse side effects from cannabis or other cannabinoid products may adversely affect the commercial success or market penetration achievable by the Company's products. The nature of the Company's business attracts a high level of public and media interest, and in the event of any resultant adverse publicity, the Company's reputation may be harmed.

(c) **Risk associated with clinical trials**

- (i) Scientifically robust clinical trials have long lead-in times, can be expensive to conduct, and are, by definition of their purpose, uncertain as to outcome. Prior to conduct of clinical trials involving cannabis extracts/derivatives, a number of approvals, licences and/or permits are required. Delays in obtaining all necessary

authorisations can impact upon downstream activities, including the potential introduction of scheduling issues.

- (ii) After commencement, clinical trials are also subject to suspension, delay or termination by regulatory bodies due to revocation of licences/permits to conduct research on unregistered medicinal products, and/or importation or sourcing of trial material, and/or handling of material classified as poisons. Issues that may impact upon the aforementioned include:
  - (A) participant recruitment not meeting trial timelines;
  - (B) lower than expected rates of compliance with the trial protocol by the participants;
  - (C) low rate of participant retention for the duration of the trial;
  - (D) lack of availability of the trial product for the duration of the trial due to manufacturing constraints, or regulatory constraints (including importation);
  - (E) unfavourable results from third party pre-clinical or clinical studies which regulatory or ethical bodies believe are relevant; and
  - (F) failure of any key trial partners (e.g. contract research organisation) to provide their services in a quality and timely manner.
- (iii) In addition to the above, all clinical trials are monitored and may be suspended or terminated by the ethical review board of the clinical institution due to matters outlined above as well as:
  - (A) lack of efficacy of the trial product;
  - (B) number or severity of serious adverse events or unexpected side effects;
  - (C) non-compliance by the Company, the contract research organisation, the clinician or any other partner organisation in the trial, with the agreed protocol and/or all applicable regulatory requirements;
  - (D) mishandling of clinical trial product, including labelling, storage, security and inventory;
  - (E) mishandling of trial data, including security of participant information;
  - (F) mishandling of trial records; and
  - (G) complaints received by participants.
- (iv) Any of the issues raised above has the potential to have an adverse and material effect on the business.

(d) **Risk of adverse events or other safety issues associated with product**

- (i) If any of the products sold by the Company cause serious or unexpected side effects, or are associated with other safety risks such as misuse, abuse or diversion, a number of potentially significant negative consequences could result, including:
  - (A) regulatory authorities may withdraw their approval, or require more onerous labelling statements for any product that is approved;
  - (B) the Company could be sued and held liable for harm caused to patients;  
or
  - (C) the Company's reputation may suffer.
- (ii) We may voluntarily suspend or terminate the Company's cultivation, manufacture, production and sale if at any time we believe that they present an unacceptable risk to consumers, or that they are unlikely to receive regulatory approval or unlikely to be successfully commercialised.

(e) **Loss of key relationships**

- (i) The medicinal cannabis industry is undergoing rapid growth and substantial change, which has resulted in increasing consolidation and formation of strategic relationships. We expect this consolidation and strategic partnering to continue. Acquisitions or other consolidating transactions could harm us in a number of ways, including:
  - (A) loss of strategic relationships if third parties with whom we have arrangements are acquired by or enter into relationships with a competitor (which could cause the Company to lose access to necessary resources);
  - (B) the relationship between the Company and third parties may deteriorate and have an adverse impact on the Company's business; and
  - (C) the Company's current competitors could become stronger, or new competitors could form, from consolidations.
- (ii) Any of these events could put us at a competitive disadvantage, which could cause us to lose access to markets. Consolidation could also force us to expend greater resources to meet new or additional competitive threats, which could also harm the Company's results.

(f) **Risk of changes to laws and regulations**

The Company's operations are subject to a variety of laws, regulations and guidelines. The medicinal cannabis industry is evolving in Australia and worldwide and has been identified as possibly posing risks in relation to law enforcement and government regulation. It is likely that governments worldwide, including Australia, will continue to explore the benefits, risks, regulations and operations of companies involved in medical cannabis. While to the knowledge of management, the Company is currently in compliance with all current laws, changes to laws and regulations due to matters beyond the control of the Company may cause adverse effects to its operations. The introduction of new legislation or amendments to existing legislation by governments, or the respective interpretation of the legal requirements in any of the legal jurisdictions which govern the Company's operations or contractual obligations, could impact adversely on the assets, operations and, ultimately, the financial position and financial performance of the Company and its Shares. In addition, there is a risk that legal action may be taken against the Company in relation to commercial, legal, regulatory or other matters.

(g) **Protection of proprietary technology**

- (i) The Company's success will depend, in part, on the Company's ability to obtain patents, protect the Company's trade secrets and operate without infringing on the proprietary rights of others. We will rely upon a combination of patents, trade secret protection (i.e. know-how), and confidentiality agreements to protect the Company's intellectual property and licensing agreements to access third party intellectual property.
- (ii) If we fail to adequately protect the Company's intellectual property, we may face competition from companies who attempt to create a product similar to the Company's proposed products. We may also face competition from companies who develop a substantially similar product to one of the Company's proposed products that is not covered by any of the Company's patents.
- (iii) Many companies have encountered significant problems in protecting and enforcing intellectual property rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favour the enforcement of patents and other intellectual property rights, particularly those relating to pharmaceuticals, which could make it difficult for us to stop the infringement of the Company's patents or marketing of competing products in violation of the Company's proprietary rights generally. Proceedings to enforce the Company's patent rights in foreign jurisdictions could result in substantial cost and divert the Company's efforts and attention from other aspects of the Company's business.

(h) **Patents**

The strengths of patents in the pharmaceutical field involve complex legal and scientific questions and can be uncertain. Where appropriate, we will seek patent protection for certain aspects of the Company's products and technology. Filing, prosecuting and defending patents throughout the world would be prohibitively expensive, so the Company's policy is to patent technology with commercial potential in jurisdictions with significant commercial opportunities. However, patent protection may not be available for some of the products we are developing. If we must spend significant time and money protecting or enforcing the Company's patents, the Company's business and financial condition may be harmed.

(i) **Trade secrets**

Trade secrets are difficult to protect. We rely in part on confidentiality agreements with the Company's employees, consultants, outside scientific collaborators, sponsored researchers and other advisors to protect the Company's trade secrets and other proprietary information. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover, or reverse engineer, the Company's trade secrets and proprietary information. Costly and time-consuming litigation could be necessary to enforce and determine the scope of the Company's proprietary rights. Failure to adequately protect the confidentiality of the Company's trade secrets, could enable competitors to develop products that compete with the Company's products or have additional and material adverse impact upon the Company's business, results of operations and financial condition.

(j) **Plant breeders' rights**

(i) The International Convention for the Protection of New Varieties of Plants was put in place in 1961 to provide a *sui generis* form of intellectual property protection specifically developed for plant breeds. While the Convention is intended to provide exclusive rights to the plant breeder for propagating material, only 74 countries are members, and excepted are acts for the purpose of breeding other plant varieties. Therefore, plant varieties developed by the Company may, if available to an outside party, be used for development of a new plant variety – different enough to be considered a new variety, but similar enough to compete with the Company.

(ii) The Convention extends to derived varieties and therefore it is possible that a protected plant breed is from plants protected by a patent on a process or gene. If this is not understood or declared by the holder of the plant breeding rights upon making the material available, the Company could be infringing third party patent rights when commercially using the product, including the derivation of new varieties to be registered by the Company.

(k) **Uncertainty of future profitability**

(i) AusCann's business is currently focussed on undertaking activities which assist in achievement of AusCann's key objectives. To date, it has funded its activities principally through issuing Securities and other capital raising activities.

(ii) AusCann's profitability will be impacted by its ability to successfully obtain and comply with licences to cultivate and manufacture medical cannabis in Australia, its ability to execute its development and growth strategies, the ability to access key medical markets, economic conditions in the markets in which it operates, competitive factors and regulatory developments. Accordingly, the extent of future profits, if any, and the time required to achieve a sustained profitability are uncertain. Moreover, the level of such profitability cannot be predicted.

### 16.3 Risks related to the Company's growing and manufacturing facilities

(a) **Agricultural risks**

The Company's business will involve the growing of medical cannabis, which is an agricultural product. As such the business will be subject to the risks inherent in the

agricultural industry, such as insects, plant diseases, storm, fire, frost, flood, drought, water availability, water salinity, pests, bird damage and force majeure events. Although the Company plans to have both indoor and outdoor growing operations under climate controlled conditions and employ trained personnel to carefully monitor the growing conditions, there can be no assurance that natural elements will not have a material adverse effect on the production of the growing operations.

(b) **Dependency on key inputs and their related costs**

Our ability to grow medical cannabis will be dependent on a number of key inputs and their related costs. The key inputs include raw material and supplies related to growing operation as well as electricity, water and other local utilities. Any significant interruptions or negative changes in the availability of economics of the supply chain for the inputs could materially impact the business, financial condition and operating results of the Company. Due to the nature of the product some of these inputs may only be available from single suppliers or a limited group of suppliers. Any restrictions on the ability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact of the business, financial condition and operating results of the Company.

(c) **Exposure to product liability claims, regulatory action and litigation**

These risks will arise if the Company's product is alleged to have caused significant loss or injury. In addition, the manufacture of medical cannabis involves the risk of injury to consumers due to tampering by unauthorised third parties or product contamination. Previously unknown adverse reaction resulting from human consumption of medical cannabis alone or in combination with other medication or substances could occur. The Company may be subject to various product liability claims, including among others that the Company's products caused injury or illness, inadequate instructions for use or warnings concerning possible side effects. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally and could have a material adverse effect on the Company's results of operations and financial conditions.

## 16.4 Company specific risks

(a) **Product liability and uninsured risks**

- (i) Through its intended business, the Company is exposed to potential product liability risks which are inherent in undertaking research into the clinical efficacy of, and the manufacture and supply of medicinal cannabis products. It will be necessary to secure insurance to help manage such risks. The Company may not be able to maintain insurance for product or service liability on reasonable terms in the future and, in addition, the Company's insurance may not be sufficient to cover large claims, or the insurer could disclaim coverage on claims.
- (ii) Although the Company endeavours to work to rigorous standards there is still the potential for adverse events as outlined in Section 16.3(b) and 16.3(c). These events could result in the loss of or delay in generating revenue, loss of market share, failure to achieve market acceptance, diversion of development resources, injury to the Company's reputation or increased insurance costs.
- (iii) If the Company fails to meet its clients' expectations, the Company's reputation could suffer and it could be liable for damages.
- (iv) Further, the Company is exposed to the risk of catastrophic loss to necessary equipment or facilities which would have a serious impact on the Company's operations. The Company gives no assurance that all such risks will be adequately managed through its insurance policies to ensure that catastrophic loss does not have an adverse effect on its performance.

(b) **Unforeseen expenditure risk**

Expenditure may need to be incurred that has not been taken into account in Item 4.6. Although the Company is not aware of any such additional expenditure requirements, if such expenditure is subsequently incurred, this may adversely affect the expenditure proposals of the Company.

(c) **Management of growth**

There is a risk that management of the Company will not be able to implement the Company's growth strategy after completion of the Public Offer. The capacity of the Company's management to properly implement and manage the strategic direction of the Company may affect the Company's financial performance.

(d) **Additional requirements for capital**

(i) The funds to be raised under the Public Offer are considered sufficient to meet the immediate objectives of the Company. Additional funding may be required in the event costs exceed the Company's estimates and to effectively implement its business and operations plans in the future to take advantage of opportunities for acquisitions, joint ventures or other business opportunities, and to meet any unanticipated liabilities or expenses which the Company may incur. If such events occur, additional funding will be required.

(ii) Following the Public Offer, the Company may seek to raise further funds through equity or debt financing, joint ventures, licensing arrangements, or other means. Failure to obtain sufficient financing for the Company's activities and future projects may result in delay and indefinite postponement of their activities and potential development programmes. There can be no assurance that additional finance will be available when needed or, if available, the terms of the financing may not be favourable to the Company and might involve substantial dilution to Shareholders.

## **16.5 General risks**

(a) **Economic**

General economic conditions, introduction of tax reform, new legislation, movements in interest rates, inflation and currency exchange rates may have an adverse effect on the Company's production activities, as well as on its ability to fund those activities.

(b) **Market conditions**

Share market conditions may affect the value of the Company's quoted Securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- (i) general economic outlook;
- (ii) introduction of tax reform or other new legislation;
- (iii) interest rates and inflation rates;
- (iv) changes in investor sentiment toward particular market sectors;
- (v) the demand for, and supply of, capital; and
- (vi) terrorism or other hostilities.

The market price of Securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and resource exploration stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

(c) **Insurance risks**

The Company intends to insure its operations in accordance with industry practice. However, in certain circumstances, the Company's insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the Company.

(d) **Loss of key personnel**

The responsibility to oversee the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can

be no assurance that the Company will be no detrimental effect on the Company if one or more of these employees cease their employment.

(e) **New market**

- (i) The market for the Company's Shares is relatively new, the price of its Shares is subject to uncertainty and there can be no assurance that an active market for Shares will develop or continue after the Public Offer. The price at which Shares trade on ASX after listing may be higher or lower than the Public Offer issue price and could be subject to fluctuations in response to variations in operating performance and general operations and business risk, as well as external operating factors over which the Directors and the Company have no control, such as exchange rates, changes to government policy, legislation or regulation and other events or factors.
- (ii) There can be no guarantee that an active market in Shares will develop or that the price of Shares will increase.
- (iii) There may be relatively few or many potential buyers or sellers of Shares on ASX at any given time. This may increase the volatility of the market price of Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is above or below the price that Shareholders paid.

## **SCHEDULE 3 – ADDITIONAL INFORMATION**

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### **1. SCOPE OF DISCLOSURE**

The law requires this Explanatory Statement to set out all other information which is known to the Company that is reasonably required to enable shareholders to decide whether or not it is in the Company's interests to pass the resolutions.

The Company is not aware of any relevant information that is material to a decision on how to vote on the resolutions other than as is disclosed in this Explanatory Statement or has been previously disclosed to shareholders by announcement to the ASX.

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### **2. TAXATION**

The Proposed Transaction and associated transactions may give rise to taxation implications for shareholders.

Shareholders are encouraged to seek their own tax advice on the effect of the Consolidation. Neither the Company nor the Directors accept any responsibility for the individual taxation implications arising from the Proposed Transaction and associated transactions or other resolutions the subject of this Notice.

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### **3. INDICATIVE VALUE OF NEW SECURITIES**

The quantum of benefit to be received by holders of new Securities proposed to be issued pursuant to resolutions to be considered at the Meeting will depend on the price at which Shares may trade on ASX.

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### **4. ASIC AND ASX ROLES**

For the purposes of resolutions 1, 4 to 10 and 19 (in respect of ASX) and 6 to 8 (in respect of ASIC), the Company is required to lodge the Notice, Explanatory Statement and other relevant documentation with ASX and ASIC before it is dispatched to shareholders.

The fact that the Notice, Explanatory Statement and other relevant document has been received or reviewed by ASX and ASIC should not be taken as an indication of the merits of the resolutions or the Company itself. ASX and ASIC and their respective officers take no responsibility for any decision a shareholder may take in reliance on any of that documentation.

## **SCHEDULE 4 – PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

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### **1. NOTES TO THE PRO FORMA STATEMENT**

This section contains the pro forma statement of financial position for the Company as a merged group with AusCann, reflecting the combined businesses of those entities. The pro forma statement of financial position is presented to provide shareholders with an indication of the merged group's consolidated financial position as if the Proposed Transaction had been implemented as at 30 June 2016.

As the Proposed Transaction, if implemented, will be effected at a future date, the actual financial position of the merged group post-implementation will differ from that presented below.

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### **2. BASIS OF PREPARATION**

The financial information has been prepared in accordance with applicable accounting standards including the Australian equivalents of International Reporting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Material accounting policies have been adopted in the preparation of the historical and pro forma financial information shown below.

### 3. PRO FORMA STATEMENT – TWH HOLDINGS LIMITED AS AT 30 JUNE 2016

	TWH 30 June 2016 Unaudited \$	AusCann 30 June 2016 Unaudited \$	Pro forma adjustment		TWH Pro forma 30 June 2016 Unaudited	
			Minimum \$	Maximum \$	Minimum \$	Maximum \$
Cash and cash equivalents	370,270	2,960,890	2,404,319	4,284,319	5,735,479	7,615,479
Trade and other receivables	10,281	-	-	-	10,281	10,281
Other current assets	-	16,638	-	-	16,638	16,638
<b>Total Current Assets</b>	<b>380,551</b>	<b>2,977,528</b>	<b>2,404,319</b>	<b>4,284,319</b>	<b>5,762,398</b>	<b>7,642,398</b>
<b>Non-current Assets</b>						
Plant and equipment	-	363	-	-	363	363
Intellectual Property Assets	-	-	-	-	-	-
<b>Total Non-current Assets</b>	<b>-</b>	<b>363</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>363</b>
<b>Total Assets</b>	<b>380,551</b>	<b>2,977,891</b>	<b>2,404,319</b>	<b>4,284,319</b>	<b>5,762,761</b>	<b>7,642,761</b>
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Trade and other payables	60,604	90,720	-	-	151,324	151,324
Provisions	-	12,165	-	-	12,165	12,165
Other current liabilities	-	250,000	-	-	250,000	250,000
<b>Total Current Liabilities</b>	<b>60,604</b>	<b>352,885</b>	<b>-250,000.00</b>	<b>-250,000.00</b>	<b>163,489</b>	<b>163,489</b>
Non-current liabilities	-	-	-	-	-	-
<b>Total Non-current Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>60,604</b>	<b>352,885</b>	<b>-250,000.00</b>	<b>-250,000.00</b>	<b>163,489</b>	<b>163,489</b>
<b>Net Assets</b>	<b>319,947</b>	<b>2,625,006</b>	<b>2,654,319</b>	<b>4,534,319</b>	<b>5,599,272</b>	<b>7,479,272</b>
<b>Equity</b>						
Contributed equity	81,099,059	8,191,528	-74,022,790	-72,142,790	15,267,797	17,147,797
Reserves	-	601,827	4,683,700	4,683,700	5,285,527	5,285,527
Accumulated losses	(80,779,112)	(6,168,349)	71,993,409	71,993,409	(14,954,052)	(14,954,052)
<b>Total Equity</b>	<b>319,947</b>	<b>2,625,006</b>	<b>2,654,319</b>	<b>4,534,319</b>	<b>5,599,272</b>	<b>7,479,272</b>

The pro-forma financial information contains the following pro-forma adjustments:

#### Pro forma

1. Minimum capital raising of \$3,000,000, less costs of 6%.
2. Oversubscriptions for capital raising of \$2,000,000, less costs of 6%.
3. Transaction costs of \$350,000, exclusive of capital raising fees, relating to the acquisition of AusCann.
4. The issue of 2,934,183,790 (pre-consolidation basis) ordinary fully paid shares at a deemed issue price of \$0.012 (the last closing price on the ASX prior to the transaction being announced as binding) to the holders of securities in AusCann.
5. The issue of 564,607,028 performance shares at a deemed issue price of \$0.01 (pre-consolidation basis) per share to holders of securities in AusCann. Management has assessed that the probability of achieving the performance milestones is 70%. On this basis, these are valued at a total of \$3,952,249.
6. The issue of 290,424,561 ordinary fully paid shares (pre-consolidation basis) and 55,884,620 performance shares (pre-consolidation basis) to certain advisors for

facilitating the AusCann acquisition. These have been fair valued at \$2,904,246 and \$558,846 respectively.

7. The issue of 3,000,000 unlisted options (pre-consolidation basis) exercisable at \$0.0105 each on or before 36 months after their issue date to the existing TWH directors in consideration for their services. These have been fair valued at a total of \$16,918 based on the use of the binomial option valuation model.
8. The issue of 153,552,779 unlisted options (pre-consolidation basis) exercisable at \$0.01 each on or before 36 months after their issue date to Canopy Growth Corporation in consideration for the provision of its expertise and services over a three-year period in accordance with the Strategic Alliance Agreement. These have been fair valued at a total of \$879,636 based on the use of the binomial option valuation model.
9. The payment of \$US50,000 to Aunt Zelda in relation to an up-front exclusive licensing fee upon the receipt of necessary approvals to begin the manufacture and/or sale of Aunt Zelda products or becoming listed on a public exchange, whichever comes first. The exchange rate used to convert US dollars into Australian dollars is 0.76125.
10. Upon the successful satisfaction of the completion conditions set out within the binding heads of agreement between AusCann and the Company dated 8 May 2016 the \$250,000 exclusivity option fee paid to AusCann can be recognised as revenue.
11. The consolidation of TWH securities on a 20:1 basis.
12. The adoption of reverse acquisition accounting in accordance with the Accounting Standards which results in the legal parent (in this case TWH) being accounted for as the subsidiary, with the legal acquiree (in this case AusCann) being accounted for as the parent. The excess of the deemed consideration paid over the net tangible assets of TWH of \$4,409,216 has been expensed to the statement of profit and loss and other comprehensive income.

## SCHEDULE 5 – CAPITAL STRUCTURE OF THE COMPANY AFTER PROPOSED TRANSACTION

An indicative table showing the capital structure of the Company after completion of the Proposed Transaction is shown below:

Securities	Pre-Consolidation	Post-Consolidation (20:1) *
Shares already on issue	602,362,410	30,118,121
Ordinary Shares issued:		
- to AusCann Shareholders (incl. Canopy)	2,128,850,457	106,442,523
- to AusCann Noteholders	805,333,333	40,266,667
- to Advisors	290,424,561	14,521,228
Performance Shares issued:		
- to AusCann Shareholders	409,641,664	20,482,083
- to AusCann Noteholders	154,965,364	7,748,268
Public Offer (if fully subscribed for \$5 million at a price of \$0.01 per Share pre-Consolidation)	500,000,000	25,000,000
<b>Total Shares on issue (excl. Performance Shares)</b>	<b>4,326,970,761</b>	<b>216,348,538</b>
<b>Total Shares on issue (incl. Performance Shares)</b>	<b>4,891,577,789</b>	<b>244,578,889</b>
Options issued to Directors and Canopy	156,552,779	7,827,639
Performance Rights issued to Advisors	55,884,621	2,794,231

\* Post-Consolidation totals are subject to the rounding down of fractional entitlements to the nearest whole number.

## SCHEDULE 6 – BID CONDITIONS

The Offers and any contract that results from acceptance of the Offers is subject to the fulfilment of the following conditions:

(a) Approval of Essential Resolutions

Shareholders approve the Essential Resolutions by the requisite majorities in accordance with the Corporations Act, the Listing Rules and the Constitution before the end of the Offer Period.

(b) Public Offer

The Public Offer closes and, as at the close of the Public Offer, the Company receives or becomes entitled to receive, in immediately available funds, gross proceeds of no less than \$3,000,000 (before the costs of the Prospectus) as a result of subscriptions made under the Public Offer.

(c) Minimum acceptance

On or before the end of the Offer Period the Company has a Relevant Interest in more than 90% (by number) of the sum of the AusCann Shares on issue and is entitled to proceed to compulsory acquisition of all outstanding AusCann Shares under the Corporations Act.

(d) ASX consent to re-quotation

The Company receives from ASX written confirmation that ASX will terminate the suspension of Shares from Quotation, subject to the satisfaction of such terms and conditions (if any) as are prescribed by ASX or the Listing Rules and such conditions being capable of being satisfied.

(e) Option offers

Canopy accepting the offer under the Option Purchase Agreement in relation to its AusCann Options.

(f) Regulatory approvals

Before the end of the Offer Period, all approvals or consents that are required by law, by any public authority, or by any other third party as are necessary to permit:

- (i) the Offers to be lawfully made to and accepted by the Shareholders;
- (ii) the transactions contemplated by the Bidder's Statement to be completed; and
- (iii) AusCann to be in material compliance with each of its and its subsidiaries' contracts, permits, licences and other agreements,

are granted, given, made or obtained on an unconditional basis, remain in full force and effect in all respects, and do not become subject to any notice, intimation or indication of intention to revoke, suspend, restrict, modify or not renew the same.

(g) No regulatory action and consents

Between the Announcement Date and the end of the Offer Period (each inclusive):

- (i) there is not in effect any preliminary or final decision, order or decree issued by any Government Agency;
- (ii) no action or investigation is announced, commenced or threatened by any Government Agency; and
- (iii) no application is made to any Government Agency (other than by the Company or any Associate of the Company),

in consequence of or in connection with the Offers (other than an application to, or a decision or order of, ASIC or the Takeovers Panel in exercise of the powers and discretions conferred by the Corporations Act) which restrains, prohibits or impedes, or threatens to restrain, prohibit or impede, or materially impact upon, the making of the Offers and the completion of any transaction contemplated by the Bidder's Statement or which requires the

divestiture by the Company of any AusCann's Shares or any material assets of AusCann or any subsidiary of AusCann.

(h) Material Adverse Change

Between the Announcement Date and the end of the Offer Period (each inclusive), no AusCann material adverse change occurs.

(i) No litigation on foot or pending

Between the Announcement Date and the end of the Offer Period (each inclusive), no litigation against AusCann which may reasonably result in a judgment of \$50,000 or more is commenced, is threatened to be commenced, is announced, or is made known to The Company (whether or not becoming public) or AusCann, other than that which is in the public domain as at the Announcement Date.

(j) Equal Access

Between the Announcement Date and the end of the Offer Period (each inclusive), AusCann promptly, and in any event within two Business Days, providing to the Company all information that is not generally available (within the meaning of the Corporations Act) relating to AusCann or any of its subsidiaries, or their respective assets, liabilities or operations, that has been provided by AusCann or any of its directors, officers, agents or representatives to any person other than the Company, other than in the ordinary course of ordinary business, for the purposes of soliciting, encouraging or facilitating any proposal with respect to:

- (i) a takeover bid for, or scheme of arrangement proposed by, AusCann, under the Corporations Act;
- (ii) the acquisition by that person or an Associate of substantially all the assets and operations of AusCann; or
- (iii) any transaction having a similar economic effect.

(k) No prescribed occurrences

Between the Announcement Date and the date three Business Days after the end of the Offer Period (each inclusive), no Prescribed Occurrence occurs.

(l) No distributions

Between the Announcement Date and the end of the Offer Period (each inclusive), AusCann does not announce, make, declare or pay any distribution (whether by way of dividend, capital reduction or otherwise and whether in cash or in specie).

(m) Escrow

Each AusCann Share and AusCann Option holder enters into such form of restriction agreement in respect of the Company's Securities issued to them:

- (i) on completion of the Takeover Bid;
- (ii) under the Share Purchase Agreements; or
- (iii) under the Option Purchase Agreement,

(as applicable) (including any Shares issued upon satisfaction of the performance hurdle under the terms of the Performance Shares) as ASX may require.

## SCHEDULE 7 – TERMS OF PERFORMANCE SHARES

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### 1. DEFINITIONS

In these terms and conditions, unless the context otherwise requires, italicised terms defined in the Glossary in Schedule 1 shall have the meanings given to them therein, and further, the following terms bear the following meanings:

- (a) **Holder**  
A holder of Performance Shares.
- (b) **Milestone Date**  
The date which is 18 months after the date on which the Company achieves Re-compliance
- (c) **Performance Milestone**  
The milestone set out in Item 6 of this Schedule 7.
- (d) **Performance Shares**  
Performance Shares issued on terms and conditions set out in this Schedule 7.
- (e) **terms and conditions**  
These terms and conditions set out in this Schedule 7.

---

### 2. RIGHTS ATTACHING

- (a) Each Performance Share shall be issued for nil cash consideration.
- (b) Each Performance Share is a share in the capital of the Company.
- (c) A Performance Share:
  - (i) confers on the Holder:
    - (A) a right to receive notices of general meetings of shareholders and financial reports and accounts of the Company that are circulated to shareholders; and
    - (B) a right to attend general meetings of shareholders; and
  - (ii) does not entitle a Holder:
    - (A) other than to the extent required by law, to vote at any meeting of shareholders;
    - (B) to any dividend;
    - (C) to a return of capital, whether in winding up upon a reduction of capital or otherwise;
    - (D) any right to participate in the surplus profits or assets of the Company upon the winding up of the Company; or
    - (E) to participate in new issues of Securities.
- (d) A Performance Share is not transferrable.
- (e) Performance Shares do not confer on a Holder any rights other than those expressly provided in these terms and conditions, and those provided at law where such rights cannot be excluded by these terms and conditions.
- (f) The Holder of a Performance Share (and any Ordinary Share issued upon the conversion of a Performance Share under these terms and conditions) agrees to be bound by the Constitution.

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### 3. QUOTATION

- (a) The Performance Shares will not be quoted on ASX.
- (b) Notwithstanding Item 3(a), the Company must:
  - (i) apply for Quotation of any Ordinary Shares issued upon conversion of a Performance Share under Item 5 in accordance with the Listing Rules, and
  - (ii) use its best endeavours to obtain such Quotation.
- (c) Holders must comply with any ASX requirement that Ordinary Shares arising from a conversion under Item 5 be escrowed and that a Holder enter into a restriction agreement necessary to affect the escrow, and must do so prior to the issue of the converted Ordinary Shares.
- (d) Upon issue of an ordinary share pursuant to the conversion of a Performance Share under these terms and conditions the Company will (if required) either:
  - (i) give to ASX a notice under Section 708A(5)(e) of the Corporations Act and such notice must confirm that the Company is not withholding any 'excluded information' for the purposes of Section 708A(6)(e) of the Corporations Act; or
  - (ii) if the notice under Item 3.4(a) is not able to be issued by the Company or for any reason is not effective to ensure that an offer for sale of the Ordinary Shares does not require disclosure under the Corporations Act, then the Company must, no later than 10 days after the date of the issue of the Ordinary Shares, lodge a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy Section 708A(11) of the Corporations Act to ensure that an offer for sale of the Ordinary Shares does not require disclosure to investors under the Corporations Act.

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### 4. REORGANISATION

If at any time the capital of the Company is reorganised, the Performance Shares shall be treated in the manner set out in Listing Rule 7.21 (or other applicable Listing Rules), such that the number of Performance Shares or the conversion ratio under Item 5 or both will be reorganised so that Holders will not receive a benefit that shareholders do not receive, and shareholders do not receive a benefit that Holders do not receive.

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### 5. CONVERSION

- (a) Within seven (7) days of achievement of the Performance Milestone, each Performance Share shall convert to Ordinary Shares at the rate of one (1) Ordinary Share for every one (1) Performance Share.
- (b) If a conversion under Item 5(a) would cause a contravention of section 606 of the Corporations Act, the conversion shall be subject to the approval of shareholders under Item 7, Section 611 of the Corporations Act, and the Company must:
  - (i) promptly convene a meeting of shareholders for the purposes of considering such approval; and
  - (ii) use its reasonable endeavours to procure that approval.
- (c) If the Performance Milestone has not occurred on or prior to the Milestone Date, each and every Performance Share will be cancelled for nil or nominal consideration.
- (d) Upon the occurrence of either:
  - (i) a takeover bid under Chapter 6 of the Corporations Act being made in respect of the Company, and:
    - (A) the bidder having received acceptances in respect of greater than 50% of the Company's Ordinary Shares on issue at that time; and
    - (B) the bid having been declared unconditional by the bidder; or

- (ii) a court granting orders approving a compromise or arrangement for the purposes of or in connection with a scheme of arrangement for the reconstruction of the Company or its amalgamation with any other company or companies,

to the extent the Performance Shares have not yet converted under Item 5(a) or been cancelled under Item 5(c), those Performance Shares will automatically convert into Ordinary Shares at the rate set out in Item 5(a) up to a maximum number (when counted together with any other Ordinary Shares being issued in respect of other classes of Performance Share, if any) constituting ten percent (10%) of the Ordinary Shares then on issue. Any Performance Shares not converted in this manner will continue to be held by the Holder on the same terms and conditions.

- (e) The Company will issue a Holder with a new holding statement for the Ordinary Shares issued under Items 5(a) or 5(c) as soon as practicable following the conversion of each Performance Share.
- (f) All Ordinary Shares issued upon conversion of Performance Shares shall rank *pari passu* in all respects with all other Ordinary Shares (including, without limitation, in respect of rights relating to dividends), and shall be issued free from all liens, charges and encumbrances whether or not known about and including statutory and other pre-emptive rights and transfer restrictions.

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## 6. PERFORMANCE MILESTONE

The Performance Milestone shall occur if, before the Milestone Date:

- (a) AusCann obtains a permit, licence, authority, registration or approval under the *Narcotics Drugs Act 1967* (as amended by the *Narcotic Drugs Act Amendment Act 2016*) and any associated regulations in respect of the cultivation and production of cannabis and cannabis resin for medicinal and related scientific purposes; or
- (b) AusCann obtains a permit, licence, authority, registration or approval for the cultivation and production of cannabis and cannabis resin for medicinal and related scientific purposes in another jurisdiction; or
- (c) AusCann is issued or acquires an interest of not less than 49% in a party or entity that holds a permit, licence, authority, registration or approval for the cultivation and production of cannabis and cannabis resin for medicinal and related scientific purposes in another jurisdiction; or
- (d) the Company, having merged with AusCann, is granted a licence referred to in paragraph (a) or (b) above or is issued or acquires an interest referred to in paragraph (c) above.

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## 7. COMPLIANCE

- (a) Notwithstanding anything contained in these terms and conditions, if the Listing Rules, the Corporations Act or the Constitution prohibit an act from being done, that act shall not be done to the extent of that prohibition.
- (b) Nothing in these terms and conditions requires to be done anything that the Listing Rules, the Corporations Act or the Constitution prohibit from being done to the extent of that prohibition.
- (c) The Company may unilaterally amend these terms and conditions if and to the extent necessary to resolve any conflict between these terms and conditions and the Listing Rules, the Corporations Act or the Constitution, or to make these terms and conditions compliant with the Listing Rules, the Corporations Act or the Constitution.

## SCHEDULE 8 – TERMS OF PERFORMANCE RIGHTS

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### 1. DEFINITIONS

In these terms and conditions, unless the context otherwise requires, italicised terms defined in the Glossary in Schedule 1 shall have the meanings given to them therein, and further, the following terms bear the following meanings:

- (a) **Holder**  
A holder of Performance Rights.
- (b) **Milestone Date**  
The date which is eighteen months after the date on which the Company achieves Re-compliance.
- (c) **Performance Milestone**  
The milestone set out in Item 6 of this Schedule 8.
- (d) **Performance Rights**  
Performance Rights issued on terms and conditions set out in this Schedule 8.
- (e) **terms and conditions**  
These terms and conditions set out in this Schedule 8.

---

### 2. RIGHTS ATTACHING

- (a) Each Performance Right shall be issued for nil cash consideration.
- (b) Each Performance Right will, on vesting, convert into one Ordinary Share.
- (c) A Performance Right:
  - (i) confers on the Holder:
    - (A) a right to receive notices of general meetings of shareholders and financial reports and accounts of the Company that are circulated to shareholders; and
    - (B) a right to attend general meetings of shareholders; and
  - (ii) does not entitle a Holder:
    - (A) other than to the extent required by law, to vote at any meeting of shareholders;
    - (B) to any dividend;
    - (C) to a return of capital, whether in winding up upon a reduction of capital or otherwise;
    - (D) any right to participate in the surplus profits or assets of the Company upon the winding up of the Company; or
    - (E) to participate in new issues of Securities.
- (d) A Performance Right is not transferrable.
- (e) Performance Rights do not confer on a Holder any rights other than those expressly provided in these terms and conditions, and those provided at law where such rights cannot be excluded by these terms and conditions.
- (f) The Holder of a Performance Right (and any Ordinary Share issued upon the vesting of a Performance Right under these terms and conditions) agrees to be bound by the Constitution.

---

### 3. QUOTATION

- (a) The Performance Rights will not be quoted on ASX.
- (b) Notwithstanding Item 3(a), the Company must:
  - (i) apply for Quotation of any Ordinary Shares issued upon vesting of a Performance Right under Item 5 in accordance with the Listing Rules, and
  - (ii) use its best endeavours to obtain such Quotation.
- (c) Holders must comply with any ASX requirement that Ordinary Shares arising from vesting under Item 5 be escrowed and that a Holder enter into a restriction agreement necessary to affect the escrow, and must do so prior to the issue of the Ordinary Shares.
- (d) Upon issue of an Ordinary Share pursuant to vesting of a Performance Right under these terms and conditions the Company will (if required) either:
  - (i) give to ASX a notice under Section 708A(5)(e) of the Corporations Act and such notice must confirm that the Company is not withholding any 'excluded information' for the purposes of Section 708A(6)(e) of the Corporations Act; or
  - (ii) if the notice under Item 3.4(a) is not able to be issued by the Company or for any reason is not effective to ensure that an offer for sale of the Ordinary Shares does not require disclosure under the Corporations Act, then the Company must, no later than 10 days after the date of the issue of the Ordinary Shares, lodge a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy Section 708A(11) of the Corporations Act to ensure that an offer for sale of the Ordinary Shares does not require disclosure to investors under the Corporations Act.

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### 4. REORGANISATION

If at any time the capital of the Company is reorganised, the Performance Rights shall be treated in the manner set out in Listing Rule 7.21 (or other applicable Listing Rules), such that the number of Performance Rights or the conversion ratio under Item 5 or both will be reorganised so that Holders will not receive a benefit that shareholders do not receive, and shareholders do not receive a benefit that Holders do not receive.

---

### 5. VESTING

- (a) Within seven (7) days of achievement of the Performance Milestone, each Performance Right shall convert to Ordinary Shares at the rate of one (1) Ordinary Share for every one (1) Performance Right.
- (b) If an issue under Item 5(a) would cause a contravention of Section 606 of the Corporations Act, the issue shall be subject to the approval of shareholders under Item 7, Section 611 of the Corporations Act, and the Company must:
  - (i) promptly convene a meeting of shareholders for the purposes of considering such approval; and
  - (ii) use its reasonable endeavours to procure that approval.
- (c) If the Performance Milestone has not occurred on or prior to the Milestone Date, each and every Performance Right will be forfeited.
- (d) Upon the occurrence of either:
  - (i) a takeover bid under Chapter 6 of the Corporations Act being made in respect of the Company, and:
    - (A) the bidder having received acceptances in respect of greater than 50% of the Company's Ordinary Shares on issue at that time; and
    - (B) the bid having been declared unconditional by the bidder; or

- (ii) a court granting orders approving a compromise or arrangement for the purposes of or in connection with a scheme of arrangement for the reconstruction of the Company or its amalgamation with any other company or companies,

to the extent the Performance Rights have not yet vested under Item 5(a) or been forfeited under Item 5(c), those Performance Rights will automatically convert into Ordinary Shares at the rate set out in Item 5(a) up to a maximum number (when counted together with any other Ordinary Shares being issued in respect of other classes of securities, if any) constituting ten percent (10%) of the Ordinary Shares then on issue. Any Performance Rights not vested in this manner will continue to be held by the Holder on the same terms and conditions.

- (e) The Company will issue a Holder with a new holding statement for the Ordinary Shares issued under Items 5(a) or 5(c) as soon as practicable following the vesting of each Performance Right.
- (f) All Ordinary Shares issued upon vesting of Performance Rights shall rank *pari passu* in all respects with all other Ordinary Shares (including, without limitation, in respect of rights relating to dividends), and shall be issued free from all liens, charges and encumbrances whether or not known about and including statutory and other pre-emptive rights and transfer restrictions.

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## 6. PERFORMANCE MILESTONE

The Performance Milestone shall occur if, before the Milestone Date:

- (a) AusCann obtains a permit, licence, authority, registration or approval under the *Narcotics Drugs Act 1967* (as amended by the *Narcotic Drugs Act Amendment Act 2016*) and any associated regulations in respect of the cultivation and production of cannabis and cannabis resin for medicinal and related scientific purposes; or
- (b) AusCann obtains a permit, licence, authority, registration or approval for the cultivation and production of cannabis and cannabis resin for medicinal and related scientific purposes in another jurisdiction; or
- (c) AusCann is issued or acquires an interest of not less than 49% in a party or entity that holds a permit, licence, authority, registration or approval for the cultivation and production of cannabis and cannabis resin for medicinal and related scientific purposes in another jurisdiction; or
- (d) the Company, having merged with AusCann, is granted a licence referred to in paragraph (a) or (b) above or is issued or acquires an interest referred to in paragraph (c) above.

---

## 7. COMPLIANCE

- (a) Notwithstanding anything contained in these terms and conditions, if the Listing Rules, the Corporations Act or the Constitution prohibit an act from being done, that act shall not be done to the extent of that prohibition.
- (b) Nothing in these terms and conditions requires to be done anything that the Listing Rules, the Corporations Act or the Constitution prohibit from being done to the extent of that prohibition.
- (c) The Company may unilaterally amend these terms and conditions if and to the extent necessary to resolve any conflict between these terms and conditions and the Listing Rules, the Corporations Act or the Constitution, or to make these terms and conditions compliant with the Listing Rules, the Corporations Act or the Constitution.

## SCHEDULE 9 – TERMS AND CONDITIONS OF DIRECTOR OPTIONS

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### 1. ENTITLEMENT

- (a) Each option will entitle the holder to subscribe for one fully paid ordinary share in the Company (**Share**).
- (b) All Shares issued upon the exercise of the options will rank equally in all respects with the Company's then existing Shares.

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### 2. EXERCISE PRICE

Each option shall entitle the holder to acquire one Share upon payment of the sum of \$0.21 per option (on a post-Consolidation basis) (**exercise price**) to the Company.

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### 3. EXERCISE OF OPTIONS

- (a) The options may be exercised at any time prior to the date which is 36 months after their issue (**expiry date**) in whole or in part, by completing and delivering a duly completed form of notice of exercise to the registered office of the Company together with the payment of the exercise price in immediately available funds for the number of Shares in respect of which the options are exercised.
- (b) An option not exercised on or before the expiry date will lapse.
- (c) Shares allotted and issued pursuant to the exercise of the options will be allotted and issued, and a holding statement or share certificate provided to the holders of options in respect of those Shares, on the above terms and conditions not more than five Business Days after the receipt of a duly completed form of notice of exercise and the exercise price in immediately available funds in Australian dollars in respect of the options exercised.

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### 4. QUOTATION

- (a) Application will not be made to ASX for official Quotation of the options.
- (b) Provided the Company is listed on ASX at the time, application will be made for official Quotation of the Shares issued upon exercise of options not later than five Business Days after the date of allotment.

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### 5. TRANSFER

The options are not transferable.

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### 6. PARTICIPATION AND ENTITLEMENTS

- (a) There are no participating rights or entitlements inherent in the options and holders will not be entitled to participate in new issues of Securities offered to shareholders during the currency of the options.
- (b) However, the Company must give notice to the holders of options of any new issue before the record date for determining entitlements to the issue in accordance with the Listing Rules so as to give holders the opportunity to exercise their options before the date for determining entitlements to participate in any issue.

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### 7. REORGANISATION OF SHARE CAPITAL

In the event of a reorganisation (including consolidation, subdivision, reduction or return) of the issued capital of the Company, all rights of holders of options shall be changed to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

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## 8. BONUS ISSUE

If, from time to time, before the expiry of the options the Company makes a pro-rata issue of Shares to shareholders for no consideration, the number of Shares over which an option is exercisable will be increased by the number of Shares which the holder would have received if the option had been exercised before the date for calculating entitlements to the pro-rata issue.

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## 9. PRO-RATA ISSUE

If the Company makes a pro-rata issue of Securities (except a bonus issue) to shareholders (other than an issue in lieu or in satisfaction of dividends or by way of a dividend reinvestment) the exercise price of an option shall be reduced according to the following formula:

$$O' = O - (E(P - (S + D))) / (N + 1)$$

where:

- O' = the new exercise price for an option
- O = the old exercise price for an option
- E = the number of underlying Securities into which an option is exercisable.
- P = The average market price per security (weighed by reference to volume) of the underlying Securities during the five trading days ending on the day before the ex-rights date or ex-entitlements date.
- S = The subscription price for a security under the pro-rata issue.
- D = The dividend due but not yet paid under the existing underlying Securities (except those to be issued under the pro-rata issue).
- N = The number of Securities with rights or entitlements that must be held to receive a right to one new security.

## SCHEDULE 10 – TERMS AND CONDITIONS OF CANOPY OPTIONS

---

### 1. ENTITLEMENT

- (a) Each option will entitle the holder to subscribe for one fully paid ordinary share in the Company (**Share**).
- (b) All Shares issued upon the exercise of the options will rank equally in all respects with the Company's then existing Shares.

---

### 2. EXERCISE PRICE

Each option shall entitle the holder to acquire one share upon payment of the sum of \$0.20 per option (on a post-Consolidation basis) (**exercise price**) to the Company.

---

### 3. EXERCISE OF OPTIONS

- (a) The options may be exercised at any time prior to the date which is 36 months after their issue (**expiry date**) in whole or in part, by completing and delivering a duly completed form of notice of exercise to the registered office of the Company together with the payment of the exercise price in immediately available funds for the number of Shares in respect of which the options are exercised.
- (b) An option not exercised on or before the expiry date will lapse.
- (c) Shares allotted and issued pursuant to the exercise of the options will be allotted and issued, and a holding statement or share certificate provided to the holders of options in respect of those Shares, on the above terms and conditions not more than five Business Days after the receipt of a duly completed form of notice of exercise and the exercise price in immediately available funds in Australian dollars in respect of the options exercised.

---

### 4. QUOTATION

- (a) Application will not be made to ASX for official Quotation of the options.
- (b) Provided the Company is listed on ASX at the time, application will be made for official Quotation of the Shares issued upon exercise of options not later than five Business Days after the date of allotment.

---

### 5. TRANSFER

The options are not transferable.

---

### 6. PARTICIPATION AND ENTITLEMENTS

- (a) There are no participating rights or entitlements inherent in the options and holders will not be entitled to participate in new issues of Securities offered to shareholders during the currency of the options.
- (b) However, the Company must give notice to the holders of options of any new issue before the record date for determining entitlements to the issue in accordance with the Listing Rules so as to give holders the opportunity to exercise their options before the date for determining entitlements to participate in any issue.

---

### 7. REORGANISATION OF SHARE CAPITAL

In the event of a reorganisation (including consolidation, subdivision, reduction or return) of the issued capital of the Company, all rights of holders of options shall be changed to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

---

## 8. BONUS ISSUE

If, from time to time, before the expiry of the options the Company makes a pro-rata issue of Shares to shareholders for no consideration, the number of Shares over which an option is exercisable will be increased by the number of Shares which the holder would have received if the option had been exercised before the date for calculating entitlements to the pro-rata issue.

---

## 9. PRO-RATA ISSUE

If the Company makes a pro-rata issue of Securities (except a bonus issue) to shareholders (other than an issue in lieu or in satisfaction of dividends or by way of a dividend reinvestment) the exercise price of an option shall be reduced according to the following formula:

$$O' = O - (E(P - (S + D))) / (N + 1)$$

where:

- O' = the new exercise price for an option
- O = the old exercise price for an option
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- S = The subscription price for a security under the pro-rata issue.
- D = The dividend due but not yet paid under the existing underlying Securities (except those to be issued under the pro-rata issue).
- N = The number of Securities with rights or entitlements that must be held to receive a right to one new security.

## **SCHEDULE 11 – SUMMARY OF PROPOSED NEW CONSTITUTION**

---

### **1. SHARE CAPITAL**

- (a) Subject to the Corporations Act, the Listing Rules, and any special rights previously conferred on the holders of any Shares or class of Shares, the issue of Shares in the Company is under the control of the Directors.
- (b) The Company may issue preference Shares and issued Shares provided that they are issued on the terms set out in Schedule 1 of the proposed Constitution or as approved by a resolution of the Company.
- (c) While the Company is on the official list of ASX the Company may not issue a preference share that confers on the holder rights that are inconsistent with those specified in the Listing Rules, except to the extent of any waiver or modification of the Listing Rules by ASX.

---

### **2. REDUCTION OF CAPITAL**

The Company may reduce its share capital in any way not otherwise prohibited under the Corporations Act including, but not limited to, distributing the Securities of any other body corporate to shareholders and for the shareholders to be bound by the constitution of that body corporate.

---

### **3. GENERAL MEETINGS**

- (a) A resolution put to the vote at a general meeting must be decided on a show of hands unless a poll is effectively demanded and not withdrawn. If a poll is demanded it must be taken in the manner and at the date and time directed by the chairman and the result of the poll is a resolution of the meeting at which the poll was demanded.
- (b) Subject to any rights or restrictions attached to any class of Shares, on a show of hands and on a poll, each shareholder present in person and each person present as a proxy, attorney or representative of a shareholder has one vote for each fully paid share held. On a poll, partly paid Shares confer a fraction of a vote in proportion to the amount paid up on the share.
- (c) Two shareholders present in person or by proxy, attorney or representative are a quorum at a general meeting.

---

### **4. DIRECTORS**

- (a) Unless otherwise determined by the Company in general meeting, the number of Directors is to be not less than three. While the Company is listed, a Director must not hold office without re-election past the third annual general meeting following the Director's appointment or last election or for more than three years, whichever is the longer.
- (b) The business of the Company is to be managed by the Directors, who may exercise all such powers of the Company as are not, by the Corporations Act or by the Constitution, required to be exercised by the Company in general meeting.
- (c) The aggregate amount of the remuneration of the Directors is a yearly sum not exceeding the sum from time to time determined by the Company in general meeting.

---

### **5. DIVIDENDS AND RESERVES**

- (a) Subject to the Corporations Act, the Constitution and the rights of any person entitled to Shares with special rights to dividend, the Directors may determine that a dividend is payable.
- (b) The Directors may before paying any dividend, set aside such sums as they think proper as a reserve, to be applied, at the discretion of the Directors, for any purpose for which such sums may be properly applied and carry forward so much of the profits that are not included

in the sums set aside without transferring those profits to a reserve. The Directors may deduct from any dividend payable to, or at the direction of, a shareholder any sums presently payable by that shareholder to the Company on account of calls or otherwise in relation to Shares in the Company.

---

**6. WINDING UP**

Subject to the rights of shareholders holding Shares issued on special terms and conditions, if the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company, divide among the shareholders in specie or in kind the whole or any part of the property of the Company and may for that purpose set such value as the liquidator considers fair on any property to be so divided and may determine how the division is to be carried out as between the shareholders or different classes of shareholders.

---

**7. INDEMNITY**

To the maximum extent permitted by law, the Company may indemnify any current or former Director or secretary or officer or senior manager of the Company or a subsidiary of the Company out of the property of the Company against any liability incurred by the person in that capacity (except a liability for legal costs), legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil or criminal or of an administrative or investigatory nature, in which the person becomes involved because of that capacity, and legal costs incurred in good faith in obtaining legal advice on issues relevant to the performance of their functions and discharge of their duties as an officer of the Company or a subsidiary.

---

**8. RESTRICTED SECURITIES**

While the Company is listed, any restricted Securities (as that term is defined in the Listing Rules) cannot be disposed of during the escrow period (as that term is defined in the Listing Rules) except as permitted by the Listing Rules or ASX. During a breach of the Listing Rules the holder is not entitled to any dividend or distribution or voting rights in respect of the restricted Securities.

---

**9. UNMARKETABLE PARCELS**

While the Company is listed, it may sell the Shares of Shareholders who holds less than a marketable parcel of Shares. Once in any 12-month period, the Company may provide written notice to Shareholders who hold unmarketable parcels stating the Company's intention to sell the unmarketable parcel. A Shareholder has not less than 42 days after notice is given to notify the Company that it wishes to retain its Shares, failing which the Company may sell the unmarketable parcels.

## **SCHEDULE 12 – SUMMARY OF ESOP PLAN TERMS**

---

### **1. ELIGIBILITY**

The Board may, in its absolute discretion, invite an eligible employee to participate in the Plan. An eligible employee includes a Director, senior executive or employee of the Company or an associated body corporate of the Company.

---

### **2. TERMS OF OPTIONS**

- (a) Each option will be granted to eligible employees under the Plan for no more than nominal consideration;
- (b) Each option will entitle its holder to subscribe for and be issued one fully paid ordinary share (upon vesting and exercise of that option);
- (c) Options will not be listed for Quotation on the ASX, however the Company will apply for official Quotation of Shares issued upon the exercise of any vested options;
- (d) The grant date and expiry date of the option shall be as determined by the Board when an offer to participate in the Plan is made;
- (e) A participant is not entitled to participate in or receive any dividend or other shareholder benefits until its options have vested and been exercise and Shares have been allocated to the participant as a result of the exercise of those options;
- (f) There are no participating rights or entitlements inherent in the options and participants will not be entitled to participate in new issues of Securities offered to shareholders of the Company during the currency of the options;
- (g) Following the issue of Shares following the exercise of vested options, participants will be entitled to exercise all rights of a shareholder attaching to the Shares, subject to any disposal restrictions advised to the participant at the time of the grant of the options;
- (h) If there is a reconstruction of the issued capital of the Company prior to the expiry of any options, the number of options to which each participant is entitled or the exercise price of his or her options or any other terms will be reconstructed in a manner determined by the Board which complies with the provisions of the Listing Rules.

---

### **3. PERFORMANCE CONDITIONS**

When granting options, the Board may make their vesting conditional on the satisfaction of a performance condition within a specified period. The Board may at any time waive or change a performance condition or performance period in accordance with the Plan rules if the Board (acting reasonably) considers it appropriate to do so.

---

### **4. VESTING**

- (a) The options will vest following satisfaction of the performance conditions or such other date as determined by the Board in its discretion.
- (b) Subject to the Plan rules, the Board may declare that all or a specified number of any unvested options granted to a participant which have not lapsed immediately vest if, in the opinion of the Board a change of control in relation to the Company has occurred, or is likely to occur, having regard to the participant's pro-rata performance in relation to the applicable performance conditions up to that date.
- (c) Subject to the Plan rules, the Board may in its absolute discretion, declare the vesting of an option where the Company is wound up or passes a resolution to dispose of its main undertaking.
- (d) If there is any internal reconstruction or acquisition of the Company which does not involve a significant change in the identity of the ultimate shareholders of the Company, the Board

may declare in its sole discretion whether and to what extent options, which have no vested by the date the reconstruction takes place, will vest.

---

**5. DISPOSAL RESTRICTIONS**

The Board may, in its sole and absolute discretion, determine whether there will be any restrictions on the disposal of, the granting (or purporting to grant) of any security interest in or over, or otherwise on dealing with (or purporting to dispose or deal with), Shares issued or transferred to any participant under the Plan.

---

**6. OVERRIDING RESTRICTIONS**

No issue of allocation of ESOP Options and/or Shares will be made to the extent that it would contravene the Constitution, Listing Rules, the Corporations Act or any other applicable law. At all times participants must comply with any share trading policy of the Company.

---

**7. LAPSE**

- (a) An ESOP option will immediately lapse upon the first to occur of:
  - (i) the cessation of employment, engagement or office of the participant;
  - (ii) if the Board and the participant agrees, the day the Board makes a determination that the ESOP Options lapse;
  - (iii) if any applicable conditions are not achieved by the relevant time;
  - (iv) if the Board determines in its sole and absolute discretion that any applicable conditions have not been met and cannot be met prior to the expiry date; or
  - (v) its expiry date.
- (b) Where a participant ceases to be employed or engaged by the Company and is not a “bad leaver” (as that term is defined in the Plan), and the ESOP Options have vested, they will remain exercisable until the ESOP Options lapse in accordance with the Plan rules or if they have not vested, the Board will determine as soon as reasonably practicable after the date the participant ceases to be employed or engaged, how many (if any) of those participant’s ESOP Options will be deemed to have vested and exercisable.
- (c) Where a participant becomes a “bad leaver” (as that term is defined in the Plan), all ESOP Options, unvested, or vested, will lapse on the date of the cessation of employment, engagement or office of that participant.

**Lodge your vote:**



**Online:**

[www.investorvote.com.au](http://www.investorvote.com.au)



**By Mail:**

Computershare Investor Services Pty Limited  
GPO Box 242 Melbourne  
Victoria 3001 Australia

Alternatively you can fax your form to  
(within Australia) 1800 783 447  
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only  
(custodians) [www.intermediaryonline.com](http://www.intermediaryonline.com)

**For all enquiries call:**

(within Australia) 1300 850 505  
(outside Australia) +61 3 9415 4000

TWH

MR SAM SAMPLE  
FLAT 123  
123 SAMPLE STREET  
THE SAMPLE HILL  
SAMPLE ESTATE  
SAMPLEVILLE VIC 3030

## Proxy Form



### Vote online

- Go to [www.investorvote.com.au](http://www.investorvote.com.au) or scan the QR Code with your mobile device.
- Follow the instructions on the secure website to vote.

### Your access information that you will need to vote:

**Control Number: 999999**

**SRN/HIN: I9999999999**

**PIN: 99999**

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.



 **For your vote to be effective it must be received by 3:00pm (WST) Saturday, 29 October 2016**

### How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

#### Appointment of Proxy

**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

**A proxy need not be a securityholder of the Company.**

### Signing Instructions for Postal Forms

**Individual:** Where the holding is in one name, the securityholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.

**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

### Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at [www.investorcentre.com](http://www.investorcentre.com) under the help tab, "Printable Forms".

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,  
or turn over to complete the form** ➔

MR SAM SAMPLE  
FLAT 123  
123 SAMPLE STREET  
THE SAMPLE HILL  
SAMPLE ESTATE  
SAMPLEVILLE VIC 3030



**Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

IND

## Proxy Form

Please mark ☒ to indicate your directions

### STEP 1

#### Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of TW Holdings Limited hereby appoint

☐ the Chairman of the Meeting **OR**

**PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the General Meeting of TW Holdings Limited to be held at Allion Partners, Level 9, 863 Hay Street, Perth, Western Australia on Monday, 31 October 2016 at 3:00pm (WST) and at any adjournment or postponement of that meeting.

**Chairman authorised to exercise undirected proxies on remuneration related resolutions:** Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on Resolutions 6 - 8 and 20 (except where I/we have indicated a different voting intention below) even though Resolutions 6 - 8 and 20 are connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.

**Important Note:** If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on Resolutions 6 - 8 and 20 by marking the appropriate box in step 2 below.

### STEP 2

#### Items of Business



**PLEASE NOTE:** If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

	For	Against	Abstain		For	Against	Abstain
Resolution 1 Approval for change to Nature and Scale of Activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 11 Approval for Directors to apply under Prospectus	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 Consolidation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 12 Appointment of Dr Mal Washer as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 Approval for a new Class of Securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 13 Appointment of Ms Elaine Darby as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 Approval for issue of Consideration Securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 14 Appointment of Mr Harry Karelis as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5 Approval for the issue of Advisor Securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 15 Appointment of Mr Bruce McHarrie as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6 Approval for the issue of Options to Mr David Wheeler	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 16 Appointment of Hon Cheryl Edwardes as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7 Approval for the issue of Options to Mr Nicholas Calder	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 17 Appointment of Mr Bruce Linton as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8 Approval for the issue of Options to Mr Simon Taylor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 18 Change of Company's Name	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9 Acquisition of a Substantial Asset	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 19 Adoption of a New Constitution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 10 Approval for the issue of Shares under the Public Offer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 20 Approval of Employee Share Option Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

### SIGN

#### Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact  
Name

\_\_\_\_\_

Contact  
Daytime  
Telephone

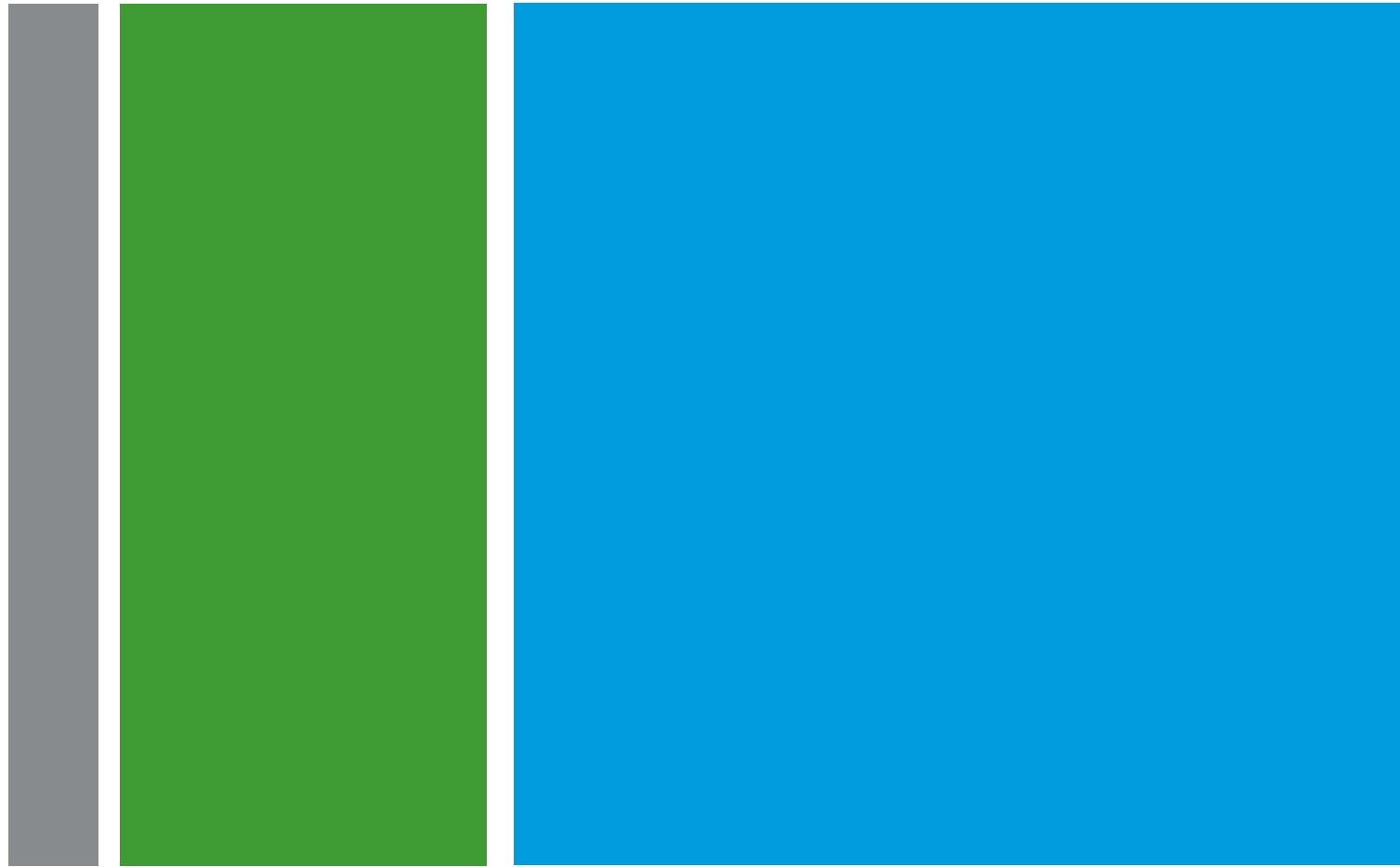
\_\_\_\_\_ / \_\_\_\_\_ / \_\_\_\_\_

Date

TWH

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Computershare +



# TW HOLDINGS LIMITED

Financial Services Guide and Independent Expert's Report  
September 2016

We have concluded that the Proposed Transaction is Fair and Reasonable to  
Shareholders of TW Holdings Limited

# FINANCIAL SERVICE GUIDE

14 September 2016

RSM Corporate Australia Pty Ltd ABN 82 050 508 024 ("RSM Corporate Australia Pty Ltd" or "we" or "us" or "ours" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ("FSG"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the financial services that we will be providing you under our Australian Financial Services Licence, Licence No 255847;
- remuneration that we and/or our staff and any associates receive in connection with the financial services that we will be providing to you;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

## Financial services we will provide

For the purposes of our report and this FSG, the financial service we will be providing to you is the provision of general financial product advice in relation to securities.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

## General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

## Benefits that we may receive

We charge various fees for providing different financial services. However, in respect of the financial service being provided to you by us, fees will be agreed, and paid by, the person who engages us to provide the report and such fees will be agreed on either a fixed fee or time cost basis. You will not pay to us any fees for our services; the Company will pay our fees. These fees are disclosed in the Report.

Except for the fees referred to above, neither RSM Corporate Australia Pty Ltd, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

## Remuneration or other benefits received by our employees

All our employees receive a salary.

## Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

## **Associations and relationships**

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia, a large national firm of chartered accountants and business advisers. Our directors are partners of RSM Australia Partners.

From time to time, RSM Corporate Australia Pty Ltd, RSM Australia Partners, RSM Australia and / or RSM Australia related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

## **Complaints Resolution**

### **Internal complaints resolution process**

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints should be directed to The Complaints Officer, RSM Corporate Australia Pty Ltd, P O Box R1253, Perth, WA, 6844.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

### **Referral to External Dispute Resolution Scheme**

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ("FOS"). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website or by contacting them directly via the details set out below.

Financial Ombudsman Service  
GPO Box 3  
Melbourne VIC 3001  
Toll Free: 1300 78 08 08  
Facsimile: (03) 9613 6399  
Email: [info@fos.org.au](mailto:info@fos.org.au)

## **Contact Details**

You may contact us using the details set out at the top of our letterhead on page 1 of this report.

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**RSM Corporate Australia Pty Ltd**

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GPO Box R 1253 Perth WA 6844

T +61 (0) 8 9261 9100  
F +61 (0) 8 9261 9111

[www.rsm.com.au](http://www.rsm.com.au)

23 September 2016  
Shareholders  
TW Holdings Limited  
Level 1, 100 Havelock Street  
WEST PERTH WA 6005

Dear Shareholders

## INDEPENDENT EXPERT'S REPORT ("REPORT")

### 1. Introduction

- 1.1 This Independent Expert's Report (the "Report" or "IER") has been prepared to accompany the Notice of General Meeting and Explanatory Statement ("Notice") to be provided to shareholders for a General Meeting of TW Holdings Limited ("TWH" or "the Company") to be held on or around 31 October 2016, at which shareholder approval will be sought for (among other things) the acquisition of AusCann Group Holdings Limited ("AusCann") ("the Proposed Transaction").
- 1.2 The consideration to be paid under the terms of the Proposed Transaction includes:
- The issue of 2,934.2 million TWH shares to AusCann shareholders and convertible noteholders, representing approximately 83% of the expanded issued capital of TWH (prior to advisor fees, condition precedent capital raisings and any other share issues as part of the proposed transaction);
  - The issue of 564.6 million performance shares ("Performance Shares") to AusCann shareholders and convertible noteholders. The Performance Shares convert into TWH shares when the combined entity gains a license to grow medical marijuana in Australia or any other jurisdiction within 18 months of completion of the Proposed Transaction;
  - The issue of 153.6 million TWH options ("Canopy Options") to Canopy Growth Corporation ("Canopy"), exercisable at \$0.01 per share (pre consolidation) and with an exercise period of three years; and
  - The issue of 290.4 million TWH shares and 55.9 million Performance Rights to advisors of TWH and AusCann.
- 1.3 The Directors of the Company have requested that RSM Corporate Australia Pty Ltd ("RSM"), being independent and qualified for the purpose, express an opinion as to whether the Proposed Transaction is fair and reasonable to shareholders not associated with the Proposed Transaction ("Non-Associated Shareholders").

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- 1.4 The requirement for our Report is the result of the issue of shares to related parties, as detailed in Resolution 9 in the Notice. However, Resolution 9 is subject to the approval of Resolutions 1 to 10 and 13 to 19 inclusive (the “Essential Resolutions”). We have restated these interdependent resolutions in Appendix E.
- 1.5 When considering the Proposed Transaction, we have included any impact of the Essential Resolutions and our single opinion should be viewed as an opinion on the Essential Resolutions as a combined group because, without approval for each Essential Resolution, the Proposed Transaction cannot complete.
- 1.6 The ultimate decision whether to approve the Proposed Transaction should be based on each Shareholder’s assessment of their circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt as to the action they should take with regard to the Proposed Transaction, or the matters dealt with in this Report, Shareholders should seek independent professional advice.

## 2. Summary and Conclusion

### Opinion

- 2.1 In our opinion, and for the reasons set out in Sections 10 and 11 of this Report, the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders of TWH.

### Approach

- 2.2 ASX Listing Rule 10.1 states that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, a related party or substantial shareholder without the approval of holders of the entity's ordinary securities.
- 2.3 A substantial holder is a shareholder that holds, or has held during the past six months, at least 10% of the issued capital of a company. Mr Jason Peterson was a substantial holder of TWH as at 1 June 2016, when he had a relevant interest in 64,900,775 TWH shares, representing 10.77% of the issued capital of TWH. Mr David Wheeler is a director of TWH and a director of Pathways Corporate Pty Ltd ("Pathways"). As a result, Pathways is considered a related party to TWH.
- 2.4 An asset is considered substantial "if its value; or the value of the consideration for it is, or in the ASX's opinion is, 5% or more of the equity interests of the entity as set out in the latest accounts given to the ASX". We have calculated the value of 5% of the equity interest of TWH as at 30 June 2016 as \$15,997. As a result of the Proposed Transaction, both Mr Peterson and Pathways will receive an interest in shares in TWH in excess of \$15,997.
- 2.5 Regulatory Guide 111: Content of Expert Reports ("RG 111") provides guidance on the content of an expert's report. Paragraph 54 of RG 111 suggests that an expert should consider the broader aspects of a related party transaction and bear in mind if additional information should be provided to Non-Associated Shareholders where necessary. In the case of the related party transactions, they are part of the broader Proposed Transaction, which is a control transaction. As such, we have considered our opinion on fairness and reasonableness based on the broader Proposed Transaction and have formed our opinion on the basis that it is a control transaction.
- 2.6 Therefore, we have considered whether or not the Proposed Transaction is "fair" to the Non-Associated Shareholders by assessing and comparing:
- The fair value of a share in TWH on a control basis pre the Proposed Transaction; with
  - The fair value of a share in TWH on a non-control basis immediately post completion of the Proposed Transaction,
- and, considered whether the Proposed Transaction is "reasonable" to the Non-Associated Shareholders by undertaking an analysis of the other factors relating to the Proposed Transaction which are likely to be relevant to the Non-Associated Shareholders in their decision of whether or not to approve the Proposed Transaction.
- 2.7 Further information of the approach we have employed in assessing whether the Proposed Transaction is "fair and reasonable" is set out at Section 4 of this Report.

## Fairness

- 2.8 Our assessed values of a TWH share prior to and immediately after the Proposed Transaction, are summarised in the table and figure below.

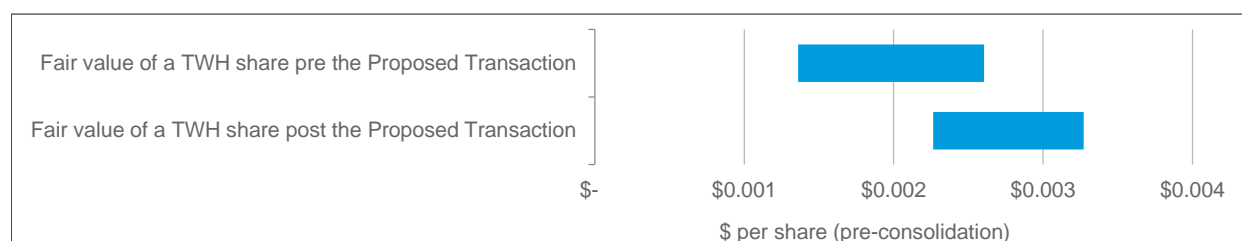
**Table 1 Assessed values of a TWH share pre and post the Proposed Transaction**

Assessment of fairness	Section	Value per Share	
		Low	High
Fair value of a TWH share pre the Proposed Transaction - Control basis	8	\$0.0014	\$0.0026
Fair value of a TWH share post the Proposed Transaction - Non control basis	9	\$0.0023	\$0.0033

Source: RSM analysis

- 2.9 We have summarised the values included in the table above in the chart below.

**Figure 1 TWH Share valuation graphical representation**



Source: RSM analysis

- 2.10 In accordance with the guidance set out in ASIC RG 111, and in the absence of any other relevant information, we consider the Proposed Transaction to be fair to the Non-Associated Shareholders of TWH. We have reached this conclusion based on the basis that the range of values of a TWH share post the Proposed Transaction on a non control basis is greater than or equal to the range of values of a TWH share pre the Proposed Transaction on a control basis.

## Reasonableness

- 2.11 RG 111 establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite not being fair, there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the offer closes. As such, we have also considered the following factors in relation to the reasonableness aspects of the Proposed Transaction:

- The future prospects of the Company if the Proposed Transaction does not proceed; and
- Any other commercial advantages and disadvantages to the Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding.

- 2.12 If the Proposed Transaction does not proceed then TWH will continue to look for value adding opportunities to increase value for Shareholders. We note that the share price of TWH has increased by approximately 71% since the announcement of the Proposed Transaction. If the Proposed Transaction is not approved it is possible that the share price of TWH could decline.

- 2.13 The key advantages of the Proposed Transaction are:

- The Proposed Transaction is fair;
- TWH and its shareholders will be exposed to a new, growing industry;
- AusCann Directors will add relevant experience, skills and networks to the Company; and

- The Proposed Transaction has resulted in an increase in liquidity in TWH shares.

2.14 The key disadvantages of the Proposed Transaction are:

- The change in nature and scale of activities of TWH may not suit all shareholders; and
- Shareholders will be diluted from holding 100% of the issued capital in TWH to holding 15% on an undiluted basis and 13% on a diluted basis.

2.15 We are not aware of any alternative proposals which may provide a greater benefit to the Non-Associated Shareholders of TWH at this time.

2.16 In our opinion, the position of the Non-Associated Shareholders of TWH if the Proposed Transaction is approved is more advantageous than if the Proposed Transaction is not approved. Therefore, in the absence of any other relevant information and/or a superior offer, we consider that the Proposed Transaction is reasonable for the Non-Associated Shareholders of TWH.

### 3. Summary of Proposed Transaction

#### Overview

- 3.1 TWH has entered into a binding heads of agreement to acquire 100% of the issued capital in AusCann by issuing to AusCann shareholders and convertible noteholders 2,934.2 million ordinary TWH shares, 564.6 million Performance Shares that convert if a licence to grow medical marijuana is obtained within 18 months of completion of the Proposed Transaction and the issue of 153.6 million TWH options (named Canopy Options) which have an exercise price of \$0.01 (pre-consolidation) and an exercise period of three years.
- 3.2 TWH has paid a \$250,000 non-refundable exclusivity fee to AusCann. We note that this fee is refundable if the Proposed Transaction does not complete due to inaction by AusCann security holders.
- 3.3 Key conditions of the Proposed Transaction include:
- The issue of 282.3 million TWH shares to advisors of TWH;
  - The issue of 66 million Performance Shares to advisors of TWH;
  - TWH raising at least \$3 million before costs ("Capital Raising"); and
  - TWH consolidating its capital on a 1 for 20 basis ("Consolidation").

#### Rationale for the Proposed Transaction

- 3.4 The directors of TWH consider an interest in the medical marijuana market provides investors an opportunity to realise an increase in returns.

#### Impact of Proposed Transaction on TWH's Capital Structure

- 3.5 The table below sets out a summary of the capital structure of TWH prior to and post the Proposed Transaction.

**Table 2 Share structure of TWH pre and post the Proposed Transaction**

	Prior to Proposed Transaction		Post Proposed Transaction	
Shares on issue				
Non-associated Shareholders	602,362,410	100%	602,362,410	15%
AusCann Shareholders	-	0%	2,934,183,791	71%
Advisors	-	0%	290,424,561	7%
Capital Raising	-	0%	300,000,000	7%
Total shares on issue	602,362,410	100%	4,126,970,762	100%
Performance Shares on issue				
Non-associated Shareholders	-	0%	-	0%
AusCann Shareholders	-	0%	564,607,029	91%
Performance Rights on issue				
Advisors	-	0%	55,884,621	9%
Total performance based securities on issue	-	0%	620,491,650	100%
Fully diluted shares on issue				
Non-associated Shareholders	602,362,410	100%	602,362,410	14%
AusCann Shareholders	-	0%	3,498,790,820	71%
Advisors	-	0%	346,309,182	8%
Capital Raising	-	0%	300,000,000	7%
Fully Diluted Shares on issue	602,362,410	100%	4,747,462,412	100%

Source: Company announcements

- 3.6 We have shown the capital structure prior to the consolidation required as a part of the Proposed Transaction. The number of shares as stated above will change following the consolidation of shares.
- 3.7 The performance shares and rights will convert to ordinary TWH shares in the event that the combined entity obtains a licence to grow medicinal marijuana within 18 months of completion of the Proposed Transaction.
- 3.8 TWH will also issue 153.6 million Canopy Options and 3 million options (pre consolidation) to existing Directors of TWH.

## 4. Scope of the Report

### ASX Listing Rules

- 4.1 ASX Listing Rule 10.1 states that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, a related party of substantial shareholder or any of its associates without the approval of holders of the entity's ordinary securities.
- 4.2 A substantial holder is a shareholder that holds, or has held during the past six months, at least 10% of the issued capital of a company. Mr Jason Peterson was a substantial holder of TWH as at 1 June 2016, when he had a relevant interest in 64,900,775 TWH shares, representing 10.77% of the issued capital of TWH. Mr David Wheeler is a director of TWH and a director of Pathways. As a result, Pathways is considered a related party to TWH.
- 4.3 An asset is considered substantial "if its value; or the value of the consideration for it is, or in the ASX's opinion is, 5% or more of the equity interests of the entity as set out in the latest accounts given to the ASX". We have calculated the value of 5% of the equity interest of TWH as at 30 June 2016 as \$15,997. As a result of the Proposed Transaction, both Mr Peterson and Pathways will receive an interest in shares in TWH in excess of \$15,997.
- 4.4 ASX Listing Rule 10.10 states that the notice for the shareholders' meeting required under ASX Listing Rule 10.1 must include a report on the transaction from an independent expert. The report must state, whether, in the expert's opinion, the transaction is fair and reasonable to the Non-Associated Shareholders.
- 4.5 TWH is to hold a meeting of its shareholders where it will seek approval for the Proposed Transaction and the Company has engaged RSM, to prepare a report which sets out our opinion as to whether the Proposed Transaction is fair and reasonable to Non-Associated Shareholders.

### Basis of Evaluation

- 4.6 In determining whether the Proposed Transaction is "fair and reasonable" we have had regard to the views expressed by ASIC in RG 111.
- 4.7 RG 111 provides ASIC's views on how an expert can help security holders make informed decisions about transactions. Specifically it gives guidance to experts on how to evaluate whether or not a proposed transaction is fair and reasonable.
- 4.8 RG 111 states that the expert's report should focus on:
  - the issues facing the security holders for whom the report is being prepared; and
  - the substance of the transaction rather than the legal mechanism used to achieve it.
- 4.9 RG 111.54 suggests that an expert should consider the broader aspects of a related party transaction and bear in mind if additional information should be provided to Non-Associated Shareholders where necessary. In the case of the related party transactions being considered in our Report, they are part of the broader Proposed Transaction, which is a control transaction. As such, we have considered our opinion on fairness and reasonableness based on the broader Proposed Transaction and have considered it as a control transaction.
- 4.10 Furthermore, RG 111 states that the expert's assessment of fair and reasonable should not be applied on a composite test – that is, there should be a separate assessment of whether the transaction is "fair and reasonable" as in a control transaction.

- 4.11 Consistent with the guidelines in RG 111, in assessing whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders, the analysis undertaken is as follows:
- Whether the value of a TWH share prior to implementation of the Proposed Transaction (on a control basis) is less than the value of a TWH share following implementation of the Proposed Transaction (on a non-control basis) - fairness; and
  - A review of other significant factors which Non-Associated Shareholders might consider prior to approving the Proposed Transaction - reasonableness.
- 4.12 The other significant factors to be considered include:
- The future prospects of the Company if the Proposed Transaction does not proceed; and
  - Any other commercial advantages and disadvantages to the Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding.
- 4.13 Our assessment of the Proposed Transaction is based on economic, market and other conditions prevailing at the date of this report.

## 5. Profile of TWH

### Background

- 5.1 Although TWH holds an interest in a wine business, it is seeking acquisitions and is considered a listed shell. As at 21 September 2016, its market capitalisation was \$5.4 million, it had no debt and approximately \$370,000 in cash.

### Directors and management

- 5.2 The directors and key management of TWH are summarised in the table below.

**Table 3 TWH Directors**

Name	Title	Experience
David Wheeler	Non-Executive Chairman	Mr Wheeler has more than 30 years of executive management experience, through general management, Chief Executive Officer and Managing Director roles across a range of companies and industries. He has worked on business projects in the USA, UK, Europe, New Zealand, China, Malaysia and the Middle East (Iran). Mr. Wheeler has been a Fellow of the Australian Institute of Company Directors (FAICD) since 1990.
Nicholas Calder	Non-Executive Director	Mr Calder was a Partner of PKF Mack & Co from 2006 to 2012 before commencing NK Advisory, which provides corporate, company secretarial and financial services to a number of oil and gas, mining and manufacturing companies based in Perth, Western Australia. Mr Calder is a Chartered Accountant and registered Company Auditor.
Simon Taylor	Non-Executive Director	Mr Taylor is a Geologist with over 25 years' experience throughout Australia in gold, base metals and nickel having held senior geologist and exploration manager positions for numerous ASX listed resource companies. He has gained experience in exploration, project assessment and joint venture negotiations. He is a member of the Australian Institute of Geologists. He is a member of the Australian Institute of Geoscientists and a graduate of Sydney University.

Source: Capital IQ

### Financial Performance

- 5.3 The following table sets out a summary of the financial performance of TWH for the years ended 30 June 2014 ("FY14") and 30 June 2015 ("FY15") and the year ended 30 June 2016 ("FY16").

**Table 4 TWH financial performance**

	FY16 Reviewed \$	FY15 Audited \$	FY14 Audited \$
Revenue	5,482	12,557	35,542
Administration expenses	(235,908)	(161,279)	(327,506)
Employee benefits and directors fees	(172,000)	(152,176)	(120,000)
Project expenses	-	-	(295,211)
Depreciation expense	-	(1,552)	(1,037)
	(250,000)		
<b>Loss before income tax expense</b>	<b>(652,426)</b>	<b>(302,450)</b>	<b>(708,212)</b>
Income tax expense	-	-	-
<b>Net loss for the year</b>	<b>(652,426)</b>	<b>(302,450)</b>	<b>(708,212)</b>

Source: Company financial statements

- 5.4 The Statement of Comprehensive Income is indicative of a non-trading company, with very little revenue and the majority of expenditure on administration and staff costs.

5.5 The audit report for FY16 contained an emphasis of matter as follows:

*Without modifying our opinion, we draw attention to Note 2(a) in the financial report, which indicates that the ability of the Company to continue as a going concern is dependent upon the success of the fundraising under the prospectus. This condition, along with other matters as set out in Note 2(a), indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.*

## Financial Position

5.6 The table below sets out a summary of the financial position of TWH as at 30 June 2014, 30 June 2015 and 30 June 2016.

**Table 5 TWH financial position**

	31-Dec-15	30-Jun-15	30-Jun-14
	\$	\$	\$
<b>Current Assets</b>			
Cash and cash equivalents	370,270	376,143	784,931
Trade and other receivables	10,281	12,673	18,681
<b>Total Current Assets</b>	<b>380,551</b>	<b>388,816</b>	<b>803,612</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	-	-	1,552
<b>Total Non-Current Assets</b>	<b>-</b>	<b>-</b>	<b>1,552</b>
<b>Total Assets</b>	<b>380,551</b>	<b>388,816</b>	<b>805,164</b>
<b>Current Liabilities</b>			
Trade and other payables	60,604	29,127	143,025
<b>Total Current Liabilities</b>	<b>60,604</b>	<b>29,127</b>	<b>143,025</b>
<b>Total Liabilities</b>	<b>60,604</b>	<b>29,127</b>	<b>143,025</b>
<b>Net Assets</b>	<b>319,946</b>	<b>359,689</b>	<b>662,139</b>
<b>Equity</b>			
Issued capital	81,099,059	80,486,376	80,486,376
Accumulated losses	(80,779,113)	(80,126,687)	(79,824,237)
<b>Total Equity</b>	<b>319,946</b>	<b>359,689</b>	<b>662,139</b>

Source: Company financial statements

5.7 As at 30 June 2016, TWH had net tangible assets of \$0.3 million, no debt and a cash balance of \$0.4 million. The balance sheet is indicative of a listed shell, with TWH's only significant asset being cash.

## Capital Structure

5.8 TWH has 602,362,410 ordinary shares on issue. There are no options over unissued ordinary shares outstanding.

5.9 The top 20 shareholders of TWH as at 6 September 2016 are set out below.

**Table 6 TWH Top 20 shareholders**

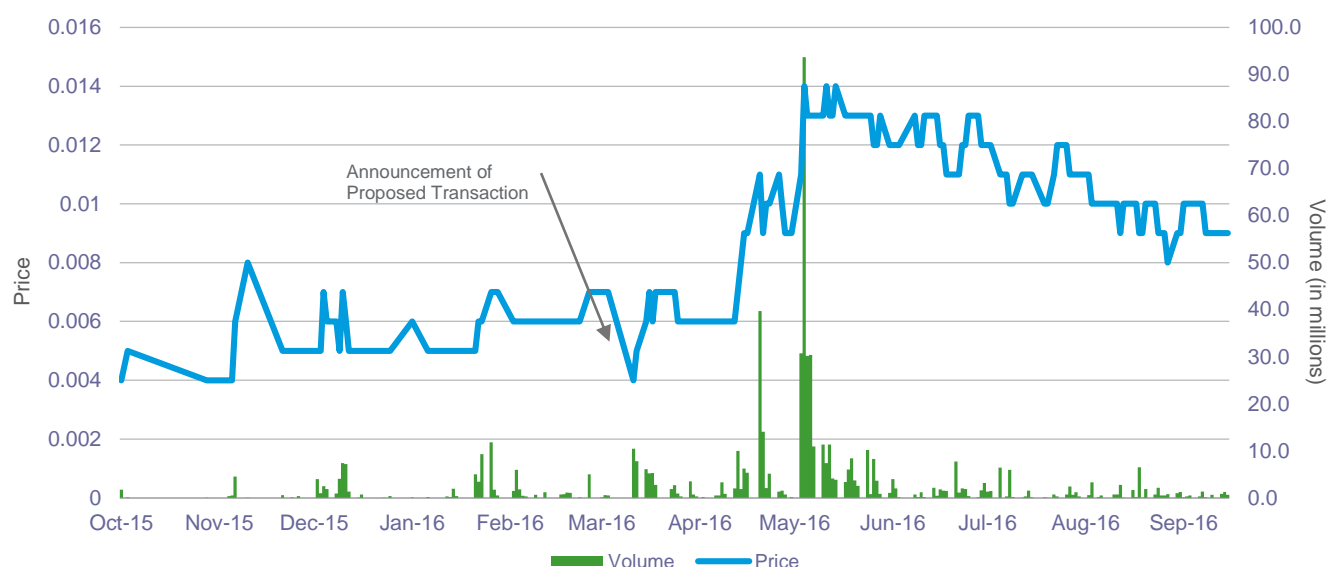
Rank	Name	Shares	% of Shares
1.	JDK Nominees Pty Ltd	52,817,403	8.77
2.	Celtic Capital Pty Ltd	35,000,000	5.81
3.	Mr Jason Peterson + Mrs Lisa Peterson	15,000,000	2.49
4.	Mrs Katherine Elizabeth MacDermott	14,469,928	2.40
5.	Nurragi Investments Pty Ltd	12,199,600	2.03
6.	Mr John Della Bosca	10,750,000	1.78
7.	Mr Michael Andrew Whiting + Mrs Tracey Anne Whiting	10,626,875	1.76
8.	Spinite Pty Ltd	10,000,000	1.66
9.	Agens Pty Ltd	8,400,000	1.39
10.	Mr Craig Peter Ball	7,969,375	1.32
11.	Mr Mario Di Lallo + Mrs Alison Valerie Di Lallo	7,500,000	1.25
12.	Mr Adam Albert Atkins	6,100,000	1.01
13.	Foresight Pty Ltd	5,600,000	0.93
14.	Mr Robert Fraser + Mrs Tracy Fraser	5,200,000	0.86
15.	Mr Danny Gan	5,000,000	0.83
16.	Mr Anthony Nicholas	5,000,000	0.83
17.	United Trolley Collections P/L	5,000,000	0.83
18.	Mr Christopher David Smerdon + Mrs Jane Louise Smerdon	4,900,000	0.81
19.	Mr Huu Tho Nguyen	4,610,307	0.77
20.	Mr Barry Charles Jupp + Mr Clinton James Cash	4,266,010	0.71
<b>Top 20 holders of Ordinary Shares</b>		<b>238,827,060</b>	<b>39.65</b>
Remaining Holders Balance		363,535,350	60.35
<b>Total Shareholders</b>		<b>602,362,410</b>	<b>100.00</b>

Source: Company / Computershare

## Share price performance

5.10 The figure below sets out a summary of TWH's closing share prices and traded volumes for the 12 months to 21 September 2016.

**Figure 2 TWH daily closing share price and traded volumes**



Source: S&P Capital IQ/ ASX

- 5.11 Until December 2015, there was minimal trading in TWH shares. Trading increased in December 2015, which coincided with a capital raising which was fully underwritten by CPS Capital Group Pty Ltd ("CPS").
- 5.12 Following the announcement of the Proposed Transaction, the share price fell from \$0.007 to \$0.004, before recovering to trade at around \$0.012. There were significant increases in price and volume around the dates of 26 April 2016 and 10 May 2016. We note that TWH released a response to an ASX price query in relation to the increase in price and volume around 26 April 2016 where increasing media interest was indicated as a possible driver for the increase. Trading around 10 May 2016 coincided with an announcement that Cheryl Edwardes had joined the Board of AusCann.
- 5.13 TWH's share price performance is discussed in more detail in Paragraph 8.9.

## 6. Profile of AusCann

### Background

- 6.1 AusCann was established in September 2014 and, via proposed contractual arrangements, intends to bring together a range of knowledge and expertise in growing cannabis and manufacturing cannabis based medicines. AusCann has sought to build expertise through partnering with other operators within the medicinal cannabis field, agreeing to exploit the expertise of these partners on a licenced basis with sole rights to the Australasian market. We have summarised the agreements between AusCann and its partners further in this section of the report.
- 6.2 The company has a high profile Board of Directors comprising ex-politicians and experts in medicinal cannabis.

### Agreements and current negotiations

#### *Caziwell Inc (Aunt Zelda's)*

- 6.3 AusCann has entered into a heads of agreement with Caziwell Inc ("Aunt Zelda's") providing for exclusive use of the Aunt Zelda's brand and range of products (including formulations, protocols, extraction techniques, marketing material, software and any other procedures and systems typical of a licensing agreement) for an initial period of five years.

#### *Zelda Therapeutics Pty Ltd*

- 6.4 AusCann has entered into a supplier agreement with Zelda Therapeutics Pty Ltd ("Zelda") providing for:
- AusCann will be Zelda's preferred supplier of cannabinoid-based medicines for research and clinical activities; and
  - AusCann is to produce medicines to the required regulatory standard.
- 6.5 We note that the agreement is reliant on AusCann being able to supply cannabinoid-based medicines, which it does not currently produce or procure.

#### *Murdoch University*

- 6.6 AusCann has entered into a memorandum of understanding with binding provisions with Murdoch University providing for a five year research and development alliance focussed upon:
- The development and cultivation of strains of medicinal cannabis specific to Australian growing conditions using the expertise of the State Agricultural Biotechnology Centre ("SABC"); and
  - Production of whole plant extracts, and testing of therapeutic products to meet the needs of Australian patients.

#### *CannaPharm Rx Corp*

- 6.7 AusCann has entered into a license agreement with CannaPharm Rx Corp ("Cannapharm"). The license agreement has the following terms:
- TWH has the rights to use CannaPharm's suite of standard operating procedures for the production of medical cannabis in compliance with Canadian, Australian and US Food and Drug Act Good Manufacturing Practices;
  - AusCann will pay a CAD\$20,000 fee and issue CAD\$35,000 in equity for the use of basic or generic standard operating procedures; and

- AusCann will engage CannaPharm to prepare more detailed and specific standard operating procedures when necessary at a rate of CAD\$125 per hour.

#### ***Canopy Growth Corporation***

6.8 AusCann has entered into a strategic alliance agreement with Canopy Growth Corporation (“Canopy”) for the following:

- AusCann has the right to use the name and brands of the Canopy Growth Corporation, including Tweed;
- Canopy will provide services to AusCann on extract manufacture, access to genetics, material, marketing, quality assurance and standard operating procedures at commercial rates;
- Canopy will seek to partner with AusCann for all operations in Australia. However, this will be on an “in good faith” basis;
- Canopy will receive a 15% interest in AusCann on a fully diluted basis;
- Canopy will receive an option to acquire a 5% interest in AusCann on a fully diluted basis;
- Canopy will be granted the right to acquire 153.6 million options with an exercise price of \$0.01 (pre consolidation) and an exercise period of three years;
- Canopy will have pro-rata rights to invest in any future capital raisings; and
- Canopy will have the right to appoint a non-executive director to the Board of AusCann.

#### ***Hidden Garden Sustainable Farms Ltd***

6.9 AusCann has entered into a heads of agreement with Hidden Garden Sustainable Farms Ltd (“Hidden Garden”) for the following:

- Hidden Garden will provide areas on Christmas Island for AusCann to grow its genetics;
- Hidden Garden will provide the growing expertise and on site management of AusCann’s crops on Christmas Island; and
- The parties will advise of advances made from third parties for the use of cannabis.

6.10 The agreement with Hidden Garden is a binding agreement.

#### ***Phytoplant Research SL***

6.11 AusCann has entered into a heads of agreement with Phytoplant Research SL (“Phytoplant”) for the following:

- AusCann will have exclusive use in the Australian market of certain strains of cannabis for production of flowers and/or biomass;
- AusCann will have exclusive rights to any relevant intellectual property and know-how in terms of extraction protocols;
- AusCann will provide suitable growing conditions for cannabis plants;
- Phytoplant will charge no upfront cost in providing know-how and support with the aim of securing Plant Breeder’s Rights in Australia;

- Phytoplant will be entitled to an undetermined royalty on cannabis flowers and a separate undetermined royalty on other products produced using strains, methods or know-how provided by Phytoplant; and
- The parties will work to exploit the inverted seasonal growing conditions between Spain and Australia.

The agreement with Phytoplant is not a final or binding agreement.

## Cannabis Industry

- 6.12 Globally, there has been a recent increase in the number of jurisdictions legislating in favour of the use of cannabis for medical purposes. Numerous clinical trials and significant anecdotal evidence demonstrates medical benefits in a range of conditions including anti-convulsion, neuroprotection, anti-inflammatory, anti-nausea, glaucoma, pain management & cancer.
- 6.13 Historically, in Australia, cannabis has been classified as a prohibited substance for which the use is deemed a criminal offence. However in all states except for New South Wales and Western Australia, there are varying levels of decriminalisation of minor cannabis offences.
- 6.14 In recent years several Australian states have proposed medicinal trials for the cultivation of cannabis for medical and research purposes, however, laws have prohibited cannabis from being grown in Australia.
- 6.15 On 29 February 2016 the Narcotic Drugs Amendment Bill 2016 (Bill) was given Royal Assent. The Bill amends the Narcotic Drugs Act to establish a licensing scheme for the cultivation of cannabis for medical and scientific purposes. There were already mechanisms in place for the licensing of the manufacture of narcotics under the Narcotic Drugs Act and access of medicinal cannabis for medical and scientific use through the Therapeutic Drugs Act 1989 (Cth), but these provisions have not been extensively used. The amended Narcotic Drugs Act allows Australia to develop a safe, legal and sustainable local supply of medicinal cannabis products.
- 6.16 The deadline in which all provisions of the Act come into force and relevant regulations and subsidiary legislation are to be implemented, is 30 October 2016. Applicants will then be able to apply for relevant licences to cultivate, produce and/or manufacture.
- 6.17 The Commonwealth Department of Health, through the newly established Office of Drug Control, will license those who cultivate, produce and manufacture cannabis and cannabis products for medical and scientific use. The Therapeutic Goods Administration (TGA) regulates the manufacture, registration and supply of medicinal cannabis products as it does for other therapeutic goods.

## Directors and management

Name	Title	Experience
Harry Karelis	Executive Director	Mr Karelis has in excess of 23 years diversified experience in the financial services sector including fundamental analysis, funds management and private equity investing and has acted as a Director on several public and private companies in Australia, Singapore and the United Kingdom.  Mr Karelis is the founder of Titan Capital Partners, a privately held investment group involved in a range of projects. He is a Fellow of the Financial Services Institute of Australia, a Fellow of the Australian Institute of Company Directors and has qualified as a Chartered Financial Analyst (CFA) from the CFA Institute in the United States.
Cheryl Edwardes	Director	Ms Edwardes was the former Attorney-General for Western Australia and Minister for the Environment. Cheryl was most recently Executive General Manager for External Affairs, Government Relations and Approvals at Hancock Prospecting.  Cheryl has experience of negotiations to ensure that critical primary agreements and government approvals are obtained in a timely fashion.

Dr Mal Washer	Chairman	Dr Washer was a Liberal member of the Australian House of Representatives from 1998 to 2013. He was educated at the University of Western Australia, graduating in 1970 with degrees in medicine and surgery. He was a general practitioner before entering politics & established a number of prominent medical centres in Western Australia. Mal was also past chair of the Alcohol and Other Drugs Council of Australia. He has extensive experience in agricultural and horticultural activities and currently operates a commercial avocado plantation in Western Australia.
Elaine Darby	Advisor to the board	Ms Darby holds a Bachelor of Science in Biochemistry & Microbiology, Honours in Molecular Biology and a Bachelor of Laws. Previous roles have included as a lawyer with Clayton Utz, Media and Communications Officer for an Australian Federal Member of Parliament, and Managing Director and Senior Winemaker of Aquila Estate Winery. Elaine is currently investment director of Biologica Ventures Pty Ltd which provides investment opportunities as well as project and clinical trial management for digital health and biotechnology companies.
Bruce Linton	Non-Executive Director	Mr Linton is the founder, Chairman and CEO of Canopy. Mr Linton has more than 10 years of senior executive experience in the high-tech sector as a founder, executive and board member. He has worked with the World Bank and the Asia Development Bank. Bruce has a demonstrable track record of raising capital required to cannabis businesses.
Bruce McHarrie	Non-Executive Director	<p>Mr McHarrie is an experienced senior executive with a background in the life sciences industry focussed on finance, operations, business and investment management, and strategic planning.</p> <p>He is currently the General Manager (Business Services) of Brightwater Care Group, and is also a non-executive director of Adherium Limited, a publicly listed digital health technologies company.</p> <p>Mr McHarrie previously served as the CFO, Director of Operations and Director of Strategic Projects with the Telethon Kids Institute in Western Australia. Prior to joining the Telethon Kids Institute, Bruce was based in London as an Assistant Director at Rothschild Asset Management in the Bioscience Unit, a life sciences private equity group investing in early stage biotechnology, healthcare and agribusiness companies. He co-founded Phylogica Limited, a publicly listed drug discovery company developed within the Telethon Kids Institute, and has held a number of other non-executive director positions in biotech and not-for-profit healthcare organisations.</p>

## Financial Performance

- 6.18 The following table sets out a summary of the financial performance of AusCann for the period ended 30 June 2015 ("FY15") and the half year ended 31 December 2015 ("H1 FY16").

**Table 7 AusCann financial performance**

	Ref	H1 FY16 Unaudited \$	FY15 Audited \$
Revenue		8,977	7,285
Other expenses	6.20	(143,805)	(364,407)
Depreciation expense		(91)	(155)
<b>Loss before income tax expense</b>		<b>(134,919)</b>	<b>(357,277)</b>
Income tax expense		-	-
<b>Net loss for the year</b>		<b>(134,919)</b>	<b>(357,277)</b>

Source: AusCann financial statements

- 6.19 The financial statements for the period ended 30 June 2015 have been audited and given an unqualified audit opinion. The financial statements of AusCann are special purpose financial statements and have not been prepared as general purpose financial statements. We note that the auditor has noted that the financial statements have been prepared for directors' purposes and the basis of accounting may not be relevant for other purposes.

6.20 Other expenses predominantly comprise consultant fees (\$261,353 for FY15 and \$86,600 for H1 FY16).

## Financial Position

6.21 The table below sets out a summary of the financial position of AusCann as at 30 June 2015 and 30 June 2016.

**Table 8 AusCann financial position**

	Ref	30-Jun-16 \$	30-Jun-15 \$
<b>Current Assets</b>			
Cash and cash equivalents	6.22	2,960,890	486,563
Trade and other receivables		16,638	36,118
<b>Total Current Assets</b>		<b>2,977,528</b>	<b>522,681</b>
<b>Non-Current Assets</b>			
Intangible assets	6.23	-	56,221
Property, plant and equipment		363	544
<b>Total Non-Current Assets</b>		<b>363</b>	<b>56,765</b>
<b>Total Assets</b>		<b>2,977,891</b>	<b>579,446</b>
<b>Current Liabilities</b>			
Trade and other payables		90,720	6,904
Other current liabilities	6.24	262,165	109,609
<b>Total Current Liabilities</b>		<b>352,885</b>	<b>116,513</b>
<b>Total Liabilities</b>		<b>352,885</b>	<b>116,513</b>
<b>Net Assets</b>		<b>2,625,006</b>	<b>462,933</b>
<b>Equity</b>			
Issued capital		8,191,528	820,210
Reserves		601,827	-
Accumulated losses		(6,168,349)	(357,277)
<b>Total Equity</b>		<b>2,625,006</b>	<b>462,933</b>

Source: AusCann management accounts

6.22 AusCann raised \$3 million via the issue of convertible notes. The convertible notes convert to shares if AusCann is listed on the ASX with 12 months from the date of issue. There is no interest payable on the convertible notes. We note that the convertible notes have been recognised as equity. We note that the convertible notes should be appropriately valued and the debt portion of the convertible notes and the equity value of the embedded derivative recognised separately. We have not attempted to reclassify the convertible note because, upon completion of the Proposed Transaction, the convertible notes will convert to equity so the accounting treatment of the convertible notes is not relevant to Shareholders.

6.23 The intangible assets relate to the purchase price of the first phase of statement of procedures from CannaPharma. The cost is the Australian Dollar equivalent of the CAD\$20,000 cash payment (\$21,221) and deemed \$35,000 in AusCann shares. The intangible assets were written down to nil in FY16.

6.24 Other current liabilities predominantly comprises the \$250,000 fee received from TWH.

## Capital Structure

- 6.25 The detail of AusCann shareholders and note holders and the number of shares they would hold in TWH assuming the Proposed Transaction is approved are set out below:

**Table 9 AusCann Top 5 shareholders**

Rank	AusCann Shareholder	Number of AusCann shares held	Number of shares to be received in TWH	% interest of fully paid ordinary shares in TWH
1	B1 Pty Ltd (Troy Langman)	200	284,189,458	7.8%
2	Golspie Pty Ltd (Nevil Schoenmakers)	200	284,189,458	7.8%
3	Mal Washer Nominees Pty Ltd (Dr Mal Washer)	150	213,142,094	5.8%
4	Gemili Nominees Pty Ltd (Harry Karelis)	138	196,090,726	5.4%
5	Mal Washer Nominees Pty Ltd (Elaine Darby)	137	194,669,779	5.3%
<b>Top 5 shareholders</b>		<b>825</b>	<b>1,172,281,516</b>	<b>32.0%</b>
<b>Total</b>		<b>1,174</b>	<b>1,668,192,121</b>	<b>45.5%</b>

Source: AusCann Management

**Table 10 AusCann Top 5 note holders**

Rank	AusCann Note Holders	Number of AusCann notes held	Number of shares to be received in TWH	% interest of fully paid ordinary shares in TWH
1	The Trust Company (Australia) Limited	250,000	60,606,061	1.7%
2	Mr John Andrew Rodgers	250,000	60,606,061	1.7%
3	Mrs Joan Christine Cook	200,000	48,484,848	1.3%
4	Goldney Pty Ltd	150,000	36,363,636	1.0%
5	Mr Jason Peterson + Mrs Lisa Peterson	100,000	24,242,424	0.7%
<b>Top 5 note holders</b>		<b>950,000</b>	<b>230,303,030</b>	<b>6.3%</b>
<b>Total</b>		<b>3,322,000</b>	<b>805,333,333</b>	<b>22.0%</b>

Source: AusCann Management

- 6.26 We note that, under the terms of the agreement proposed with Canopy, Canopy will receive 460,658,336 TWH shares representing an interest of 12.5% in TWH.
- 6.27 Also, Mr Harry Karelis and Dr Stewart Washer will each receive 64,587,273 TWH shares as payment for services rendered. These shares are in addition to any other shares Mr Karelis and Dr Washer will receive as part of the Proposed Transaction.

## 7. Valuation Approach

### Valuation methodologies

- 7.1 In assessing the fair value of an ordinary TWH share prior to and immediately following the Proposed Transactions, we have considered a range of valuation methodologies. RG 111 proposes that it is generally appropriate for an expert to consider using the following methodologies:
- the discounted cash flow (“DCF”) method and the estimated realisable value of any surplus assets;
  - the application of earnings multiples to the estimated future maintainable earnings or cash flows added to the estimated realisable value of any surplus assets;
  - the amount which would be available for distribution on an orderly realisation of assets;
  - the quoted price for listed securities; and
  - any recent genuine offers received.
- 7.2 We consider that the valuation methodologies proposed by RG 111 can be split into three valuation methodology categories, as follows.

### *Market based methods*

- 7.3 Market based methods estimate the fair value by considering the market value of a company’s securities or the market value of comparable companies. Market based methods include;
- The quoted price for listed securities; and
  - Industry specific methods.
- 7.4 The recent quoted price for listed securities method provides evidence of the fair market value of a company’s securities where they are publicly traded in an informed and liquid market.
- 7.5 Industry specific methods usually involve the use of industry rules of thumb to estimate the fair market value of a company and its securities. Generally rules of thumb provide less persuasive evidence of the fair market value of a company than other market based valuation methods because they may not account for company specific risks and factors.

### *Income based*

- 7.6 Income based methods estimate value by calculating the present value of a company’s estimated future stream of earnings or cash flows. Income based methods include:
- Capitalisation of maintainable earnings; and
  - Discounted cash flow methods.
- 7.7 The capitalisation of earnings methodology is generally considered a short form DCF, where an estimation of the Future Maintainable Earnings (“FME”) of the business, rather than a stream of cash flows is capitalised based on an appropriate capitalisation multiple. Multiples are derived from the analysis of transactions involving comparable companies and the trading multiples of comparable companies.
- 7.8 The DCF technique has a strong theoretical basis, valuing a business on the net present value of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value or the terminal value of the company’s cash flows at the end of the forecast

period. This method of valuation is appropriate when valuing companies where future cash flow projections can be made with a reasonable degree of confidence.

### ***Asset based methods***

- 7.9 Asset based methodologies estimate the fair value of a company's securities based on the realisable value of its identifiable net assets. Asset based methods include:
- orderly realisation of assets method;
  - liquidation of assets method; and
  - net assets on a going concern basis.
- 7.10 The value achievable in an orderly realisation of assets is estimated by determining the net realisable value of the assets of a company which would be distributed to security holders after payment of all liabilities, including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. This technique is particularly appropriate for businesses with relatively high asset values compared to earnings and cash flows.
- 7.11 The liquidation of assets method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a shorter time frame.
- 7.12 The net assets on a going concern method estimates the market values of the net assets of a company but unlike the orderly realisation of assets method it does not take into account realisation costs. Asset based methods are appropriate when companies are not profitable, a significant proportion of the company's assets are liquid, or for asset holding companies.

### **Selection of Valuation Methodologies**

#### ***Valuation of a TWH share pre the Proposed Transaction (control basis)***

- 7.13 In assessing the value of a TWH share prior to the Proposed Transaction we have utilised the net assets on a going concern methodology.
- 7.14 We have also utilised the quoted market price methodology as a secondary valuation method.
- 7.15 Our valuation methodologies were selected on the following basis:
- TWH does not have any trading assets and does not generate a profit. As such, the most appropriate basis of valuation is the book value of asset and liabilities.
  - TWH's shares are listed on the ASX which means there is a regulated and observable market for its shares. However, consideration must be paid to adequate liquidity and activity in order to rely on the quoted market price method;
  - In our opinion, the DCF methodology cannot be used as future revenue and expenses cannot be forecast with sufficient reasonable basis to meet the requirements of RG111; and
  - The FME methodology is not appropriate as TWH does not have a history of profits.

***Valuation of a TWH share post the Proposed Transaction (non-control basis)***

7.16 In assessing the value of TWH post the Proposed Transaction, we have used the pre Proposed Transaction value and included the impact of the Proposed Transaction assuming it proceeds. In particular, we have made the following adjustments:

- Eliminated any value attributable to the shell company status of TWH;
- Included the value of AusCann's assets and liabilities at face value;
- Calculated a value for AusCann's operations by using the comparable transaction methodology;
- Included the cash raised as a result of the capital raising that is a condition of the Proposed Transaction;
- Included any dilution from the issue of shares; and
- Included specific costs associated with the Proposed Transaction.

7.17 We have then assessed the value of a TWH share post the Proposed Transaction on a non-controlling basis by adjusting for minority discount.

7.18 Our valuation methodologies adopted for valuing AusCann were selected on the following basis:

- It is reasonable to value assets and liabilities at carrying value where these assets have been recently purchased; and
- The market value of IP can be implied from comparable company market values where stages of development might be similar and there is a liquid market of companies holding IP.

## 8. Valuation of TWH Prior to the Proposed Transaction

- 8.1 As stated at paragraph 7.13 we have assessed the value of a TWH share prior to the Proposed Transaction on a net assets on a going concern basis and have also considered the quoted price of its listed securities. In both valuations, we have included a premium for control.

### Sum of parts valuation

- 8.2 We have assessed the value of a TWH share on a control basis to be between \$0.001 and \$0.003 per share, prior to the Proposed Transaction, based on the sum of parts valuation methodology, as summarised in the table below.

**Table 11 Assessed fair value of a TWH Share – sum of parts basis**

	Ref.	30-Jun-16 \$	Low \$	High \$
<b>Assets and liabilities</b>				
Cash	0	370,270	370,270	370,270
Other assets and liabilities		(50,323)	(50,323)	(50,323)
			<b>319,947</b>	<b>319,947</b>
<b>Other value items</b>				
Value of the Company as a listed shell	8.5		500,000	1,000,000
Fee paid to AusCann	8.6		-	250,000
<b>Sum of parts value of TWH</b>			<b>819,947</b>	<b>1,569,947</b>
Actual number of shares on issue			602,362,410	602,362,410
<b>Value per share (undiluted)</b>			<b>\$0.001</b>	<b>\$0.003</b>

Source: RSM analysis

- 8.3 Our assessment has been based on the audited net assets of TWH as at 30 June 2016 of approximately \$0.3 million as per the Company's financial statements. We have been advised that, except for adjustments noted below and normal operating costs, there has been no significant change in the net assets of TWH since 30 June 2016.
- 8.4 In order to calculate a current market value of TWH's shares, we have made a number of adjustments to the carrying values of net assets included in the Statement of Financial Position. These adjustments are set out below.

### Value of a listed shell

- 8.5 In considering the value of the listed shell we have considered comparable dormant listed companies and concluded that the value of a shell is between \$0.5 million and \$1 million.

### Value of fee

- 8.6 TWH paid a \$250,000 fee to AusCann for the option to acquire the company. The fee is only refundable if the Proposed Transaction does not complete due to inaction by AusCann. In order to show the impact on the value of a TWH share given the possibility that the fee could be repaid, we have added the fee to our high valuation but have assumed the fee is not repaid in our low valuation.

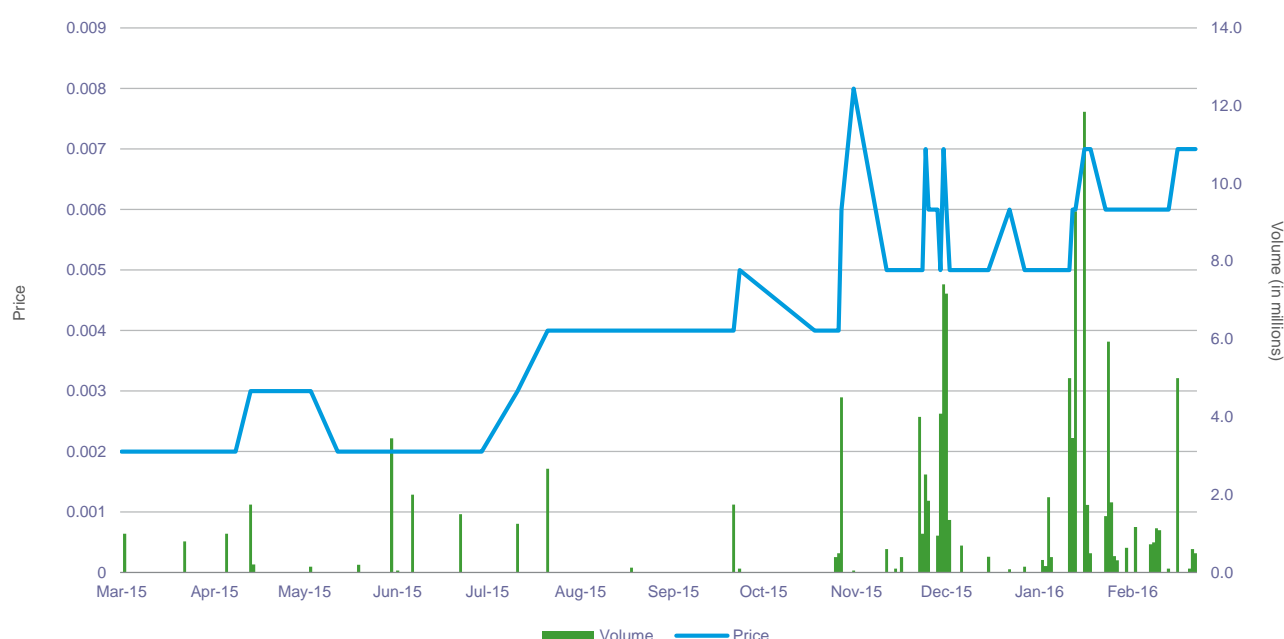
## Quoted Price of Listed Securities (secondary method)

8.7 In order to provide a comparison and cross check to our sum of parts valuation of TWH, we have considered the recent quoted market price for TWH's shares on the ASX prior to the announcement of the Proposed Transaction.

### Analysis of recent trading in TWH shares

8.8 The figure below sets out a summary of TWH's closing share price and volume of TWH shares traded in the 12 months to 16 March 2016, the date prior to the announcement of the Proposed Transaction. The assessment only reflects trading prior to the announcement of the Proposed Transaction in order to avoid the influence of any movement in price that may have occurred as a result of the announcement.

**Figure 3 TWH share price volume graph**



Source: S&P Capital IQ

8.9 Over the trading period prior to the announcement of the Proposed Transaction, TWH shares have traded at a high of \$0.008 and a low of \$0.002. Trade volumes peaked at 11.8 million on 1 February 2016, which followed an announcement on the 27 January 2016 that Mr Peterson had increased his interest in the Company.

8.10 Up to December 2015, trading volumes were very low and sporadic. Since December 2015, trading volumes have increased but trading remained sporadic. There were no announcements during this period to explain the increase in trading, although it may be related to an increase in shares on issue following an underwritten non-renounceable rights issue that closed on 16 December 2015 which resulted in the issue of 172.1 million shares.

- 8.11 To provide further analysis of the quoted market prices for TWH's shares, we have considered the VWAP over a number of trading day periods ending 16 March 2016. An analysis of the volume in trading in TWH's shares for the 1, 10, 30, 60, 90, 180 and 360 day trading periods is set out in the table below.

**Table 12 Traded volumes of TWH shares**

	1 Day	5 Day	10 Day	30 Day	60 Day	90 Day	120 Day	180 Day
<b>VWAP</b>	-	-	0.007	0.006	0.006	0.006	0.006	0.006
<b>Total Volume (000's)</b>	-	-	6,200	21,771	59,124	94,659	96,503	102,053
<b>Total Volume as a % of Total Shares</b>	0.0%	0.0%	1.0%	3.6%	9.8%	15.7%	16.0%	16.9%
<b>Low Price</b>	-	-	0.006	0.005	0.005	0.004	0.004	0.002
<b>High Price</b>	-	-	0.007	0.007	0.007	0.008	0.008	0.008

Source: S&P Capital IQ

- 8.12 The table above indicates low volume and low liquidity in TWH shares, with only 3.6% of total shares traded over 30 trading days prior to the announcement of the Proposed Transaction (although we note that the shares were prevented from trading for four days prior to the announcement). This is reflective of a relatively illiquid stock.

#### ***Value of a TWH Share on a non-control minority basis***

- 8.13 We have selected the range of prices over the last 30 trading days to 16 March 2016 to be reflective of the value of a TWH share on a non-control minority basis. Therefore, in our opinion, a range of between \$0.005 and \$0.007 reflects the quoted market price valuation of a TWH share on a minority basis prior to the Proposed Transaction.

#### ***Control valuation of a TWH share***

- 8.14 Our valuation of a TWH share on the basis of the recent quoted market price including a premium for control is between approximately \$0.006 and \$0.009, as summarised in the table below.

**Table 13 Assessed value of a TWH share – Quoted Price of Listed Securities**

	Ref.	Low	High
Value on a minority interest basis	8.13	\$0.005	\$0.007
Add premium for control	8.16	25%	35%
<b>Quoted market price controlling value</b>		<b>\$0.006</b>	<b>\$0.009</b>

Source: RSM analysis

#### ***Key assumptions***

##### ***Control Premium***

- 8.15 The value derived at paragraph 8.14 is indicative of the value of a marketable parcel of shares assuming the shareholder does not have control of TWH. RG 111.11 states that when considering the value of a company's shares the expert should consider a premium for control.
- 8.16 In selecting a control premium we have given consideration to the RSM 2013 Control Premium Study and recent updates. The study performed an analysis of control premiums paid over a 7-year period to 31 December 2012 in 345 successful takeovers and schemes of arrangements of companies listed on the ASX. Our study concluded that, on average, control premiums in takeovers and schemes of arrangements involving Australian companies in the mining and metals sectors was in the range of 25% to 35%. In valuing an ordinary

TWH Share prior to the Proposed Transaction using the quoted price of listed securities methodology we have reflected a premium for control in the range of 25% to 35%.

## Valuation summary and conclusion

- 8.17 A summary of our assessed values of an ordinary TWH share on a control basis pre the Proposed Transaction, derived under the two methodologies, is set out in the table below.

**Table 14 TWH Share valuation summary**

	Ref.	Low	High
Sum of parts	8.2	\$0.001	\$0.003
Quoted market value	8.14	\$0.006	\$0.009
<b>Preferred valuation</b>		<b>\$0.002</b>	<b>\$0.003</b>

Source: RSM analysis

- 8.18 In our opinion, we consider that the sum of parts valuation methodology provides a better indicator of the fair value of a TWH share as we consider our analysis of the trading of TWH's shares prior to the announcement of the Proposed Transaction indicates that the market for TWH's shares is not deep enough to provide an assessment of their fair value via the quoted market price methodology.
- 8.19 Therefore, in our opinion, the fair value of a TWH share prior to the Proposed Transaction is between \$0.001 and \$0.003 on a controlling basis.

## 9. Valuation of TWH Following the Proposed Transaction

- 9.1 We summarise our valuation of a TWH share subsequent to the Proposed Transaction on a sum of parts basis and incorporating the net assets on a going concern in the table below.

**Table 15 Assessed value of TWH post the Proposed Transaction**

	Ref:	Low Value \$	High Value \$
Net assets of TWH pre Proposed Transaction	8.2	319,947	319,947
Capital Raising	9.4	2,650,000	2,650,000
Value of AusCann	9.6	9,656,250	13,905,000
<b>Undiluted value of TWH</b>		<b>12,626,197</b>	<b>16,874,947</b>
Number of shares on issue pre Proposed Transaction	5.8	602,362,410	602,362,410
Shares issued pursuant to the Capital Raising	9.4	300,000,000	300,000,000
Advisor shares	9.5	290,424,561	290,424,561
Shares issued to AusCann shareholders	3.1	2,934,183,791	2,934,183,791
<b>Total shares after Proposed Transaction</b>		<b>4,126,970,762</b>	<b>4,126,970,762</b>
Post-consolidation value per share		0.003	0.004
Discount for minority interest	9.34	(0.001)	(0.001)
<b>Minority value per share (undiluted)</b>		<b>0.002</b>	<b>0.003</b>

Source: RSM analysis

- 9.2 We consider that the minority value of a TWH share post the Proposed Transaction is between \$0.002 and \$0.003 on a post-consolidation, undiluted basis.
- 9.3 We have adjusted the net asset value and shares on issue of TWH for the following.

### Capital Raising

- 9.4 We have included the condition precedent capital raising that requires TWH to raise at least \$3 million (before costs). We have deducted costs of \$350,000 for the capital raising and transaction costs. We have assumed the capital raising will be undertaken at \$0.01 on a pre-consolidated basis, which will result in the issue of 300 million shares.

### Advisor Shares

- 9.5 Non-Associated Shareholders must approve the issue of 290,424,561 TWH shares to advisors in order for the Proposed Transaction to be approved.

### Value of AusCann

- 9.6 We have calculated the value for AusCann under a number of scenarios. A summary of these values is set out below:

**Table 16 Summary of values for AusCann**

	Ref.	Low	High
Net asset value	9.9 - 0	\$2,875,006	\$2,875,006
Comparable transaction value	9.12 - 9.29	\$4,685,890	\$18,515,890
Prior share issue value	9.30 - 9.33	\$9,656,250	\$13,905,000
<b>Preferred valuation</b>	<b>9.7</b>	<b>\$9,656,250</b>	<b>\$13,905,000</b>

Source: RSM analysis

- 9.7 Given the early stage of development of the medicinal cannabis market in Australia, our valuation methodologies have resulted in a wide range of values. When selecting our preferred valuations, we have narrowed the range of values based on our opinion of the strength of each valuation methodology and how it applies to AusCann. We have based our value on the historic transactions in AusCann shares based on previous capital raisings. This is a direct indication of the value placed on AusCann by investors and captures the potential upside to AusCann's involvement in a new and potentially growing market. As such, our preferred range of values is between \$9.7 million and \$13.9 million.
- 9.8 Details of the values calculated under each methodology are set out below.

**Methodology 1: Net asset value of AusCann**

- 9.9 We have assessed the value of AusCann on a net assets on a going concern basis as summarised in the table below.

**Table 17 Net asset value of AusCann**

	Ref:	Low Value \$	High Value \$
Cash		2,960,890	2,960,890
Trade and other receivables		16,638	16,638
Property, plant and equipment		363	363
Trade and other payables	9.11	(102,885)	(102,885)
<b>Equity value</b>		<b>2,875,006</b>	<b>2,875,006</b>

Source: RSM analysis

- 9.10 Our assessment of the value of other assets and liabilities has been based on the audited net assets of AusCann as at 30 June 2016.
- 9.11 We adjusted the trade and other payables balance for the option fee of \$250,000 paid by TWH because, on the assumption that the Proposed Transaction completes, this amount will not be repayable.

**Methodology 2: Comparable transaction value of AusCann**

- 9.12 We have considered the comparable transaction valuation methodology as a secondary method for valuing AusCann. In order to assess comparable transactions, we have considered the purchase of controlling interests in comparable companies and have also considered minority interest trading in comparable companies on recognised stock exchanges.
- 9.13 The process that we have followed to identify broadly comparable companies for our valuation includes the following steps:
- Identify companies operating in the medicinal cannabis market;
  - Shortlist the companies cultivating cannabis plants, undertaking research and/or developing cannabinoid-based medicines having regard to:
    - Nature of operations – we generally considered only those companies at early stage research and/or development of cannabis based pharmaceutical products for medicinal purposes; and
    - Sales – we generally considered only companies with sales that were low or \$nil as this is indicative of early stage medicinal cannabis companies that are in the development phase and have not yet commenced large scale market penetration.
  - For control transactions, calculate the enterprise value of the underlying business that has been acquired;

- For minority interest transactions, calculate the enterprise value of these companies in AUD based on recent minority shareholder transactions; and
- Extrapolate the value of AusCann from the broadly comparable companies having regard to a number of company specific factors in relation to AusCann.

9.14 Details of the comparable companies and transactions are included at Appendix D to this report.

#### *Control Transactions*

9.15 The table below summarises recent transactions involving the acquisition of controlling interests in companies with exposure to medicinal cannabis:

**Table 18 Comparable control transactions**

Target Name	Acquirer	Announcement Date	Value of Upfront Consideration	Type of Upfront Consideration	Conditional Consideration	Implied Enterprise Value Based on Upfront Consideration
Phytotech Medical Limited	N/A	02/12/2014	\$5,000,000	Cash	25,000,000 shares	\$3,000,000
MMJ Bioscience Inc	Phytotech Medical Limited	24/03/2015	\$15,555,000	Cash/Scrip	17,000,000 shares	\$15,555,000
MGC Global Limited	Erin Resources Limited	17/05/2015	\$1,725,000	Cash/Scrip	200,000,000 shares	\$1,725,000
Zelda Therapeutics Inc	Gleneagle Mining Limited	09/12/2015	\$13,050,000	Cash/Scrip		\$13,050,000
<b>Min</b>						<b>1,725,000</b>
<b>Median</b>						<b>8,025,000</b>
<b>Average</b>						<b>8,332,500</b>
<b>Max</b>						<b>15,555,000</b>

Source: S&P Capital IQ

- 9.16 The table above indicates four significant transactions have taken place on the ASX since December 2014. We note that the Zelda Therapeutics Pty Ltd transaction has been approved by shareholders but the company is yet to be readmitted to the ASX.
- 9.17 The first transaction in the table (Phytotech Medical Limited) was an Initial Public Offering (“IPO”) that valued the enterprise of the company at \$3 million based on the IPO price. Although this was not a transaction where a single buyer obtained control, we note that the IPO resulted in new shareholders holding 62.5% of Phytotech Medical Limited.
- 9.18 The table above indicates a range of values between \$1.7 million and \$15.6 million. AusCann’s operations are less developed than those of the companies in the table above and its business model relies on contracted rights to products and intellectual property, rather than direct ownership. As such, in our opinion, recent controlling transactions indicate that the value of AusCann would be at the lower end of the range.

### Minority Interest Transactions

- 9.19 The table below is a summary of the comparable minority interest transactions as they relate to trading of shares on public exchanges. The values of the comparable companies is implied from the values of the most recent minority interest trades in those companies as at 26 April 2016.

**Table 19 Comparable minority interest transactions**

Company	Country	Net debt/(cash) A\$M	Market Cap A\$M	Enterprise value A\$M
MMJ Phytotech Limited	Australia	(2.5)	40.3	37.9
Cannabis Science, Inc.	United States	2.2	35.5	37.7
Acacia Diversified Holdings, Inc.	United States	(0.1)	31.5	31.5
MGC Pharmaceuticals	Australia	(6.8)	37.7	30.9
Nemus Bioscience Inc.	United States	(1.1)	13.0	11.9
Abattis Bioceuticals Corp.	Canada	(0.0)	9.0	9.0
Peak Pharmaceuticals, Inc.	United States	(0.1)	2.6	2.5
OWC Pharmaceutical Research Corp.	Israel	(0.1)	0.5	0.4
<b>Min</b>		<b>(6.8)</b>	<b>0.5</b>	<b>0.4</b>
<b>Median</b>		<b>(0.1)</b>	<b>22.3</b>	<b>21.4</b>
<b>Average</b>		<b>(1.1)</b>	<b>21.3</b>	<b>20.2</b>
<b>Max</b>		<b>2.2</b>	<b>40.3</b>	<b>37.9</b>

Source: S&P Capital IQ

- 9.20 We note the average enterprise value is A\$20.2 million and the median is A\$21.4 million.
- 9.21 On consideration of the comparable companies in relation to AusCann, we consider the enterprise value of AusCann to be at the lower end of comparable companies due to the early stage of its business model, restrictions to the Australian/Asia Pacific market and its reliance on contractual arrangements rather than direct ownership of intellectual property.
- 9.22 Given the greater value placed on the two Australian comparable companies and recent and expected future changes to the industry, we consider the average and median enterprise values of the comparable companies to be reflective of the upper enterprise value of the business. This upper value is a reflection of the potential gains that could be had as the industry is legalised in Australia and market participants gain access to an undeveloped and potentially growing market.
- 9.23 It appears increasingly likely that the global legalisation of the commercial use of medicinal cannabis will occur. As such, there is likely to be speculative value in early stage market participants. This speculative value is based on expectation that at least one market participant will build a viable business within the marketplace. We highlight that, although relevant to AusCann, speculative value can change materially as markets and companies progress because there is no underlying support for such value.
- 9.24 In our opinion, the minority interest value of AusCann based on comparable transactions in listed companies is between \$0.4 million and \$20.2 million.
- 9.25 The enterprise values of the comparable companies in Table 19 above are based on the market values of the companies and are therefore minority values. In order to assess the controlling value of AusCann, we must add a premium for control.
- 9.26 As set out in paragraph 8.16 above, we have reflected a premium for control in the range of 25% to 35%. This results in a controlling value of AusCann of between \$0.5 million and \$27.3 million.

### Summary of Comparable Transactions

9.27 A summary of the comparable transaction values are set out below:

**Table 20 Summary of comparable transactions**

	Ref	Low Value A\$	High Value A\$
Control transactions	9.15 - 9.18	1,725,000	15,555,000
Minority interest transactions (adjusted for controlling interest)	9.19 - 9.26	549,287	27,294,318
<b>Preferred enterprise value</b>	<b>9.28</b>	<b>1,725,000</b>	<b>15,555,000</b>
Plus cash held by AusCann		2,960,890	2,960,890
<b>Equity value</b>		<b>4,685,890</b>	<b>18,515,890</b>

Source: S&P Capital IQ

- 9.28 The table above indicates a range of enterprise values between \$0.5 million and \$27.3 million. Given the early stage of AusCann's development and lack of direct ownership of assets, we believe that the enterprise value of AusCann should be in the lower ranges of the values calculated. As such, we have relied on the lower value ranges of between \$1.7 million and \$15.6 million.
- 9.29 In order to calculate the value of the equity in AusCann, we have adjusted the enterprise value by cash held by AusCann. This results in an equity value of between \$4.7 million and \$18.5 million for AusCann.

### **Methodology 3: Prior purchases of shares in AusCann**

- 9.30 When considering the value of AusCann, we have also considered recent capital raisings undertaken by AusCann. We note that there have been two capital raisings undertaken by AusCann since its inception, as detailed below:
- The first capital raising was an equity placement of \$835,000 undertaken at \$5,000 per share.
  - The second capital raising was a convertible note issue of \$3.3 million with an equity conversion price of a 75% discount to the most recent capital raising.
- 9.31 The terms of the convertible notes only permit the redemption of the notes in certain circumstances which related mostly to administration of the company. As such, we consider the issue of the convertible notes to be reflective of an equity issue. Given the price of the capital raising prior to the issue of the convertible notes was \$5,000, the implied value that convertible noteholders will pay for shares in AusCann is 75% of \$5,000, or \$3,750.

- 9.32 In order to estimate the value of AusCann based on previous capital raisings, we have applied the values per share paid by investors by the diluted issued capital of AusCann. This is set out in the table below:

**Table 21 Summary of prior shares issues by AusCann**

	Value per share A\$	Diluted number of shares on issue	Value of equity in AusCann A\$	Value of equity in AusCann (control) A\$
First equity raising	5000	2,060	10,300,000	13,905,000
Convertible note issue	3750	2,060	7,725,000	9,656,250

Source: RSM analysis

- 9.33 Based on the table above, the range of values for AusCann is between \$7.7 million and \$10.3 million. We have applied a control premium (25% for the low and 35% for the high) to the values above, which results in a value of between \$9.7 million and \$13.9 million.

### Minority interest discount

- 9.34 In selecting a minority discount we have given consideration to our control premium applied in Paragraph 8.16 (and also applied when valuing a controlling interest in AusCann), where we established a range for a control premium of between 25% and 35%. The resulting corresponding minority discount range based on said control premiums is between 20% and 26%.

### Performance Shares and Options

- 9.35 We have not considered the Performance Shares of the exercise of the options in our valuation of a TWH share post the Proposed Transaction because there is too much uncertainty surrounding the likelihood of the Performance Shares and options being either converted or exercised.

## 10. Is the Proposed Transaction Fair to TWH Shareholders?

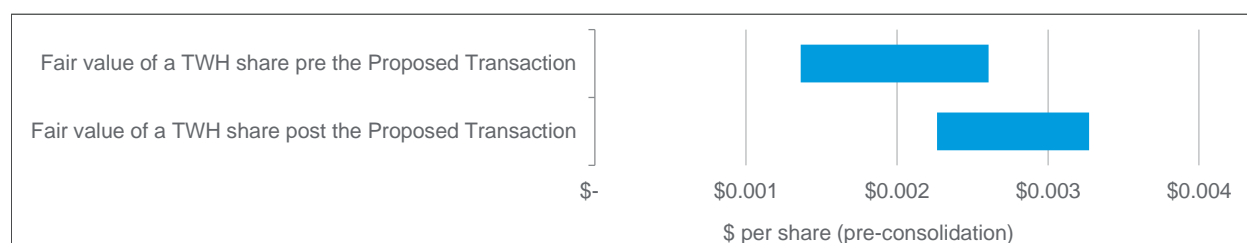
- 10.1 Our assessed values of a TWH share prior to and immediately after the Proposed Transaction, are summarised in the table and figure below.

**Table 22 Assessed values of a TWH share pre and post the Proposed Transaction**

Assessment of fairness	Ref:	Value per Share	
		Low	High
Fair value of a TWH share pre the Proposed Transaction - Control basis	8	\$0.0014	\$0.0026
Fair value of a TWH share post the Proposed Transaction - Non control basis	9	\$0.0023	\$0.0033

Source: RSM analysis

**Figure 4 TWH Share valuation graphical representation**



Source: RSM analysis

- 10.2 In accordance with the guidance set out in ASIC RG 111, and in the absence of any other relevant information, for the purposes of ASX Listing Rule 10.1, we consider the Proposed Transaction to be fair to the Non-Associated Shareholders of TWH, as the range of values of a TWH share pre the Proposed Transaction is less than the range of values of a TWH share post the Proposed Transaction.

## 11. Is the Proposed Transaction Reasonable?

11.1 RG111 establishes that an offer is reasonable if it is fair. If an offer is not fair it may still be reasonable after considering the specific circumstances applicable to the offer. In our assessment of the reasonableness of the Proposed Transaction, we have given consideration to:

- The future prospects of TWH if the Proposed Transaction does not proceed; and
- Other commercial advantages and disadvantages to the Non-Associated Shareholders as a consequence of the Proposed Transaction proceeding.

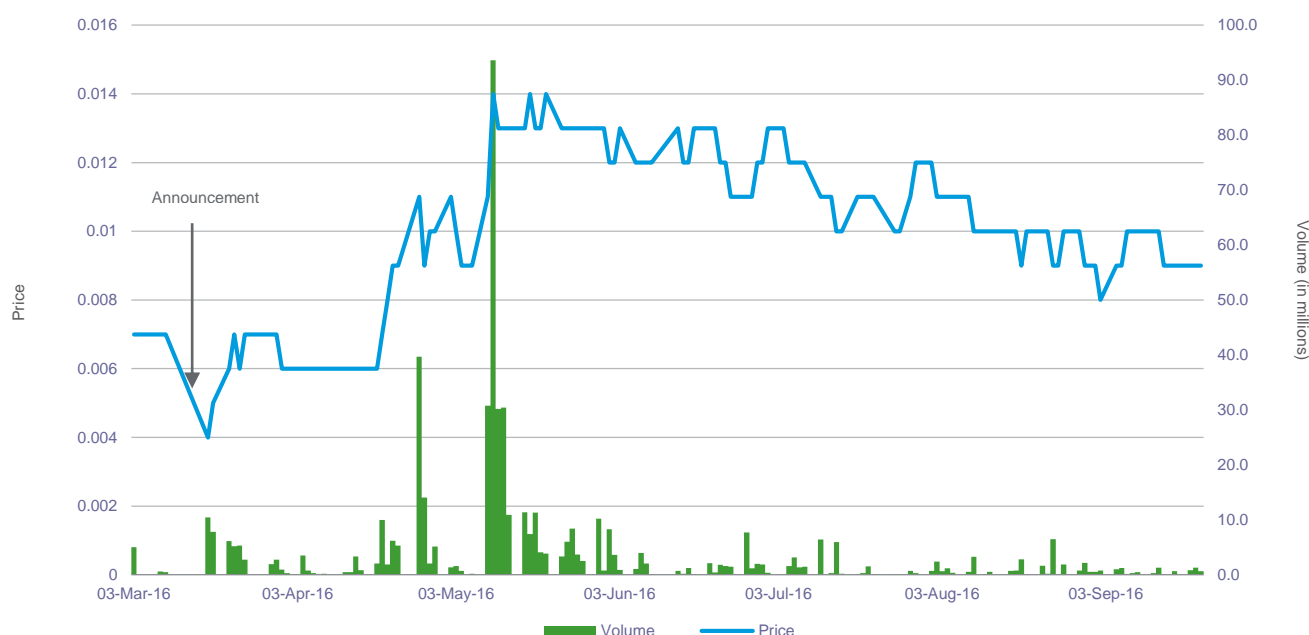
### Future prospects of TWH if the Proposed Transaction does not proceed

11.2 If Shareholders do not approve the Proposed Transaction, then TWH will forfeit the \$250,000 option fee. TWH will continue to seek alternative assets for acquisition.

### Trading in TWH shares following the announcement of the Proposed Transaction

11.3 As demonstrated in the chart below, there was a moderate or negative response to the announcement of the Proposed Transaction.

**Figure 5 TWH post announcement share price/volume chart**



Source: S&P Capital IQ/ ASX

11.4 The chart above shows that the TWH share price initially declined following the announcement of the Proposed Transaction. More recent trading in TWH shares has resulted in an increase in share price from \$0.006 to \$0.009. The current share price of TWH of \$0.009 is a 29% premium to the close price before the announcement of the Proposed Transaction.

### Advantages and disadvantages

11.5 In assessing whether the Non-Associated Shareholders are likely to be better off if the Proposed Transaction proceed than if they do not, we have also considered various advantages and disadvantages that are likely to accrue to the Non-Associated Shareholders.

## Advantages of approving the Proposed Transaction

### *Advantage 1 – The Proposed Transaction is fair*

- 11.6 RG 111 states that a transaction is reasonable if it is fair.

### *Advantage 2 – The Company will be exposed to a new, growing industry*

- 11.7 The legalisation of medicinal cannabis is a new and ongoing process throughout the World. In Australia, there is still a large number of hurdles that must be overcome before a commercial industry can be established. However, being an early mover in a new industry can mean that a company creates a position of strength and value as there is minimal competition and late industry participants cannot demonstrate the same experiences.
- 11.8 Shareholders will gain exposure to this industry and the potential upside from being an early mover.

### *Advantage 3 – AusCann Directors will add relevant experience, skills and networks to the Company*

- 11.9 The AusCann directors have experience in industries and politics that appear extremely relevant to the operations of a company seeking to gain market share of a new, politically and regulatory sensitive industry. In our opinion, there is an advantage in having access to the contacts that come with the directors of AusCann and also being able to market the expertise of certain directors of AusCann (for example the Mick Palmer AO as a previous Australian Federal Police Commissioner).
- 11.10 These advantages are supported by the recent decision by the Victorian Government to set up an Office of Medicinal Cannabis to oversee the manufacture of medicinal cannabis. The Victorian Government will also undertake a small scale, strictly controlled trial of cultivating cannabis.

### *Advantage 4 – Increase liquidity in its shares*

- 11.11 The Proposed Transaction may encourage new investors in the Company which may lead to increased liquidity of Shares and greater trading depth than currently experienced by Shareholders.

## Disadvantages of approving the Proposed Transaction

### *Disadvantage 1 – Change in nature and scale of activities*

- 11.12 The Company will be changing the nature and scale of its activities to become a company focussed on producing medicinal cannabis and distributing medicinal cannabis products. This may not be consistent with the objectives of all Shareholders.

### *Disadvantage 2 – Dilution on Non-Associated Shareholders*

- 11.13 The Proposed Transaction will result in the issue of 3,223 million shares to AusCann shareholders, AusCann convertible noteholders and advisors plus an additional 300 million shares issued under a new capital raising. This will result in the dilution of current shareholders' interests in TWH from 100% to 15%. If the 630 million performance shares issued to AusCann shareholders, noteholders and advisors are exercised then current TWH shareholders' interests will be diluted to 13%.

## Alternative Proposal

- 11.14 We are not aware of any alternative proposal at the current time which might offer the Non-Associated Shareholders of TWH a greater benefit than the Proposed Transaction.

## Conclusion on Reasonableness

- 11.15 In our opinion, the position of the Non-Associated Shareholders if the Proposed Transaction is approved is more advantageous than the position if it is not approved. Therefore, in the absence of any other relevant information and/or a superior offer, we consider that the Proposed Transaction is reasonable for the Non-Associated Shareholders of TWH.
- 11.16 An individual shareholder's decision in relation to the Proposed Transaction may be influenced by his or her individual circumstances. If in doubt, shareholders should consult an independent advisor.

Yours faithfully

**RSM CORPORATE AUSTRALIA PTY LTD**

A handwritten signature in black ink that reads "Andrew Gilmour".

**A GILMOUR**

Director

A handwritten signature in blue ink that reads "G Yates".

**G YATES**

Director



## APPENDICES

## A. DECLARATIONS AND DISCLAIMERS

### Declarations and Disclosures

RSM Corporate Australia Pty Ltd holds Australian Financial Services Licence 255847 issued by ASIC pursuant to which they are licensed to prepare reports for the purpose of advising clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate reconstructions or share issues.

### Qualifications

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board.

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia Pty Ltd (RSM) a large national firm of chartered accountants and business advisors.

Mr. Andrew Gilmour and Mr Glyn Yates are directors of RSM Corporate Australia Pty Ltd. Both Mr Gilmour and Mr Yates are Chartered Accountants with extensive experience in the field of corporate valuations and the provision of independent expert's reports for transactions involving publicly listed and unlisted companies in Australia.

### Reliance on this Report

This report has been prepared solely for the purpose of assisting Shareholders of the Company in considering the Security. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose.

### Reliance on Information

Statements and opinions contained in this report are given in good faith. In the preparation of this report, we have relied upon information provided by the Directors and management of TW Holdings Limited and we have no reason to believe that this information was inaccurate, misleading or incomplete. RSM Corporate Australia Pty Ltd does not imply, nor should it be construed that it has carried out any form of audit or verification on the information and records supplied to us.

The opinion of RSM Corporate Australia Pty Ltd is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

In addition, we have considered publicly available information which we believe to be reliable. We have not, however, sought to independently verify any of the publicly available information which we have utilised for the purposes of this report.

We assume no responsibility or liability for any loss suffered by any party as a result of our reliance on information supplied to us.

### Disclosure of Interest

At the date of this report, none of RSM Corporate Australia Pty Ltd, RSM, Andrew Gilmour, Glyn Yates, nor any other member, director, partner or employee of RSM Corporate Australia Pty Ltd and RSM has any interest in the outcome of the Proposed Transaction, except that RSM Corporate Australia Pty Ltd are expected to receive a fee of \$15,000 based on time occupied at normal professional rates for the preparation of this report. The fees are payable regardless of whether TW Holdings Limited receives Shareholder approval for the Proposed Transaction, or otherwise.

### Consents

RSM Corporate Australia Pty Ltd consents to the inclusion of this report in the form and context in which it is included with the Notice of Extraordinary General Meeting and Explanatory Memorandum to be issued to Shareholders. Other than this report, none of RSM Corporate Australia Pty Ltd or RSM Australia Pty Ltd or has been involved in the preparation of the Notice of Extraordinary General Meeting and Explanatory Memorandum. Accordingly, we take no responsibility for the content of the Notice of General Meeting and Explanatory Statement.

## B. SOURCES OF INFORMATION

In preparing this Report we have relied upon the following principal sources of information:

- Drafts and final copies of the Notice of Meeting;
- Audited financial statements for TWH for the years ended 30 June 2014, 30 June 2015 and 30 June 2016;
- Financial statements of AusCann for the year ended 30 June 2016;
- Term sheet between AusCann and TWH;
- ASX announcements of TWH;
- S&P Capital IQ database; and
- Discussions with Directors, Management and staff of TWH.

## C. GLOSSARY OF TERMS

Term or Abbreviation	Definition
\$	Australian Dollar
Act	Corporations Act 2001 (Cth)
APES	Accounting Professional & Ethical Standards Board
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Aunt Zelda's	Caziwell Inc
AusCann	AusCann Group Holdings Limited
CAGR	Compound annual growth rate
Cannapharm	CannaPharm Rx Corp
Canopy	Canopy Growth Corporation
Capital Raising	Issue of shares in TWH to raise a minimum of \$3 million before costs
Company	TWH
Connect 4	An entity of Thompson Reuters which is an aggregator of ASX listed company announcements and disclosures
Consolidation	Consolidation of TWH share capital on a 1 for 20 basis
Control basis	As assessment of the fair value on an equity interest, which assumes the holder or holders have control of entity in which the equity is held
CPS	CPS Capital Group Pty Ltd
DCF	A method within the income approach whereby the present value of future expected net cash flows is calculated using a discount rate
Directors	Directors of TWH
EBIT	Earnings, Before, Interest and Tax
EBITDA	Earnings, Before, Interest, Tax, Depreciation and Amortisation
Equity	The owner's interest in property after deduction of all liabilities
EV	Enterprise Value, meaning, the total value of the equity in a business plus the value of its debt or debt-related liabilities, minus any cash or cash equivalents available to meet those liabilities
Fair Value	The amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer, both acting at arm's length
FME	Future Maintainable Earnings
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FY##	Financial year ended 30 June
Hidden Garden	Hidden Garden Sustainable Farms Ltd
IER	This Independent Expert Report
IPO	Initial Public Offering
Non Associated Shareholders	Shareholders who are not a party, or associated to a party, to the Proposed Transaction
Non control basis	As assessment of the fair value on an equity interest, which assumes the holder or holders do not have control of entity in which the equity is held
Notice	The notice of meeting to vote on the Proposed Transaction
NPBT	Net Profit Before Tax

<b>NPAT</b>	Net Profit After Tax
<b>Pathways</b>	Pathways Corporate Pty Ltd
<b>Phytoplant</b>	Phytoplant Research SL
<b>Proposed Transaction</b>	It has the meaning given to the term in paragraph 1.2 of this Report
<b>Regulations</b>	Corporations Act Regulations 2001 (Cth)
<b>Report</b>	This Independent Experts Report prepared by RSM dated 22 July 2016
<b>RG 111</b>	ASIC Regulatory Guide 111 Contents of Expert's Reports
<b>RSM</b>	RSM Corporate Australia Pty Ltd
<b>S&amp;P Capital IQ</b>	An entity of Standard and Poors which is a third party provider of company and other financial information
<b>TWH</b>	TW Holdings Limited
<b>VWAP</b>	Volume weighted average share price

## D. COMPARABLE COMPANIES

Table 23

Company	Net debt A\$M	Market Cap A\$M	Enterprise value A\$M
MMJ Phytotech Limited	(2.5)	40.3	37.9
Cannabis Science, Inc.	2.2	35.5	37.7
Acacia Diversified Holdings, Inc.	(0.1)	31.5	31.5
MGC Pharmaceuticals	(6.8)	37.7	30.9
Nemus Bioscience Inc.	(1.1)	13.0	11.9
Abattis Bioceuticals Corp.	(0.0)	9.0	9.0
Peak Pharmaceuticals, Inc.	(0.1)	2.6	2.5
OWC Pharmaceutical Research Corp.	(0.1)	0.5	0.4
<b>Min</b>	<b>(6.8)</b>	<b>0.5</b>	<b>0.4</b>
<b>Median</b>	<b>(0.1)</b>	<b>22.3</b>	<b>21.4</b>
<b>Average</b>	<b>(1.1)</b>	<b>21.3</b>	<b>20.2</b>
<b>Max</b>	<b>2.2</b>	<b>40.3</b>	<b>37.9</b>

Source: S&P Capital IQ

Table 24 Comparable company business description

Company Name	Business Description
MMJ Phytotech Limited	MMJ PhytoTech Limited focuses on the development and commercialization of medical grade cannabis and cannabis based therapeutics products in Australia and internationally. It develops Sativol, a proprietary gastro-resistant cannabidiol pill for use as a dietary supplement; capsule based vaporisers; oral capsules to treat pain and spasticity of multiple sclerosis; and inner cheek patch that comprises active cannabinoid ingredients for providing continuous delivery of THC and CBD for 4-6 hours. The company was formerly known as PhytoTech Medical Limited and changed its name to MMJ Phytotech Limited in June 2015. MMJ Phytotech Limited was incorporated in 2014 and is based in Nedlands, Australia.
MGC Pharmaceuticals	MGC Pharmaceuticals Ltd operates as a medical and cosmetic cannabis company. The company was formerly known as Erin Resources Limited and changed its name to MGC Pharmaceuticals Limited in December 2015. MGC Pharmaceuticals Limited is based in Perth, Australia.
Acacia Diversified Holdings, Inc.	Acacia Diversified Holdings, Inc. focuses in the extraction and processing of high-CBD/low-THC content medical grade cannabis oils from medical hemp plants in the United States. It also intends to engage in the research and development activities, as well as retail and wholesale distribution of medical cannabis products and dietary supplements. The company was formerly known as Acacia Automotive, Inc. and changed its name to Acacia Diversified Holdings, Inc. in October 2012. Acacia Diversified Holdings, Inc. was incorporated in 1984 and is based in Clearwater, Florida.
Cannabis Science, Inc.	Cannabis Science, Inc. develops, produces, and commercializes phytocannabinoid-based pharmaceutical products. It develops medicines to treat autism, blood pressure, cancer, and cancer side effects, as well as other illnesses, including general health maintenance. The company is developing CS-TATI-1 for newly diagnosed and treatment-experienced patients with drug-resistant HIV strains, as well as for those intolerant of available therapies; CS-S/BCC-1 for basal and squamous cell carcinomas; and a proprietary cannabis-based therapy for neurological conditions. In addition, it provides an online video-based medical cannabis education system comprising various courses, such as medical cannabis law, medical marijuana, cooking, horticulture, and bud tending. The company has a license agreement with Apothecary Genetics Investments LLC. to produce various brand formulations for California medical cannabis market. It also has collaboration with IGXBio, Inc. to develop GenePro, a DNA-based immunotherapeutic drug. Cannabis Science, Inc. is based in Colorado Springs, Colorado.

Nemus Bioscience Inc.	Nemus Bioscience, Inc., a biopharmaceutical company, focuses on the discovery, development, and commercialization of therapeutics based on naturally-derived or synthetically manufactured cannabis compounds. It is developing therapeutic products for the treatment of glaucoma and other optic nerve-related disorders, conditions associated with muscle spasticity, anxiety, epilepsy, and methicillin-resistant staphylococcus aureus. The company was founded in 2012 and is headquartered in Costa Mesa, California.
OWC Pharmaceutical Research Corp.	OWC Pharmaceutical Research Corp. engages in the research and development of Cannabis-based medical products. The company provides medical products for the treatment of various medical conditions and/or diseases, such as multiple myeloma, psoriasis, PTSD, and migraines; and delivery systems. It is also involved in the development, manufacture, and sale of electronic percussion devices that provide electromagnetic percussion hammer. The company, formerly known as Dynamic Applications Corp., was founded in 2008 and is based in Petach Tikva, Israel.
Abattis Bioceuticals Corp.	Abattis Bioceuticals Corp., a biotechnology company, produces, licenses, and markets proprietary ingredients and formulas for use in biopharma, nutraceutical, cosmetic, and animal nutrition markets. The company supports the production and extraction of botanical ingredients for various products, including cannabis; and focuses on offering medical marijuana and specialized health products. It is also involved in the research and marketing activities in the areas of botanical and natural health products. The company was formerly known as Abattis Biologix Corporation and changed its name to Abattis Bioceuticals Corp. in September 2012. Abattis Bioceuticals Corp. was incorporated 1997 and is headquartered in Vancouver, Canada.
Peak Pharmaceuticals, Inc.	Peak Pharmaceuticals, Inc., a bio-pharmaceutical and nutraceutical company, engages in the development, manufacture, marketing, and sale of medicinal products based on extracts from hemp in the United States. It is involved in the development of over-the-counter, tetrahydrocannabinol-free, hemp based products for human market for the prevention and alleviation of symptoms associated with inflammatory and auto-immune diseases. The company was formerly known as Cannabis Therapy Corporation and changed its name to Peak Pharmaceuticals, Inc. in December 2014. Peak Pharmaceuticals, Inc. was incorporated in 2007 and is based in Denver, Colorado.

Source: S&P Capital IQ

## E. ESSENTIAL RESOLUTIONS

### Resolution 1 – Approval for change to nature and scale of activities

To consider and, if thought fit, pass with or without amendment the following resolution as an ordinary resolution:

*That, subject to the Essential Resolutions being passed, for the purposes of Listing Rule 11.1.2, and for all other purposes, approval is given for the Company to make a significant change to the nature and scale of its activities as set out in the Explanatory Statement to the Notice in respect of the General Meeting at which this resolution is passed.*

### Resolution 2 - Consolidation

To consider and, if thought fit, pass with or without amendment the following resolution as an ordinary resolution:

*That, subject to the Essential Resolutions being passed, for the purposes of section 254H of the Corporations Act and the Constitution, and for all other purposes, approval be and is hereby given for the Shares in the Company to be consolidated on a 20:1 basis, with any fractional entitlements being rounded down, such consolidation to occur as soon as practicable following Completion as defined in the Notice and to occur in respect of all existing Shares as well as all Securities to be issued as contemplated in that Notice where those Securities are described as pre-Consolidation.*

### Resolution 3 - Approval for a new class of securities

To consider and, if thought fit, pass the following resolution as a special resolution:

*That, subject to the Essential Resolutions being passed, for the purposes of section 246B of the Corporations Act, rule 5 of the Constitution, and for all other purposes, with effect from Completion, the Company is authorised to issue Performance Shares on the terms and conditions set out in the Explanatory Statement.*

### Resolution 4 - Approval for issue of consideration securities

To consider and, if thought fit, pass with or without amendment the following resolution as an ordinary resolution:

*That, subject to the Essential Resolutions being passed, for the purposes of Listing Rule 7.1, and for all other purposes, approval is given for the Company to issue:*

*957,718,474 Ordinary Shares and 184,287,904 Performance Shares (each on a pre-Consolidation basis) to the SPA Vendors; and*

*153,552,779 Canopy Options (on a pre-Consolidation basis) to Canopy or its nominee,*

*on the terms set out in the Explanatory Statement.*

### Resolution 5 – Approval for the issue of Advisor Shares

To consider and, if thought fit, pass with or without amendment the following resolution as an ordinary resolution:

*That, subject to the Essential Resolutions being passed, for the purposes of Listing Rule 7.1, and for all other purposes, approval is given for the Company to issue 290,424,561 Ordinary Shares and 55,884,621 Performance Shares (each on a pre-Consolidation basis) to the Advisors (or their respective nominees) on the terms set out in the Explanatory Statement.*

### Resolution 6 – Approval for the issue of options to Mr David Wheeler

To consider and, if thought fit, pass with or without amendment the following resolution as an ordinary resolution:

*That, subject to the Essential Resolutions being passed, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 1,000,000 Director Options (on a pre-Consolidation basis) to Mr David Wheeler or his nominee on the terms set out in the Explanatory Statement.*

### Resolution 7 – Approval for the issue of options to Mr Nicholas Calder

To consider and, if thought fit, pass with or without amendment the following resolution as an ordinary resolution:

*That, subject to the Essential Resolutions being passed, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 1,000,000 Director Options (on a pre-Consolidation basis) to Mr Nicholas Calder or his nominee on the terms set out in the Explanatory Statement.*

## **Resolution 8 – Approval for the issue of options to Mr Simon Taylor**

To consider and, if thought fit, pass with or without amendment the following resolution as an ordinary resolution:

*That, subject to the Essential Resolutions being passed, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 1,000,000 Director Options (on a pre-Consolidation basis) to Mr Simon Taylor or his nominee on the terms set out in the Explanatory Statement.*

## **Resolution 9 – Acquisition of a substantial asset**

To consider and, if thought fit, pass with or without amendment the following resolution as an ordinary resolution:

*That, subject to the Essential Resolutions being passed, for the purposes of Listing Rule 10.1, and for all other purposes, approval is given for the Company to acquire AusCann Shares from Vendors who are related parties of the Company or who are substantial holders (within the meaning in the Listing Rules) in, the Company on the terms set out in the Explanatory Statement.*

## **Resolution 10 – Approval for the issue of Shares under the Public Offer**

To consider and, if thought fit, pass with or without amendment the following resolution as an ordinary resolution:

*That, subject to the Essential Resolutions being passed, for the purposes of Listing Rule 7.1, and for all other purposes, approval is given for the Company to issue up to a maximum of 500,000,000 Shares (on a pre-Consolidation basis), on the terms and conditions set out in the Explanatory Statement.*

## **Resolution 13 – Appointment of Dr Mal Washer as a Director**

To consider and, if thought fit, pass with or without amendment the following resolution as an ordinary resolution:

*That, subject to the Essential Resolutions being passed, for the purposes of rule 61 of the Constitution, and for all other purposes, with effect from Completion, Dr Malcolm James Washer be appointed as a Director, on and from Completion as defined in the Notice of the General Meeting at which this resolution is passed.*

## **Resolution 14 – Appointment of Ms Elaine Darby as a Director**

To consider and, if thought fit, pass with or without amendment the following resolution as an ordinary resolution:

*That, subject to the Essential Resolutions being passed, for the purposes of rule 61 of the Constitution, and for all other purposes, with effect from Completion, Ms Elaine Lucy Darby be appointed as a Director.*

## **Resolution 15 – Appointment of Mr Harry Karelis as a Director**

To consider and, if thought fit, pass with or without amendment the following resolution as an ordinary resolution:

*That, subject to the Essential Resolutions being passed, for the purposes of rule 61 of the Constitution, and for all other purposes, with effect from Completion, Mr Harry Karelis be appointed as a Director.*

## **Resolution 16 – Appointment of Mr Bruce McHarrie as a Director**

To consider and, if thought fit, pass with or without amendment the following resolution as an ordinary resolution:

*That, subject to the Essential Resolutions being passed, for the purposes of rule 61 of the Constitution, and for all other purposes, with effect from Completion, Mr Bruce McHarrie be appointed as a Director.*

## **Resolution 17 – Appointment of Hon Cheryl Edwardes as a Director**

To consider and, if thought fit, pass with or without amendment the following resolution as an ordinary resolution:

*That, subject to the Essential Resolutions being passed, for the purposes of rule 61 of the Constitution, and for all other purposes, with effect from Completion, Hon Cheryl Edwardes be appointed as a Director.*

## **Resolution 18 – Appointment of Mr Bruce Linton as a Director**

To consider and, if thought fit, pass with or without amendment the following resolution as an ordinary resolution:

*That, subject to the Essential Resolutions being passed, for the purposes of rule 61 of the Constitution, and for all other purposes, with effect from Completion, Mr Bruce Linton be appointed as a Director.*

## **Resolution 19 – Change of Company's name**

To consider and, if thought fit, pass the following resolution as a special resolution:

*That, subject to the Essential Resolutions being passed, and conditional upon the name below becoming available, for the purposes of section 157(1) of the Corporations Act, and for all other purposes, the Company change its name from "TW Holdings Limited" to "AusCann Group Holdings Ltd".*

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