



## **TARGET'S STATEMENT**

in response to the offer by TW Holdings Limited (ACN 008 095 207)

**AusCann Group Holdings Limited ACN 601 953 860**

The directors of AusCann  
unanimously recommend that you

**ACCEPT**

the Offer in the absence of a Superior Proposal

The Independent Expert has concluded that the Offer is  
**FAIR AND REASONABLE** for AusCann Shareholders

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.  
IF YOU ARE IN ANY DOUBT ABOUT HOW TO DEAL WITH THIS DOCUMENT, YOU SHOULD CONSULT YOUR  
FINANCIAL OR OTHER PROFESSIONAL ADVISER AS SOON AS POSSIBLE.

## **Important Notices**

### **Nature of this document**

This document is a Target's Statement issued by AusCann Group Holdings Limited (ACN 601 953 860) (**AusCann**) under Part 6.5 of Division 3 of the Corporations Act. This Target's Statement is given in response to the off-market takeover bid made by TW Holdings Limited (ACN 008 095 207) (**TWH**) for all the shares in AusCann.

### **ASIC disclaimer**

A copy of this Target's Statement has been lodged with ASIC. ASIC takes no responsibility for the contents of this Target's Statement.

### **Consolidation**

On 31 October 2016 TWH shareholders approved the consolidation of TWH securities on a basis of 20 for 1 (**Consolidation**). This will affect the Offer Consideration, which will be consolidated proportionately to the Consolidation, under the Offer. The TWH Directors currently intend to implement the Consolidation prior to completion of the Offer, but only if:

- (a) all conditions to the Offer (other than the Consolidation) are satisfied or waived; and
- (b) the TWH Directors are of the view that all conditions to re-listing on ASX can be satisfied.

Unless stated otherwise, all references to securities of TWH as set out in this Target Statement are on a pre-Consolidation basis.

### **Definitions and interpretation**

A number of defined terms are used in this Target's Statement. These terms are explained in section 13 of this Target's Statement. The rules of interpretation that apply to this Target's Statement are also set out in section 13 of this Target's Statement. In addition, unless the contrary intention appears or the context requires otherwise, words and phrases used in this Target's Statement and defined in the Corporations Act have the same meaning and interpretation as in the Corporations Act.

### **Investment decisions**

Nothing in this Target's Statement constitutes investment, legal, tax or other advice. This Target's Statement does not take into account your individual objectives, financial situation or particular needs. It does not contain personal advice. You should seek your own independent legal, financial and taxation advice before deciding whether to accept or reject the Offer.

### **Forward looking statements**

Some of the statements appearing in this Target's Statement may be in the nature of forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to AusCann and the industry in which AusCann operates as well as general economic conditions, conditions in the financial markets, exchange rates and interest rates and regulatory changes, many of which are outside the control of AusCann and its Board. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement.

None of AusCann, AusCann's officers and employees, any persons named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement, makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward looking statement. The forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

### **TWH information in this Target's Statement**

Except where disclosed otherwise in this Target's Statement, the information on TWH contained in this Target's Statement has been prepared by AusCann using publicly available information including the Bidder's Statement, which has not been independently verified by AusCann. Accordingly AusCann does not, subject to the Corporations Act, make any representation or warranty, expressed or implied, as to the accuracy or completeness of such information.

**Maps, diagrams and rounding**

Any diagrams, charts, maps, graphs and tables appearing in this Target's Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available at the date of this Target's Statement. In addition, any numerical information may not add up due to rounding.

**Notice to foreign shareholders**

The release, publication or distribution of this Target's Statement may, in some jurisdictions, be restricted by law or regulation and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations. This Target's Statement has been prepared in accordance with Australian law and the information contained in the Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with the laws and regulations outside of Australia.

**Privacy**

AusCann has collected your information from the AusCann register of shareholders for the purpose of providing you with this Target's Statement. The type of information AusCann has collected about you includes your name, contact details and information on your holding of AusCann Shares. Without this information, AusCann would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the name and address of shareholders to be held in a public register. Your information may be disclosed on a confidential basis to AusCann's related bodies corporate and external service providers (such as the share registry of AusCann and print and mail service providers) and may be required to be disclosed to regulators such as ASIC.

**Date of this document**

This document is dated 8 November 2016.

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## Important Dates

|  |                                 |
|--|---------------------------------|
| Announcement Date                                | 29 September 2016               |
| Date of the Bidder's Statement                   | 31 October 2016                 |
| Commencement of Offer Period                     | 7 November 2016                 |
| Date of this Target's Statement                  | 8 November 2016                 |
| Close of Offer<br>(unless extended or withdrawn) | 5:00pm (WST) 7 December<br>2016 |

## Further information

Any questions regarding this Target's Statement should be directed to the AusCann Company Secretary, Ms Susan Hunter by email at [info@auscann.com.au](mailto:info@auscann.com.au).



8 November 2016

Dear fellow AusCann Shareholder,

On 17 March 2016 TW Holdings Limited (**TWH**) announced its intention to acquire 100% of the issued capital of AusCann Group Holdings Limited (**AusCann**). On 29 September 2016, TWH announced that it proposed an off-market takeover offer for all of the issued shares in AusCann (the **Offer**).

Under the Offer, AusCann Shareholders are being offered:

- (a) one (1) TWH Share; and
- (b) approximately 0.1924 Performance Share,

for each AusCann Share held. A copy of the Bidder's Statement setting out the detailed terms of the Offer accompanies this Target's Statement.

**Your directors unanimously recommend that you ACCEPT the Offer, in the absence of a Superior Proposal.**

Each of your directors intends to accept the Offer in respect of the AusCann Shares they and their associates hold, in the absence of a Superior Proposal. The AusCann Shares which are held by the directors and their associates represent approximately 36.2% in aggregate of all AusCann Shares.

The reasons for your directors' unanimous recommendation include:

1. **The Offer Consideration is fair and reasonable based on the valuation range of the AusCann Shares, as assessed by the Independent Expert for AusCann.**
2. **You will receive attractive value for your AusCann Shares.**
3. **The Merged Entity will benefit from a strengthened financial position to develop AusCann's ongoing research, testing, clinical trials and medicinal cannabis product development with improved access to future development capital.**
4. **You will gain ASX share trading liquidity.**
5. **No Superior Proposal has emerged.**
6. **There are risks in not accepting the offer.**

Your directors wish to also draw your attention to the conclusion of the Independent Expert Report prepared by HLB Mann Judd (**Independent Expert**), in relation to the Offer. The Independent Expert concluded that the implied value of the Offer is in the range of \$0.0020 to \$0.0022, with a preferred value of \$0.0021 per AusCann Share as at the date of the Report, which is both fair and reasonable to AusCann Shareholders.

This Target's Statement, which I encourage you to read in its entirety, sets out your directors' formal response to the Offer and contains their recommendation, the reasons for that recommendation and other important information you should consider in deciding whether to accept the Offer.

If you are in any doubt as to whether to accept the Offer, you should seek your own independent professional advice. If you have any queries in relation to the Offer, please contact AusCann by email at [info@auscann.com.au](mailto:info@auscann.com.au).

Yours faithfully

A handwritten signature in black ink, appearing to read "Dr Malcolm Washer".

Dr Malcolm Washer  
Chairman

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## **1. HOW TO ACCEPT THE OFFER**

You may only accept the Offer in respect of all (and not a lesser number) of your AusCann Shares.

You may accept the Offer at any time during the Offer Period.

To accept the Offer for AusCann Shares held in your name on AusCann's register, you must:

- (a) complete and sign the Acceptance Form in accordance with the instructions on the Acceptance Form; and
- (b) ensure that the Acceptance Form (including any documents required by the terms of this Offer and the instructions on the Acceptance Form) is received before the end of the Offer Period, at the address or email address shown on the Acceptance Form.

In accordance with the ASX Listing Rules you may also need to complete, sign and return an ASX Restriction Agreement that TWH will send you. Further information in relation to the ASX Restriction Agreement is set out in section 10.11 of the Bidder's Statement.

The postage and transmission of the Acceptance Form and other documents is at your own risk.

For any further information on acceptance of the Offer, including who may accept, please refer to the Offer itself which forms Annexure A to the Bidder's Statement.

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## **2. DIRECTORS' RECOMMENDATION**

### **2.1 Summary of Offer**

TWH is offering AusCann Shareholders:

- (a) one (1) TWH Share; and
- (b) approximately 0.1924 Performance Share,

as consideration for every one AusCann Share that they hold.

The Offer is subject to the Bid Conditions. Those conditions are summarised in section 8.3 of this Target's Statement and set out in full in Annexure A of the Bidder's Statement.

### **2.2 Directors of AusCann**

As at the date of this Target's Statement, the directors of AusCann are:

- (a) Dr Malcolm Washer – Chairman;
- (b) Ms Elaine Darby – Managing Director;
- (c) Mr Harry Karelis – Executive Director;
- (d) Hon Cheryl Edwardes – Non-executive Director;
- (e) Mr Bruce McHarrie – Non-executive Director; and
- (f) Mr Bruce Linton – Non-executive Director.

### **2.3 Directors' recommendations**

Your directors unanimously recommend that you accept the Offer (in the absence of a Superior Proposal) for the reasons set out in section 3 of this Target's Statement.

In considering whether to accept the Offer, your directors encourage you to:

- (a) read this Target's Statement (including the contents of the Independent Expert's Report in Annexure A) and the Bidder's Statement in their entirety;
- (b) consider the alternatives noted in section 10 of this Target's Statement;
- (c) refer to section 8.8 of this Target's Statement for information regarding the effect of acceptance of the Offer;
- (d) have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances; and
- (e) obtain independent professional advice in relation to the Offer.

### **2.4 Intentions of your directors in relation to the Offer**

Each of your directors intends to accept the Offer in respect of all AusCann Shares that they, or any associate, hold, in the absence of a Superior Proposal.

The AusCann Shares which are held by your directors and their associates, represent approximately 36.2%, in aggregate, of all of the AusCann Shares on issue as at the date of this Target's Statement.

### **2.5 The Independent Expert's opinion is that the Offer is fair and reasonable**

Your directors appointed HLB Mann Judd as Independent Expert to prepare an independent assessment of the Offer. The Independent Expert has concluded that the Offer is FAIR and REASONABLE to AusCann Shareholders. The Independent Expert has assessed:

- (a) the fair market value of an AusCann Share on a controlling interest basis for the purpose of the report is in the range of \$0.00089 to \$0.00098, with a preferred value of \$0.00098 per share; and
- (b) the implied value of the Offer Consideration is in the range of \$0.0020 to \$0.0022, with a preferred value of \$0.0021 per AusCann Share,

as at the date of the Report. A copy of the Independent Expert's Report is contained in Appendix A to this Target's Statement. It is recommended that you read the Independent Expert's Report in full prior to accepting the Offer.

### 3. WHY YOU SHOULD ACCEPT THE OFFER

- (a) You will receive **attractive value** for your AusCann Shares.
- (b) The Independent Expert has concluded that the Offer is **fair and reasonable**.
- (c) The Merged Group will benefit from a **strengthened financial position** to develop AusCann's ongoing research and medicinal cannabis product development with **improved access to future development capital**.
- (d) You will gain ASX **share trading liquidity**.
- (e) The **AusCann Board unanimously recommends** that you accept the Offer.
- (f) **No Superior Proposal** has emerged.
- (g) There are **risks in not accepting** the Offer.

**Your directors unanimously recommend that you ACCEPT the Offer in the absence of a Superior Proposal**

In deciding to recommend the Offer, your directors have had regard to each of the matters in this Target's Statement (including the Independent Expert's Report at Annexure A) and the Bidder's Statement. A more detailed overview of the principal reasons for your directors' recommendation to accept the Offer in the absence of a Superior Proposal follows.

#### 3.1 You will receive attractive value for your AusCann Shares

The implied value of the Offer (excluding the value of TWH Shares issued upon conversion of the Performance Shares) is \$0.009 per AusCann Share based on TWH's closing share price on 28 September 2016 (being the last day TWH Shares traded on the ASX prior to the Announcement Date) of \$0.009. The implied value of the TWH Shares that may be issued upon conversion of the Performance Shares in the event the Performance Milestone is satisfied is a further \$0.00173 per AusCann Share based on the same TWH share price assumption. The value of the Offer may change as a consequence of changes in the market price of TWH Shares.

#### 3.2 The Independent Expert has concluded the Offer is fair and reasonable

Your directors appointed HLB Mann Judd the Independent Expert to prepare an independent assessment of the Offer. The Independent Expert has concluded that the Offer is **FAIR AND REASONABLE** to AusCann Shareholders.

***The Offer is fair***

The Independent Expert has assessed the fair market value of AusCann Shares on a controlling interest basis to be in the range of \$0.00089 to \$0.00098 per AusCann Share, with a preferred value of \$0.00098 per AusCann Share.

The Independent Expert has assessed the fair market value of the Offer as in the range of \$0.0020 to \$0.0022, with a preferred value of \$0.0021 per AusCann Share.

On the basis that the assessed value of the consideration being offered under the Offer is above the Independent Expert's valuation range for an AusCann Share on a controlling interest basis, the Independent Expert has concluded that the Offer is **fair**.

***The Offer is reasonable***

The Independent Expert has concluded that the Offer is reasonable on the basis that it is fair, and also for the following reasons:

- (a) AusCann Shareholders will become shareholders in a company with cash reserves to develop AusCann's research, testing, clinical trials and medicinal cannabis products. The funds raised under the Public Offer, together with TWH's current funds and AusCann's funds, will provide the merged entity with significant funds to progress these initiatives;
- (b) TWH is listed on ASX. As a result, AusCann Shareholders will gain the ability to trade the TWH Shares they will receive as Offer consideration, should the Offer be successful (subject to any trading restrictions that ASX may impose);

- (c) The Board, in the absence of a superior proposal, unanimously recommends that AusCann Shareholders accept the Offer. Each of the directors have also indicated that they intend to accept the Offer in respect of all AusCann Shares they control. As the directors hold a significant portion of AusCann Shares, acceptance of the Offer by the directors will assist in TWH achieving the minimum acceptance of 90% of all AusCann Shares which in turn will trigger the other advantages of the Offer;
- (d) The Board has not received any alternative proposal to the Offer; and
- (e) In addition to AusCann Shareholders receiving one TWH Share for each AusCann Share they hold, they will also receive approximately 0.1924 Performance Shares for every one AusCann Share held. Whilst the Independent Expert did not ascribe a value to this portion of the Offer Consideration due to the Performance Milestone being based on future events, should the Performance Milestone be achieved, AusCann Shareholders will receive additional TWH Shares as consideration.

The Independent Expert also considered the following disadvantages to the Offer:

- (a) AusCann Shareholders who accept the Offer will continue to be exposed to the risks associated with an investment in AusCann;
- (b) the TWH Shares issued as part consideration under the Offer will be subject to fluctuations in value due to the vagaries of the stock market;
- (c) under the Offer, TWH will issue a significant number of new TWH Shares. As a result, AusCann Shareholders who intend to dispose of their TWH Shares may find that the value of their TWH Shares has decreased; and
- (d) upon completion of the Offer and the Public Offer, AusCann Shareholders will retain 71.1% of the Merged Entity (if the minimum amount of \$3 million is raised under the Public Offer) and 67.8% of the Merged Entity (if the maximum amount of \$5 million is raised under the Public Offer). There is also a risk of future dilution as a result of future capital raisings required in order to fund the development of the business.

In considering that above advantages and disadvantages, the Independent Expert concluded that on balance, the advantages outweigh the disadvantages and therefore if the Offer is accepted, the position of non-associated AusCann Shareholders would be more advantageous than if the Offer is not accepted.

Your directors believe the Independent Expert's conclusions support the view that the Offer represents attractive value for AusCann Shareholders.

The above summary of the key conclusions and opinion of the Independent Expert should be read in conjunction with the Independent Expert's Report, which is contained in Annexure A to this Target's Statement.

### **3.3 You will become a shareholder in a company with cash reserves to develop AusCann's research, testing, clinical trials, medicinal cannabis products and improved access to capital**

As at 30 June 2016, TWH had a cash, and a cash equivalents, balance of approximately \$370,270 and under the Public Offer is seeking to raise a minimum of \$3 million and up to \$5 million to support the Merged Entity's strategy to build upon AusCann's research, testing, clinical trials and medicinal cannabis product development. AusCann currently has insufficient funds to fully develop its ongoing activities.

By accepting the Offer, should TWH be successful, you will become a shareholder of a company with an enhanced balance sheet and improved access to capital for funding given its ASX listing.

### **3.4 You will gain ASX share trading liquidity**

Since TWH is listed on the ASX is offering to issue TWH Shares as part consideration for your AusCann Shares, you will, if you accept the Offer, gain the ability to trade, on ASX, the TWH Shares (and TWH Shares issued on conversion of the Performance Shares) that you receive as Offer Consideration, should the Offer be successful (subject to trading restrictions imposed by ASX that may apply to some or all of your TWH Shares).

### **3.5 The AusCann Board unanimously recommends that you accept the Offer**

The AusCann Board, in the absence of a Superior Proposal, unanimously recommends that AusCann Shareholders accept the Offer.

Each of the directors of the AusCann Board have also indicated that they intend to accept the Offer in respect of all AusCann Shares they, or any associate, control, in the absence of any Superior Proposal.

### **3.6 No Superior Proposal has emerged to date**

The proposed Offer was announced to the market on 29 September 2016. As at the date of this Target's Statement, no Superior Proposal, or Competing Proposal, has emerged.

In the event that the AusCann Board does receive a competing Proposal and determines that the Competing Proposal is a Superior Proposal, TWH has a right to be notified of Competing Proposal and a right to match any Superior Proposal.

Further information on other alternatives to the Offer is contained in section 10 of this Target's Statement.

### **3.7 TWH has an interest in 32.6% of the voting AusCann Shares on issue**

As at the Announcement Date, AusCann Shareholders holding 32.6% of the AusCann Shares have entered into Pre-existing Sale Agreements with TWH, pursuant to which those AusCann Shareholders have agreed to sell their AusCann Shares to TWH. Under the terms of the Pre-existing Sale Agreements, the relevant AusCann Shareholder will receive the same consideration that is offered to AusCann Shareholders under the Offer.

Further details on the Pre-existing Sale Agreements are set out in section 10.3 of the Bidder's Statement.

### **3.8 The management skills of the Merged Entity's directors will allow AusCann's activities to be developed to provide shareholder value**

If the Offer is successful, the board of directors of the Merged Entity will comprise current AusCann directors Dr Malcolm Washer, Ms Elaine Darby, Mr Harry Karelis, Hon Cheryl Edwardes, Mr Bruce Linton and Mr Bruce McHarrie. The current directors of TWH will resign upon completion of the Offer.

Together, these directors have significant expertise and skills in research, testing, clinical trials, medicinal cannabis product development and public company management, to oversee the development of AusCann's activities.

### **3.9 There are risks in not accepting the Offer**

If you do not accept the Offer and the Offer is unsuccessful and no other offer for AusCann emerges, there is a risk that the AusCann Shares would be unattractive to investors and AusCann would be unable to raise further capital. In this instance, there is a possibility that the Company may struggle to continue as a going concern.

If you do not accept the Offer and TWH waives the minimum acceptance condition set out in section 8.3(c) of this Target's Statement and closes the Offer before it receives acceptances resulting in it being entitled to at least 90% of all AusCann Shares, then you would remain a minority AusCann Shareholder. The possible implications of being a minority shareholder following closure of the Offer are:

- (a) the perceived value of AusCann Shares may be significantly reduced.
- (b) the liquidity of AusCann Shares may be minimal.

For further information on the implications of TWH acquiring less than 90% (being the threshold in which a compulsory acquisition would be made) of all AusCann Shares, refer to section 9.4 of this Target's Statement and sections 7.4 and 7.5 of the Bidder's Statement.

#### 4. FREQUENTLY ASKED QUESTIONS

This section answers some commonly asked questions about the Offer. It is not intended to address all relevant issues for AusCann Shareholders. This section should be read together with all other parts of this Target's Statement.

| Question  | Answer  | Further Information  |
|---|---|--|
| 1. What is the Offer for my AusCann Shares?   | TWH has made an offer of:<br>(a) one (1) TWH Share; and<br>(b) approximately 0.1924 Performance Share,<br>for every one AusCann Share held by you.<br>The Offer is subject to the satisfaction or waiver of the Bid Conditions.   | Sections 8.2 and 8.3 of this Target's Statement.                                   |
| 2. What choices do I have as an AusCann Shareholder?  | As an AusCann Shareholder, you have the following choices in respect of your AusCann Shares:<br>(a) accept the Offer;<br>(b) sell your AusCann Shares (unless you have previously accepted the Offer and you have not validly withdrawn your acceptance); or<br>(c) do nothing.<br>There are implications in relation to each of the above choices. | Section 10 of this Target's Statement.   |
| 3. What is the Board recommending?  | Your directors unanimously recommend that you accept the Offer, in the absence of a Superior Proposal.  | Section 2 of this Target's Statement.  |
| 4. What does the Independent Expert say?  | The Independent Expert has concluded that the Offer is <b>FAIR AND REASONABLE</b> to AusCann Shareholders.  | The Independent Expert's Report accompanies this Target's Statement as Annexure A. |
| 5. Why is the Board recommending that I accept the Offer (in the absence of a Superior Proposal)? | Section 3 of this Target's Statement sets out the reasons why your directors are recommending you accept the Offer, in the absence of a Superior Proposal.<br>However, you are encouraged to read this Target's Statement (including the Independent Expert's Report), together with the Bidder's Statement in its entirety.                        | Section 3 of this Target's Statement.  |
| 6. What do the directors of AusCann intend to do with any AusCann Shares that they hold?          | Each of your directors has advised that they intend to accept the Offer in respect of all AusCann Shares that they, or their associates, hold, in the absence of a Superior Proposal.   | Section 2.4 of this Target's Statement.  |
| 7. How do I accept the Offer?   | Details of how to accept the Offer are set out in section 1 of this Target's Statement.   | Section 1 of this Target's Statement.  |
| 8. What happens if TWH increases the Offer Consideration?   | If TWH increases the Offer Consideration, you will obtain the benefit of that higher consideration even if you have already   | Section 8.11 of this Target's Statement.   |

| Question                        | Answer  | Further Information   |
|---------------------------------|---|---|
|                                 | accepted the Offer.   |   |
| 9. What are the Bid Conditions? | <p>The Offer is subject to the Bid Conditions, which include:</p> <ul style="list-style-type: none"> <li>(a) approval of the Essential Resolutions;</li> <li>(b) TWH raising at least \$3 million (before costs) pursuant to the Public Offer;</li> <li>(c) TWH having a Relevant Interest in at least 90% of the AusCann Shares on issue by the end of the Offer Period;</li> <li>(d) TWH receiving conditional approval from ASX to have its securities reinstated to trading and those conditions being satisfied to the reasonable satisfaction of TWH and AusCann;</li> <li>(e) completion occurring under the Pre-existing Sale Agreements;</li> <li>(f) Canopy accepting the offer under the Option Purchase Agreement in relation to its AusCann Options;</li> <li>(g) TWH receiving necessary regulatory approvals or consents required by law to permit the acquisition of AusCann;</li> <li>(h) no regulatory action being taken or withdrawn between the Announcement Date and the end of the Offer Period in consequence of or in connection with the Offer;</li> <li>(i) no AusCann Material Adverse Change between the Announcement Date and the end of the Offer Period;</li> <li>(j) each AusCann Shareholder entering into such form of restriction agreement, as required by ASX;</li> <li>(k) between the Announcement Date and the end of the Offer Period, no litigation against AusCann which may reasonably result in a judgment of \$100,000 or more is commence, threatened to be commenced, is announced or made known to TWH or AusCann, other than that which is in the public domain as at Announcement Date;</li> <li>(l) between the Announcement Date</li> </ul> | Section 8.3 of this Target's Statement and section 8 of Annexure A of the Bidder's Statement. |

| Question | Answer   | Further Information                     |
|----------|--|---|
|          | <p>and the end of the Offer Period, AusCann promptly, and in any event within 2 Business Days, providing to the Company all information that is not generally available 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, officer, agents or representatives to any person other than TWH, other than in the ordinary course of ordinary business, for the purposes of soliciting, encouraging or facilitating any proposal with respect to:</p> <ul style="list-style-type: none"> <li>i. a takeover bid for, or scheme of arrangement proposed by, AusCann, under the Corporations Act;</li> <li>ii. the acquisition by that person or an Associate of substantially all the assets and operation of AusCann; or</li> <li>iii. any transaction having a similar economic effect.</li> </ul> <p>(m) between the Announcement Date and the date 3 Business Days after the end of the Offer Period, no Prescribed Occurrence occurs; and</p> <p>(n) between the Announcement Date and the end of the Offer Period , 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).</p> |   |
| 10.      | <p>What are the consequences of accepting the Offer now?</p> <p>If you accept the Offer, unless withdrawal rights are available (detailed below), you will give up your right to sell your AusCann Shares or otherwise deal with your AusCann Shares while the Offer remains open.</p>   | Section 8.8 of this Target's Statement. |
| 11.      | <p>If I accept the Offer, can I withdraw my acceptance?</p> <p>You may only withdraw your acceptance if TWH varies the Offer in a way that postpones the time when TWH is required to satisfy its obligations by more than one month.</p>  | Section 8.9 of this Target's Statement. |

| Question   | Answer   | Further Information                              |
|--|--|--|
| 12. Will I get any warning when the Minimum Acceptance Condition is about to be satisfied?   | TWH has indicated in its Bidder's Statement that it will give a Notice of Status of Conditions to the ASIC and AusCann on 25 November 2016 unless the Offer Period is extended prior to that date.   | Section 8.4 of this Target's Statement.          |
| 13. Does satisfaction of the Minimum Acceptance Condition mean that I will definitely receive the Offer Consideration if I accept? | All Bid Conditions must be satisfied or waived for the Offer to become Unconditional and for the Offer Consideration to be provided to you.<br>Even if the Minimum Acceptance Condition is satisfied or waived, other conditions may still be unsatisfied, and satisfaction (or waiver) of those conditions may take some time or may not occur at all.  | Section 8.3 of this Target's Statement.          |
| 14. When does the Offer close?   | The Offer is presently scheduled to close at 5:00pm (WST) on 7 December 2016, but the Offer Period can be extended in certain circumstances.   | Sections 8.5 and 8.6 of this Target's Statement. |
| 15. What happens if the Bid Conditions are not satisfied or waived?  | If the Bid Conditions are not satisfied or waived on or before the end of the Offer Period (or in the case of Prescribed Occurrences within 3 Business Days thereafter), the Offer will lapse, your AusCann Shares will not be transferred to TWH and you will not be provided with your Offer Consideration (even if you had accepted the Offer as your acceptance will be void). However, you would then be free to deal with your AusCann Shares.   | Section 8.12 of this Target's Statement.         |
| 16. When will I receive my Offer Consideration if I accept the Offer?  | If you accept the Offer, you will have to wait for the Offer to become Unconditional before you will receive your Offer Consideration from TWH.<br>In the usual case, you will be issued with your consideration on or before the later of:<br>(a) one month after the date the Offer becomes Unconditional; and<br>(b) one month after the date you accept the Offer if the Offer is, at the time of acceptance, Unconditional,<br>but, in any event (assuming the Offer becomes Unconditional), no later than 21 days after the end of the Offer Period. | Section 8.10 of this Target's Statement.         |
| 17. What are the tax implications of accepting the Offer?  | A general outline of the tax implications of accepting the Offer is set out in section 8 of the Bidder's Statement.<br>As the outline is a general outline only, you are encouraged to seek your own specific professional advice as to the taxation implications applicable to your circumstances.  | Section 8 of the Bidder's Statement.             |

| Question   | Answer   | Further Information                      |
|--|--|--|
| 18. Can I be forced to sell my AusCann Shares?                           | You cannot be forced to sell your AusCann Shares unless TWH acquires a relevant interest in at least 90% of all AusCann Shares by the end of the Offer Period, and proceeds to compulsory acquisition. If that happens, you will be forced to sell your AusCann Shares to TWH. | Section 8.13 of this Target's Statement. |
| 19. Will I pay brokerage if I accept the Offer?                          | No.  | Section 9.7 of this Target's Statement.  |
| 20. What happens if the Offer fails?                                     | Assuming there is no other offer for AusCann Shares, AusCann will seek to continue to develop its assets and business opportunities and your directors will continue to work to generate value for AusCann Shareholders.   | N/A                                      |
| 21. Who do I contact if I have further queries in relation to the Offer? | If you have any further queries in relation to the Offer, please contact AusCann by email at <a href="mailto:info@auscann.com.au">info@auscann.com.au</a> .  | N/A                                      |

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## **5. INFORMATION ABOUT AUSCANN**

### **5.1 AusCann background**

AusCann was incorporated in September 2014 with the aim of producing high quality, economical and clinically validated cannabis medicines in Australia for Australian patients and for export to a range of importers who are licensed in accordance with the International Single Convention on Narcotic Drugs 1961.

### **5.2 AusCann board of directors**

As at the date of this Target's Statement, the directors of AusCann are:

- (a) Dr Malcolm Washer – Chairman;
- (b) Ms Elaine Darby – Managing Director;
- (c) Mr Harry Karelis – Executive Director;
- (d) Hon Cheryl Edwardes – Non-executive Director;
- (e) Mr Bruce McHarrie – Non-executive Director; and
- (f) Mr Bruce Linton – Non-executive Director.

A summary of each of the above directors' experience and expertise is set out in section 6.4 of this Target's Statement.

### **5.3 Overview of AusCann's activities and projects**

#### **(a) AusCann's Business Model**

AusCann has the ability to deliver high quality, economical and clinically validated cannabis medicines by:

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

AusCann's business model is based on:

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

AusCann's main objectives on completion of the Offer are:

- (i) having the TWH securities reinstated to trading on the ASX;
- (ii) undertaking research into, and development of, new medicinal cannabis strains, cultivation and extraction techniques;

- (iii) undertaking research into the clinical efficacy of medicinal cannabis products and delivery mechanisms for various medical conditions;
  - (iv) obtaining relevant licensing for the cost effective cultivation and manufacture of high quality, clinically effective medicinal cannabis in Australia once regulations permit; and
  - (v) the provision of relevant information to establish the Australian medical community's trust and confidence in the prescription of AusCann's medicinal cannabis products.
- (b) AusCann Research and Development
- (i) Clinical Efficacy and Analytical Work
 

AusCann will support robust clinical trials that provide quality evidence of the efficacy of AusCann's medicinal cannabis products and delivery mechanisms on 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 AusCann's Canadian partner Canopy Growth Corp. Once the cultivation, production and manufacture licensing regime is established in Australia, AusCann intends to supply clinical studies with its locally developed products. These clinical studies will also be deemed a valid supply under relevant legislation for domestic licensing purposes.

AusCann will undertake chemical analysis of produced and sourced medicinal cannabis extracts to support its clinical investigations. This analysis will be undertaken using AusCann 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 are not dependent upon AusCann obtaining a licence to cultivate and/or manufacture under the *Narcotic Drugs Act 1967 (Cth)* (**ND Act**).

AusCann is currently developing clinical trial protocols with clinicians for these studies. Once completed these protocols will then be submitted for Human Research Ethics Committees (**HREC**) approval and R&D licence applications under section 41 of the *Poisons Act 1964 (WA)*. Once a R&D licence is obtained then AusCann may apply for a licence and permit to import the cannabis products.
  - (ii) Education/Outreach
 

AusCann is also focused on providing relevant information to the Australian medical community to establish trust and confidence in the prescription of AusCann'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. AusCann will arrange regular roadshow platforms in each city in which these international clinicians and researchers can engage with the Australian medical community.
  - (iii) New medicinal cannabis strains, cultivation and extraction techniques
 

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

AusCann 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 (**SABC**).

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 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 AusCann and Murdoch University can apply for a research and development cultivation licence under the relevant legislation the parties will draw 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.

AusCann 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.

(iv) Licensing application for 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. The TGA issued an interim decision on 31 August 2016 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.

(A) Schedule 9 substances

A licence is required 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 the licence.

(B) Schedule 8 substance

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*

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 CTN 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.

- (v) Licensing application for education and outreach  
No licensing or permits are required for the provision of education material to authorised medical clinicians.
- (vi) Licensing applications for new medicinal cannabis strains, cultivation and extraction techniques  
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.
- (vii) Licensing applications for growing and manufacturing operations in Australia  
The Narcotic Drugs Amendment Bill 2016 was passed by the Commonwealth Parliament in February 2016 which amended previous legislation 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 came into force and relevant regulations and subsidiary legislation were to be implemented occurred on 30 October 2016. Applicants will now 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 Therapeutic Goods Administration approved manufacturing sites.
 In order to implement this strategy, AusCann intends to complete its 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 AusCann intends to immediately commence building one or more growing operations. This may require additional financing (debt, equity or third party) in the future.  
AusCann may also 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.

#### **5.4 AusCann financial information**

The historical consolidated statements of financial position of AusCann are set out below and have been extracted from the audited consolidated statement of financial position as at the end of the financial years ended 30 June 2015 and 30 June 2016, being the last two consolidated statements of financial position prior to the date of this Target's Statement. AusCann was incorporated in September 2014 and, accordingly, does not have audited accounts prior to this date.

|                                  | 2016             | 2015           |
|----------------------------------|------------------|----------------|
|                                  | \$               | \$             |
| <b>CURRENT ASSETS</b>            |                  |                |
| Cash and cash equivalents        | 2,960,890        | 486,563        |
| Other assets                     | 16,638           | 36,118         |
| <b>TOTAL CURRENT ASSETS</b>      | <b>2,977,528</b> | <b>522,681</b> |
| Property, plant and equipment    | 363              | 544            |
| Intangible assets                | -                | 56,221         |
| <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           | 16,254         |
| Employee benefits                | 12,165           | -              |
| Other current liabilities        | 250,000          | 100,259        |
| <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 (DEFICIENCY)/ASSETS</b>   | <b>2,625,006</b> | <b>462,933</b> |
| Issued capital                   | 8,191,528        | 820,210        |
| Option reserve                   | 601,827          | -              |
| Accumulated losses               | (6,168,349)      | (357,277)      |
| <b>TOTAL EQUITY</b>              | <b>2,625,006</b> | <b>462,933</b> |

The historical consolidated statements of comprehensive income of AusCann are set out below and have been extracted from the audited consolidated statements of comprehensive income for the financial years ended 30 June 2015 and 30 June 2016, being the last two consolidated statements of financial performance prior to the date of this Target's Statement. AusCann was incorporated in September 2014, accordingly, does not have audited accounts prior to this date.

|                              | 2016          | 2015         |
|------------------------------|---------------|--------------|
|                              | \$            | \$           |
| Interest received            | 57,257        | 7,285        |
| <b>Total Revenue</b>         | <b>57,257</b> | <b>7,285</b> |
| Employee benefits expense    | 194,136       | -            |
| Finance costs                | -             | 601          |
| Impairment expense           | 56,221        | -            |
| Depreciation expense         | 181           | 155          |
| Share-based payments expense | 5,001,065     | -            |

|   | 2016<br>\$         | 2015<br>\$       |
|---|--------------------|------------------|
| Consulting fees – directors   | 152,500            | 135,000          |
| Consulting fees – others  | 123,590            | 126,353          |
| Legal expenses  | 173,579            | 10,893           |
| Other expenses  | 167,057            | 91,560           |
| <b>Total expenses</b>   | <b>5,868,329</b>   | <b>364,562</b>   |
| <b>Profit/(loss) before income tax expense</b>                        | <b>(5,811,072)</b> | <b>(357,277)</b> |
| Income tax expense  | -                  | -                |
| Loss for the year   | (5,811,072)        | (357,277)        |
| Other comprehensive income  | -                  | -                |
| <b>Total comprehensive loss attributable to members of the entity</b> | <b>(5,811,072)</b> | <b>(357,277)</b> |

## 5.5 AusCann Securities

As at the date of this Target's Statement the following AusCann Securities are on issue:

| Class of security            | Number        |
|------------------------------|---------------|
| AusCann Shares <sup>1</sup>  | 2,934,182,996 |
| AusCann Options <sup>2</sup> | 153,552,779   |

### Notes:

1. AusCann has one class of voting shares on issue, being the AusCann Shares.
2. The AusCann Options are exercisable at \$0.01 per option on or before 36 months after their issue.

## 5.6 AusCann website

AusCann maintains a website, [www.auscann.com.au](http://www.auscann.com.au), which contains further information about AusCann and its operations.

## 5.7 Publicly available information about AusCann

AusCann is not a disclosing entity for the purposes of the Corporations Act and as such is not subject to regular reporting and disclosure obligations. AusCann is required to lodge various documents with ASIC. Copies of documents lodged with ASIC by AusCann may be obtained from, or inspected at, an ASIC office or an ASIC-approved information broker.

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## **6. INFORMATION ABOUT TWH**

### **6.1 Disclaimer**

This overview of TWH and all financial information concerning TWH contained in this Target's Statement has been prepared by AusCann using publicly available information.

The information in this Target's Statement concerning TWH has not been independently verified. AusCann does not, subject to any applicable laws, make any representation or warranty, express or implied, as to the accuracy or completeness of this information. The information on TWH is not considered to be comprehensive.

### **6.2 Overview of TWH**

TWH was incorporated as a public company on 26 February 1986 and was admitted to the Official List of ASX on 3 May 1989 (ASX code: TWH).

Since its incorporation, TWH has principally been focused on the preparation for the sale of Australian table and sparkling wines, principally through an Australia-wide distribution agreement. For a number of years, TWH has been considering other potential areas of interest and actively engaging in assessing such opportunities.

TWH has been seeking further investment opportunities outside of the wine industry. As announced to the ASX on 17 March 2016, TWH entered into a non-binding term sheet to acquire 100% of the issued share capital of AusCann, an Australian unlisted public company (**Acquisition**). In addition, as announced to ASX, on 9 May 2016 TWH and AusCann entered into a binding heads of agreement in respect of the Acquisition (**Heads of Agreement**).

On 29 September 2016 TWH announced to the ASX that the proposed terms of the Acquisition have changed and the Heads of Agreement has been superseded by a bid implementation agreement between TWH and AusCann (**Bid Implementation Agreement**). The Bid Implementation Agreement sets out the agreed terms of the Offer. A summary of the Bid Implementation Agreement can be found in section 10.1 of the Bidder's Statement.

As at 28 September 2016 (being the last trading day before the Announcement Date), TWH had 2700 Shareholders and a market capitalisation of approximately \$5.4 million.

### **6.3 Directors and key personnel of TWH**

A brief summary of the TWH Board and key personnel, as at the date of this Target's Statement, is set out below.

#### **Mr David Wheeler – Non-Executive Chairman**

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.

Directorships of listed entities in the past 3 years: OZ Brewing Limited (ASX: OZB), Lithex Resources Limited (ASX: LTX), Castillo Copper Limited (ASX: CCZ), Premiere Eastern Energy Limited (ASX: PEZ), Antares Mining Limited (ASX: AZZ) , Antilles Oil & Gas Limited (ASX: AVD) and Eumeralla Resources Limited (ASX: EUM).

#### **Mr Nicholas Calder – Non-Executive Director**

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.

#### **Mr Simon Taylor – Non-Executive Director**

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 3 years: Chesser Resources Limited (ASX: CHZ), Oklo Resources Limited (ASX: OKU), King Solomon Mines Limited (ASX: KSO) and Agua Resources Limited (ASX: AGR).

## **6.4 Proposed Directors**

Upon completion of the Acquisition, the current Directors of TWH will resign and the following parties will be appointed as Directors.

### **Dr Malcolm Washer – Proposed 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. 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. Dr Washer resides in Australia.

### **Ms Elaine Darby – Proposed Managing Director**

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. Ms Darby resides in Australia.

### **Mr Harry Karelis – Proposed Executive Director**

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 a 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.

### **Hon Cheryl Edwardes – Proposed Non-Executive Director**

Hon. Cheryl Edwardes AM is a Company Director on a number of ASX Boards as well as private and not for profit associations. A solicitor by profession, Mrs Edwardes is a former Minister in the Court Government with extensive experience and knowledge of WA's legal and regulatory framework relating to mining projects, environmental, native title, heritage and land access. Mrs Edwardes assists the clients of FTI Consulting with a range of complex statutory approvals required for resources and infrastructure projects.

During her political career, Mrs Edwardes held positions including WA Attorney General, Minister for the Environment and Minister for Labour Relations. She also has broad experience and networks within China's business community.

### **Mr Bruce Linton – Proposed Non-Executive Director**

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. Mr Linton resides in Canada.

#### **Mr Bruce McHarrie – Proposed Non-Executive Director**

Mr McHarrie is a highly experienced senior executive and independent company director with a background in the life sciences industry focussed on finance, operations, business and investment management, and strategic planning.

In addition to AusCann, Mr McHarrie is a non-executive director of Adherium Limited, an ASX listed digital health technology company, he is chairman of the Animal Ethics Committee of the child health research organisation, Telethon Kids Institute, and undertakes corporate consulting activities.

Mr McHarrie previously served as the chief financial officer, director of operations and director of strategic projects with the Telethon Kids Institute in Western Australia. Prior to joining the Telethon Kids Institute, Mr McHarrie 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 two Institute spin-outs including publicly listed drug discovery company, Phylogica Limited, and has held a number of other non-executive director positions in biotechnology and not-for-profit healthcare organisations.

He is a Fellow of the Institute of Chartered Accountants Australia and New Zealand, holds a Bachelor of Commerce degree from the University of Western Australia, and is a graduate member of the Australian Institute of Company Directors. Mr McHarrie resides in Australia.

## **6.5 Financial Performance**

The historical consolidated statements of financial position of TWH are set out below and have been extracted from the audited consolidated statements of financial position as at the end of the financial years ended 30 June 2014, 30 June 2015 and 30 June 2016, being the last three consolidated statements of financial position prior to the date of this Target's Statement.

|                             | <b>Audited<br/>Consolidated<br/>FY 2016<br/>\$</b> | <b>Audited<br/>Consolidated<br/>FY 2015<br/>\$</b> | <b>Audited<br/>Consolidated<br/>FY 2014<br/>\$</b> |
|-----------------------------|--|--|--|
| <b>ASSETS</b>               |  |  |  |
| <b>CURRENT ASSETS</b>       |  |  |  |
| Cash and cash equivalents   | 370,270  | 376,143  | 784,931  |
| Trade and other receivables | 10,28  | 12,673   | 18,681   |
| Other current assets        | -  | -  | -  |

|                                   | Audited<br>Consolidated<br>FY 2016<br>\$ | Audited<br>Consolidated<br>FY 2015<br>\$ | Audited<br>Consolidated<br>FY 2014<br>\$ |
|-----------------------------------|--|--|--|
| <b>TOTAL CURRENT ASSETS</b>       | <b>380,551</b>                           | <b>388,816</b>                           | <b>803,612</b>                           |
| <b>NON-CURRENT ASSETS</b>         |  |  |  |
| 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>143,024</b>                           |
| <b>TOTAL LIABILITIES</b>          | <b>60,604</b>                            | <b>29,127</b>                            | <b>143,024</b>                           |
| <b>NET ASSETS</b>                 | <b>319,947</b>                           | <b>359,689</b>                           | <b>662,139</b>                           |
| <b>SHAREHOLDERS' EQUITY</b>       |  |  |  |
| Issued capital                    | 81,099,059                               | 80,486,376                               | 80,486,376                               |
| Accumulated losses                | (80,779,112)                             | (80,126,687)                             | (79,824,237)                             |
| <b>TOTAL SHAREHOLDERS' EQUITY</b> | <b>319,947</b>                           | <b>359,689</b>                           | <b>662,139</b>                           |

The historical consolidated statements of financial performance of TWH are set out below and have been extracted from the audited consolidated statements of financial performance for the financial years ended 30 June 2014, 30 June 2015 and 30 June 2016, being the last three audited consolidated statements of financial performance prior to the date of this Target's Statement.

|                                      | Audited<br>Consolidated<br>FY 2016<br>\$ | Audited<br>Consolidated<br>FY 2015<br>\$ | Audited<br>Consolidated<br>FY 2014<br>\$ |
|--------------------------------------|--|--|--|
| Revenue                              | 5,482                                    | 12,557                                   | 35,542                                   |
| Employee benefits and directors fees | (172,000)                                | (152,176)                                | (120,000)                                |
| Administration expenses              | (235,908)                                | (161,279)                                | (327,506)                                |
| Exclusivity Fee                      | (250,000)                                | -  | -  |
| Project expenses                     | -  | -  | (295,211)                                |
| Depreciation expense                 | -  | (1,552)                                  | (1,037)                                  |
| Loss before income tax               | (652,426)                                | (302,450)                                | (708,212)                                |
| Income tax expense                   | -  | -  | -  |

|  | Audited<br>Consolidated<br>FY 2016<br>\$ | Audited<br>Consolidated<br>FY 2015<br>\$ | Audited<br>Consolidated<br>FY 2014<br>\$ |
|--|--|--|--|
| Loss for the year  | (652,426)                                | (302,450)                                | (708,212)                                |
| Other comprehensive income   |  |  |  |
| <i>Items that may be reclassified<br/>subsequently to profit or loss</i> |  |  |  |
| Other comprehensive income for the<br>year (net of tax)                  | -  | -  | -  |
| Total comprehensive loss for the year                                    | (652,426)                                | (302,450)                                | (708,212)                                |
| Basic and diluted loss per share (cents<br>per Share)                    | (0.1)                                    | (0.1)                                    | (0.2)                                    |

## 6.6 Relationship with AusCann

Prior to signing the Heads of Agreement, AusCann had no existing relationship with TWH.

As at the date of this Target's Statement, apart from Mr David Wheeler, no TWH Director has a Relevant Interest in AusCann Securities.

Mr David Wheeler is an AusCann Shareholder by virtue of being a controller of Pathways Corporate. Pathways Corporate owns 12,121,212 AusCann Shares which will be exchanged for 12,121,212 TWH Shares and 2,332,411 Performance Shares under the Offer.

## 6.7 Corporate governance

The TWH Board seeks to provide accountability levels that meet or exceed the ASX Corporate Governance Council's Principles for Good Corporate Governance and Best Practice Recommendations.

Details on TWH's corporate governance procedures, policies and practices can be obtained at TWH's website [www.twholdings.com.au](http://www.twholdings.com.au).

## 6.8 Publicly available information about TWH

TWH is a listed disclosing entity for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. TWH is subject to the ASX Listing Rules which require continuous disclosure of any information TWH has concerning itself that a reasonable person would expect to have a material effect on the price or value of its securities.

TWH is also required to lodge various documents with ASIC. Copies of documents lodged with ASIC by TWH may be obtained from, or inspected at, an ASIC office.

On request to TWH and free of charge, AusCann Shareholders may obtain a copy of:

- (a) the annual financial report of TWH for the year ended 30 June 2016 lodged by TWH with the ASX on 22 September 2016 (being the annual financial report most recently lodged with ASIC before lodgement of this Target's Statement with ASIC); and
- (b) any continuous disclosure notice given to ASX by TWH since the lodgement with ASIC of the Annual Financial Report for TWH referred to above and before lodgement of this Target's Statement with ASIC.

A list of the announcements TWH has lodged with ASX since 22 September 2016 (being the date of lodgement of the annual financial report referred to in paragraph (a)) is set out in Annexure B to the Bidder's Statement.

Further information about TWH is available in electronic form from the TWH website [www.twholdings.com.au](http://www.twholdings.com.au) and on the ASX website.

## 7. INFORMATION ABOUT TWH SECURITIES

### 7.1 Capital structure

As at the date of this Target's Statement, TWH has the following securities on issue:

| Class of Security                          | Number                   |
|--|--------------------------|
| TWH Shares currently on issue <sup>1</sup> | 602,362,410 <sup>2</sup> |
| TWH Performance Shares currently on issue  | Nil                      |
| TWH Options currently on issue             | Nil                      |

**Notes:**

1. The rights attaching to the TWH Shares are summarised in section 7.5 of this Target's Statement.
2. It is proposed to consolidate the TWH Shares on the basis of 20:1. The number shown above is pre-Consolidation. Post-Consolidation, TWH will have up to 216,348,538 TWH Shares (inclusive of up to 25,000,000 TWH Shares to be issued pursuant to the Public Offer and 161,230,418 TWH Shares to be issued under the Offer) and 28,230,351 TWH Performance Shares and 2,749,231 Performance Rights on issue.

### 7.2 Recent performance of TWH Shares

Set out below is a table showing relevant trading prices of TWH Shares on ASX:

| Comparative Trading Period  | Price of TWH Shares |
|---|---------------------|
| Highest trading price in the 4 months prior to the date this Target's Statement was lodged with ASIC                            | \$0.013             |
| Lowest trading price in the 4 months prior to the date this Target's Statement was lodged with ASIC                             | \$0.008             |
| Closing trading price on the last trading day (28 September 2016) before the Announcement Date                                  | \$0.009             |
| Last available closing sale price (as at 28 October 2016) on ASX prior to the date this Target's Statement was lodged with ASIC | \$0.012             |
| 5 day volume weighted average price before the date this Target's Statement was lodged with ASIC                                | \$0.01189           |

The implied value of the Offer will be dependent on the market price of TWH Shares. The implied value of the Offer will change as a consequence of changes in the market price of TWH Shares from time to time.

### 7.3 Quotation of TWH Shares comprising Offer Consideration

TWH will lodge an application for admission to quotation of the TWH Shares comprising part of the Offer Consideration to trading on ASX within 7 days of the start of the Bid Period. The Offer is conditional on quotation being granted.

The Performance Shares being offered will not be listed on ASX, but in the event of satisfaction of the Performance Milestone and conversion of the Performance Shares into TWH Shares, TWH will apply to ASX for quotation of the new TWH Shares on ASX.

### 7.4 Offer Consideration

The TWH Securities offered to AusCann Shareholders under the Offer comprises TWH Shares and Performance Shares.

On 31 October 2016, TWH Shareholders approved the adoption of a new company constitution (**New Constitution**). Upon completion of the Acquisition, the Merged Entity will be governed by the New Constitution.

The TWH Shares offered are fully paid ordinary shares in the capital of TWH, and from the date of their issue will rank equally with existing TWH Shares and will have the same rights and liabilities

attaching to them. Upon successful completion of the Acquisition, the rights and liabilities attaching to TWH Shares will be governed by the New Constitution, the Corporations Act, ASX Listing Rules, the ASX Settlement Operating Rules and the general law of Australia.

The Performance Shares are shares that will each convert into TWH Shares on a one for one basis upon satisfaction of one of the following milestones:

- (a) AusCann obtaining the relevant Australian or international legal authorisations to cultivate and produce cannabis and cannabis resin for medicinal and related scientific purposes; or
- (b) AusCann being issued or acquiring an interest of not less than 49% in an entity that holds a legal authorisation for the cultivation and production of cannabis and cannabis resin for medicinal and related scientific purposes outside Australia; or
- (c) The Merged Entity being granted legal authorisation to cultivate and produce cannabis and cannabis resin for medicinal and related scientific purposes, or acquires an interest as referred to in (b) above,

(together, the **Performance Milestone**).

Under section 140(1) of the Corporations Act, the Constitution of TWH has effect as a contract between TWH and each member and between a member of TWH and each other member. Accordingly, if you accept TWH Shares as consideration you will, as a result, become bound by the rules of the Constitution of TWH.

Set out below is a summary of the rights and liabilities attaching to TWH Shares. It does not purport to be exhaustive or to constitute a definitive statement of the rights and liabilities of shareholders of TWH. Shareholders should seek their own advice when trying to establish their rights in specific circumstances.

Full details of the rights attaching to TWH Shares are set out in the New Constitution, a copy of which is available for inspection at TWH's registered office during normal business hours.

## **7.5 Rights attaching to TWH Shares**

The rights, privileges and restrictions attaching to TWH Shares can be summarised as follows:

### **General meetings**

Each member is entitled to receive notice of, and to attend and vote at, general meetings of TWH and to receive all notices, accounts and other documents required to be sent to members under the New Constitution, the Corporations Act or the ASX Listing Rules.

### **Voting rights**

Subject to any rights or restrictions for the time being attached to any class or classes of shares whether by the terms of their issue, the New Constitution, the Corporations Act or the ASX Listing Rules, at a general meeting of TWH every holder of fully paid ordinary shares present in person or by a representative, proxy or attorney has one vote on a show of hands and every such holder present in person or by a representative, proxy or attorney has one vote per share on a poll. A person who holds an ordinary share which is not fully paid is entitled, on a poll, to a fraction of a vote equal to the proportion which the amount paid bears to the total issue price of the share. A member is not entitled to vote unless all calls and other sums presently payable by the member in respect of shares in TWH have been paid. Where there are two or more joint holders of the share and more than one of them is present at a meeting and tenders a vote in respect of the share (whether in person or by proxy or attorney), TWH will count only the vote cast by the member whose name appears before the other(s) in TWH's register of members.

### **Dividend rights**

Subject to the Corporations Act, the Listing Rules, New Constitution and the rights of any person entitled to shares with special rights to dividend, the Directors may determine that a dividend is payable. TWH in general meeting may declare a dividend if the Directors have recommended a dividend and a dividend shall not exceed the amount recommended by the Directors. The Directors may authorise the payment to the members of such interim dividends as appear to the Directors to be justified by TWH's profits and for that purpose may declare such interim dividends. Subject to the rights of members entitled to shares with special rights as to dividend (if any), all dividends in respect

of shares (including ordinary shares) are to be declared and paid proportionally to the amount paid up or credited as paid up on the shares.

#### **Winding-up**

Subject to the rights of holders of shares with special rights in a winding up, if TWH is wound up, members (including holders of ordinary shares) will be entitled to participate in any surplus assets of TWH in proportion to the shares held by them respectively irrespective of the amount paid up or credited as paid up on the shares.

#### **Transfer of shares**

Subject to the New Constitution, the Corporations Act, the ASX Settlement Operating Rules and the ASX Listing Rules, ordinary shares are freely transferable. The shares may be transferred by a proper transfer effected in accordance with ASX Settlement Operating Rules, by any other method of transferring or dealing introduced by ASX and as otherwise permitted by the Corporations Act or by a written instrument of transfer in any usual form or in any other form approved by the Directors that is permitted by the Corporations Act.

TWH may decline to register a transfer of shares in the circumstances described in the New Constitution and where permitted to do so under the ASX Listing Rules. If TWH declines to register a transfer, TWH must give the lodging party written notice of the refusal and the reasons for refusal. The Directors must decline to register a transfer of shares when required by law, by the ASX Listing Rules or by the ASX Settlement Operating Rules.

#### **Variation of rights**

At present, TWH has on issue one class of shares only, namely ordinary shares. The rights attached to the shares in any class may be altered only by a special resolution of the Company and a special resolution passed at a separate meeting of the holders of the issued shares of the affected class, or with the written consent of the holders of at least three quarters of the issued shares of the affected class.

#### **Issues of further shares**

The Directors may, on behalf of the Company, issue, grant options over or otherwise dispose of unissued shares to any person on the terms, with the rights, and at the times that the Directors decide. However, the Directors must act in accordance with the restrictions imposed by the Constitution, the Listing Rules, the Corporations Act and any rights for the time being attached to the shares in special classes of shares.

#### **Dividend plans**

The Directors may establish and maintain dividend plans under which (among other things) a member may elect that dividends payable by the Company be reinvested by way of subscription for shares in the Company or a member may elect to forego any dividends that may be payable on all or some of the shares held by that member and to receive instead some other entitlement, including the issue of shares.

#### **Directors**

The Constitution states that the minimum number of Directors is three.

#### **Powers of the Board**

The Directors have power to manage the business of the Company and may exercise that power to the exclusion of the members, except as otherwise required by the Corporations Act, any other law, the Listing Rules or the Constitution.

### **7.6 Rights attaching to Performance Shares**

The Performance Shares are shares that will each convert into TWH Shares on a one for one basis upon satisfaction of the Performance Milestone.

The Performance Shares expire on 18 months after TWH has achieved re-compliance and it re-admitted to the official list of the ASX. The full terms and conditions of Performance Shares are set out in Annexure C to the Bidder's Statement.

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## **8. KEY FEATURES OF THE OFFER**

### **8.1 The Offer**

The Company has entered into Pre-existing Sale Agreements with 23 AusCann Shareholders representing approximately 32.6% of the AusCann Shares.

As announced on 29 September 2016, TWH has made an off-market offer to acquire the remaining AusCann Shares. The terms of the Offer are contained in Annexure A to the Bidder's Statement, the terms of the Bid Implementation Agreement are summarised in section 10.1 of the Bidder's Statement and the terms of the Pre-existing Sale Agreements are summarised in section 10.3 of the Bidder's Statement.

### **8.2 Consideration payable to shareholders who accept the Offer**

The consideration being offered by TWH is:

- (a) one (1) TWH Share; and
  - (b) approximately 0.1924 Performance Share,
- for every one AusCann Share.

### **8.3 Bid Conditions**

The Offer is subject to the Bid Conditions. Those conditions are set out in full in Annexure A of the Bidder's Statement, specifically section 8, which is substantially replicated below.

(a) Approval of Essential Resolutions

TWH shareholders approve the Essential Resolutions in accordance with the Corporations Act, the Listing Rules and the constitution of TWH before the end of the Offer Period. Approval for the Essential Resolutions was obtained on 31 October 2016.

(b) Public Offer

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

(c) Minimum acceptance

On or before the end of the Offer Period TWH has a relevant interest in at least 90% 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-quotations

TWH receives from ASX written confirmation that ASX will terminate the suspension of TWH Shares from official 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) Completion under other agreements

No later than at the same time as completion occurs with each AusCann Shareholder with respect to their AusCann Shares under the Offer, TWH also completes the sale and purchase or cancellation (as the case may be) of all of the:

- (i) AusCann Shares under the Pre-Existing Sale Agreements (except to the extent that TWH is entitled to and does acquire such AusCann Shares under the Offer); and
- (ii) AusCann Options under the Option Purchase Agreement.

(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 Offer to be lawfully made to and accepted by the AusCann 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 Public Authority;
- (ii) no action or investigation is announced, commenced or threatened by any Public Authority; and
- (iii) no application is made to any Public Authority (other than by TWH or any associate of TWH),

in consequence of or in connection with the Offer (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 Offer and the completion of any transaction contemplated by the Bidder's Statement or which requires the divestiture by TWH of any AusCann Securities or any material assets of AusCann or any subsidiary of AusCann.

(h) No AusCann 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 \$100,000 or more is commenced, is threatened to be commenced, is announced, or is made known to TWH (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 TWH 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 TWH, other than in the ordinary course of 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 Shareholder (including Canopy) enters into such form of restriction agreement in respect of the TWH Securities issued to them (including any TWH Shares issued upon satisfaction of the Performance Milestone under the terms of the Performance Shares or pursuant to the exercise of a TWH Option) as ASX may require.

#### **8.4 Notice of status of Conditions**

The terms of the Offer set out in Annexure A of the Bidder's Statement indicates that TWH will give a notice of status of the Bid Conditions to the ASX and AusCann on 25 November 2016.

TWH is required to set out in its notice of status of Bid Conditions:

- (a) whether the Offer is free of any or all of the Bid Conditions;
- (b) whether, so far as TWH knows, any of the Bid Conditions have been fulfilled; and
- (c) TWH's voting power in AusCann.

If the Offer Period is extended before the time by which the notice of status of Bid Conditions is to be given, the date for giving the notice of status of Bid Conditions will be taken to be postponed for the same period.

In the event of such an extension, TWH is required, as soon as practicable after the extension, to give a notice to the ASX and AusCann that states the new date for the giving of the notice of status of Bid Conditions.

If a Bid Condition is fulfilled (so that the Offer becomes free of that Bid Condition) during the Offer Period, but before the date on which the notice of status of Bid Conditions is required to be given, TWH must, as soon as practicable, give the ASIC and AusCann a notice that states that the particular condition has been fulfilled.

#### **8.5 Offer Period**

Unless the Offer is extended or withdrawn, it is open for acceptance from 7 November 2016 until 5:00pm (WST) on 7 December 2016.

The circumstances in which TWH may extend or withdraw the Offer are set out in sections 8.6 and 8.7 respectively of this Target's Statement.

#### **8.6 Extension of the Offer Period**

TWH may extend the Offer Period at any time before giving the Notice of Status of Bid Conditions (referred to in section 8.4 in this Target's Statement) while the Offer is subject to Bid Conditions. However, if the Offer is Unconditional (that is, all the Bid Conditions are fulfilled or waived), TWH may extend the Offer Period at any time before the end of the Offer Period.

In addition, there will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period:

- (a) TWH improves the Offer Consideration; or
- (b) TWH's voting power in AusCann increases to more than 50%.

If either of these two events occurs, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs in accordance with section 624(2) of the Corporations Act.

#### **8.7 Withdrawal of Offer**

TWH may not withdraw the Offer if you have already accepted it. Before you accept the Offer, TWH may withdraw the Offer with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

## **8.8 Effect of acceptance**

The effect of acceptance of the Offer is set out in detail in section 6 of Annexure A to the Bidder's Statement. You should read these provisions in full to understand the effect that acceptance will have on your ability to exercise the rights attaching to your AusCann Shares and the things which you are deemed to have done by accepting of the Offer.

You should note that, if you accept the Offer, unless you are able to withdraw your acceptance in the circumstances described in section 8.9 of this Target's Statement, you will forgo the opportunity to benefit from any Competing Proposal (including any Superior Proposal) which may be put forward by another party, unless the Offer does not become Unconditional at the end of the Offer Period and the Competing Proposal remains open for acceptance. As at the date of this Target's Statement, your directors are not aware of any Competing Proposal.

## **8.9 Your ability to withdraw your acceptance**

You only have limited rights to withdraw your acceptance of the Offer.

You may only withdraw your acceptance of the Offer if TWH varies the Offer in a way that postpones, for more than one month, the time when TWH needs to meet its obligations under the Offer. This will occur if TWH extends the Offer Period by more than one month and the Offer is still subject to the Bid Conditions.

## **8.10 Payment of your Offer Consideration if you accept the Offer**

In the usual case, you will be issued your Offer Consideration on or before the later of:

- (a) one month after the date the Offer becomes Unconditional; and
- (b) one month after the date you accept the Offer if the Offer is, at the time of acceptance, Unconditional, but, in any event (assuming the Offer becomes Unconditional), no later than 21 days after the end of the Offer Period.

Section 7 of the terms of the Offer set out in Annexure A of the Bidder's Statement sets out full details of when you will be issued with your Offer Consideration.

## **8.11 Effect of an improvement in Offer Consideration on shareholders who have already accepted the Offer**

If TWH improves the Offer Consideration offered under the Offer, all AusCann Shareholders who accept the Offer, whether or not they have accepted the Offer before that improvement, will be entitled to the benefit of that improved Offer Consideration.

## **8.12 Lapse of Offer**

The Offer will lapse if the Bid Conditions are not satisfied or waived by TWH by the end of the Offer Period or in the case of Prescribed Occurrences within 3 Business Days after the end of the Offer Period, in which case, all contracts resulting from acceptance of the Offer and all acceptances that have not resulted in binding contracts are void. In that situation, you will be free to deal with your AusCann Shares as you see fit.

## **8.13 Compulsory acquisition**

TWH has indicated in section 7.3 of the Bidder's Statement that if it satisfies the required 90% threshold it intends to compulsorily acquire any outstanding AusCann Shares. AusCann Shareholders should read these sections in full to understand the compulsory acquisition rights TWH may acquire under the Corporations Act and, if it acquires them, how TWH intends to exercise them.

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## **9. OTHER IMPORTANT MATTERS**

### **9.1 TWH's intentions with respect to the Offer and AusCann**

TWH has indicated its intentions in relation to the Offer and the business of AusCann generally in section 7.2– 7.5 (inclusive) of the Bidder's Statement.

### **9.2 AusCann Options**

There are currently 153,552,779 unlisted AusCann Options on issue to Canopy.

TWH will enter into the Option Purchase Agreement with Canopy for the acquisition of the AusCann Options.

It is a condition of the Offer that Canopy enter into the Option Purchase Agreement with TWH.

### **9.3 Restricted Securities**

As required by the Bid Conditions and as detailed in section 10.11 of the Bidder's Statement, some AusCann Shareholders will be required to enter into restriction agreements under which they will be restricted from trading certain TWH Securities for a certain period. TWH will send you a restriction agreement if such restrictions are to apply to your Offer Consideration. Further information on the restriction agreement is set out in section 10.11 of the Bidder's Statement.

### **9.4 Minority ownership consequences**

The Offer is presently subject to a minimum acceptance condition (refer section 8.3 of this Target's Statement). TWH has the right to waive the minimum acceptance condition. If TWH waives this minimum acceptance condition and acquires more than 50% but less than 90% of the AusCann Shares under the Offer, TWH will acquire a majority shareholding in AusCann. In that situation AusCann Shareholders who do not accept the Offer will remain as minority shareholders in AusCann. This has a number of possible implications, including:

- (a) TWH will be in a position to cast the majority of votes at a general meeting of AusCann. This will enable it to control the composition of the Board and senior management, determine AusCann's dividend policy and control the strategic direction of the businesses of AusCann and its subsidiaries;
- (b) the value perceived in AusCann Shares may be significantly reduced as any potential investor may prefer to acquire an interest in TWH which will control AusCann and offer the liquidity of an ASX quotation. The AusCann Share value will no longer contain any takeover premium;
- (c) the liquidity of AusCann Shares may be minimal, if at all; and
- (d) if TWH acquires 75% or more of the AusCann Shares it will be able to ensure the passing of special resolutions of AusCann at general meetings. This will enable TWH to, among other things, change the Constitution.

### **9.5 Other alternatives to the Offer**

As at the date of this Target's Statement, your directors are not aware of any alternatives to the Offer. Your directors will keep AusCann Shareholders informed in a timely manner should any material developments occur in this regard.

### **9.6 Taxation consequences**

The taxation consequences of accepting the Offer depend on a number of factors and will vary depending on your particular circumstances. A general outline of the Australian taxation considerations of accepting the Offer are set out in section 8 of the Bidder's Statement.

You should carefully read and consider the taxation consequences of accepting the Offer. The outline provided in the Bidder's Statement is of a general nature only and you should seek your own specific professional advice as to the taxation implications applicable to your circumstances.

## 9.7 No brokerage payable

You will not be required to pay brokerage or any other costs in relation to the sale of your AusCann Shares under the Offer.

## 9.8 Risk factors in investing in TWH Shares

If you accept the Offer, unless withdrawal rights are available and you exercise them (refer to section 8.9 of this Target's Statement), you will become a shareholder in TWH if the Offer becomes Unconditional. Section 9 of the Bidder's Statement outlines the risks that you may face when investing in TWH Shares. If you require further information regarding such risks in order to make a decision as to whether or not to accept the Offer, you should consult your legal, taxation, accounting or other professional advisers.

## 9.9 Risk factors in continuing to hold AusCann Shares

(a) There are various risks associated with continuing to hold AusCann Shares that you should be aware of before deciding whether or not to accept the Offer. A summary of some of those risks is set out below. They are not exhaustive and are relevant to AusCann Shareholders as at the date of this Target's Statement and will continue to be relevant to AusCann Shareholders who remain AusCann Shareholders following completion of any successful Offer. However, you should note that many of these risks are similar to the risks you may face when investing in TWH Shares as outlined in section 9 of the Bidder's Statement.

In addition, if you do not accept the Offer during the Offer Period (and the Offer becomes Unconditional), you may remain as a minority AusCann Shareholder. Section 9.4 of this Target's Statement sets out a summary of some of the risks associated with being a minority shareholder in AusCann.

You should have regard to your own personal investment objectives and financial circumstances, and should consult your professional advisers, before deciding whether or not to accept the Offer.

(b) Specific risks relating to TWH and AusCann as the Merged Entity:

(i) Re-Quotation of Shares on ASX

The acquisition of AusCann constitutes a significant change in the nature and scale of TWH's activities and TWH needs to re-comply with Chapters 1 and 2 of the ASX Listing Rules as if it were seeking admission to the Official List of ASX.

There is a risk that TWH may not be able to meet the requirements of the ASX for re-quotation of its Shares on the ASX. Should this occur, the TWH Consideration Shares will not be able to be traded on the ASX until such time as those requirements can be met, if at all. Shareholders may be prevented from trading their TWH Shares should TWH be suspended until such time as it does re-comply with the ASX Listing Rules.

(ii) Dilution Risk

AusCann currently has 2,934,183,791 AusCann Shares on issue and TWH has 602,362,410 TWH Shares on issue. On completion of Offer and the Public Offer, it is proposed that the Merged Entity will have 4,947,462,410 shares (including Performance Shares) on issue.

If the minimum amount of \$3 million is raised under the Public Offer, the existing AusCann Shareholders will retain approximately 71.1% of the Merged Entity. If the maximum amount of \$5 million is raised under the Public Offer, the existing AusCann Shareholders will retain approximately 67.8% of the Merged Entity.

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.

(iii) "Lock-in" risk

If TWH acquires less than 90% of the AusCann Shares on issue, then AusCann Shareholders should be aware that if they do not accept the Offer they may become a "locked-in" minority after the end of the offer period for the Offer (i.e. if

TWH holds a majority of AusCann Shares but is not entitled to compulsorily acquire the remaining AusCann Shares).

It is possible that, even if TWH is not entitled to proceed to compulsory acquisition of minority holdings after the end of the Offer Period under Part 6A.1 of the Corporations Act, it may subsequently become entitled to exercise rights of general compulsory acquisition under Part 6D.2 of the Corporations Act (for example, as a result of acquisitions of AusCann Shares in reliance on the '3% creep' exception in item 9 of section 611 of the Corporations Act). If so, it intends to exercise those rights.

(iv) Liquidity risk

A large portion of the Offer Consideration to be issued to the AusCann Shareholders will be subject to escrow restrictions in accordance with Chapter 9 of the ASX Listing Rules. Based on the Merged Entity capital structure, these Shares will equate to approximately 47% of the Merged Entity issued share capital (assuming \$3 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) Specific risks relating to the Merged Entity's operations:

(i) Current business model reliant on legislative changes

AusCann's business model is reliant on obtaining the necessary licences and approval to commence operations in accordance with its business model. The regulatory system commenced on 30 October 2016. The Merged Entity will apply for the licences and undertake the necessary requirements for approval. 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 Merged Entity.

The Merged Entity'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 Merged Entity's clinical study activities are reliant on obtaining the relevant licences and permits under the existing regulatory system in respect to research and development and importation of schedule 8 and 9 substances, such as cannabis products, as outlined in section 5.3 of this Target Statement.

(ii) Risk of adverse publicity

The cultivation, production, manufacture, possession and distribution of controlled substances by the Merged Entity 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 Merged Entity's products. These pressures could also limit or restrict the introduction and marketing of the Merged Entity'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 Merged Entity's products. The nature of the Merged Entity's business attracts a high level of public and media interest, and in the event of any resultant adverse publicity, the Merged Entity's reputation may be harmed.

(iii) Risk associated with clinical trials

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.

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.

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) the 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.

Any of the issues raised above has the potential to have an adverse and material effect on the business.

(iv) Loss of key relationships

The medicinal cannabis industry is undergoing rapid growth and substantial change, which has resulted in increasing consolidation and formation of strategic relationships. It is expected that this consolidation and strategic partnering will 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 Merged Entity to lose access to necessary resources);
- (B) the relationship between the Merged Entity and third parties may deteriorate and have an adverse impact on the Merged Entity's business; and
- (C) Merged Entity's current competitors could become stronger, or new competitors could form, from consolidations.

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.

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

If any of the products sold by the Merged Entity 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 Merged Entity could be sued and held liable for harm caused to patients; or
- (C) the Merged Entity's reputation may suffer.

The Merged Entity's cultivation, manufacture, production and sale may voluntarily be suspended or terminated if at any time Board believe that they present an unacceptable risk to consumers, or that they are unlikely to receive regulatory approval or unlikely to be successfully commercialised.

(vi) Risk of changes to laws and regulations

The Merged Entity'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 Merged Entity is currently in compliance with all current laws, changes to laws and regulations due to matters beyond the control of the Merged Entity may cause adverse affects 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 Merged Entity's operations or contractual obligations, could impact adversely on the assets, operations and, ultimately, the financial position and financial performance of the Merged Entity and its Shares. In addition, there is a risk that legal action may be taken against the Merged Entity in relation to commercial, legal, regulatory or other matters.

(vii) Protection of proprietary technology

The Merged Entity's success will depend, in part, on the Merged Entity's ability to obtain patents, protect the Merged Entity's trade secrets and operate without infringing on the proprietary rights of others. The Merged Entity will rely upon a combination of patents, trade secret protection (i.e. know-how), and confidentiality agreements to protect the Merged Entity's intellectual property and licensing agreements to access third party intellectual property.

If the Merged Entity fails to adequately protect its intellectual property, it may face competition from companies who attempt to create a product similar to the Merged Entity's proposed products. The Merged Entity may also face competition from companies who develop a substantially similar product to one of the Merged Entity's proposed products that is not covered by any of the Merged Entity's patents.

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 Merged Entity's patents or marketing of competing products in violation of the Merged Entity's proprietary rights generally. Proceedings to enforce the Merged Entity's patent rights in foreign jurisdictions could result in substantial

cost and divert the Merged Entity's efforts and attention from other aspects of the Merged Entity's business.

### ***Patents***

The strengths of patents in the pharmaceutical field involve complex legal and scientific questions and can be uncertain. Where appropriate, the Merged Entity will seek patent protection for certain aspects of the Merged Entity's products and technology. Filing, prosecuting and defending patents throughout the world would be prohibitively expensive, so the Merged Entity'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 being developed. If the Merged Entity must spend significant time and money protecting or enforcing its patents, the Merged Entity's business and financial condition may be harmed.

### ***Trade secrets***

Trade secrets are difficult to protect. The Merged Entity may rely in part on confidentiality agreements with its employees, consultants, outside scientific collaborators, sponsored researchers and other advisors to protect its 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 unauthorised disclosure of confidential information. In addition, others may independently discover, or reverse engineer, the Merged Entity's trade secrets and proprietary information. Costly and time-consuming litigation could be necessary to enforce and determine the scope of the Merged Entity's proprietary rights. Failure to adequately protect the confidentiality of the Merged Entity's trade secrets could enable competitors to develop products that compete with the Merged Entity's products or have additional and material adverse impact upon the Merged Entity's business, results of operations and financial condition.

### ***Plant Breeders' Rights***

The International Convention for the Protection of New Varieties of Plants 1961 was implemented 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 Merged Entity 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 Merged Entity.

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 Merged Entity could be infringing third party patent rights when commercially using the product, including the derivation of new varieties to be registered by the Merged Entity.

(viii) **Uncertainty of future profitability**

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.

The Merged Entity'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.

- (d) Risks related to the Company's growing and manufacturing facilities
- (i) Agricultural risks
- The Merged Entity'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 Merged Entity 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.
- (ii) Dependency on key inputs and their related costs
- The Merged Entity's 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 Merged Entity. 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 Merged Entity.
- (iii) Exposure to product liability claims, regulatory action and litigation
- These risks will arise if the Merged Entity'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 Merged Entity may be subject to various product liability claims, including among others that the Merged Entity'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 Merged Entity could result in increased costs, could adversely affect the Merged Entity's reputation with its clients and consumers generally and could have a material adverse effect on the Merged Entity's results of operations and financial conditions.
- (e) Industry Specific
- (i) Additional requirements for capital
- The funds to be raised under the Public Offer are considered sufficient to meet the immediate objectives of TWH. Additional funding may be required in the event costs exceed the Merged Entity'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 Merged Entity may incur. If such events occur, additional funding will be required.
- (ii) Funding risk
- The Merged Entity's ability 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 Merged Entity may incur may depend in part on its ability to raise additional funds. The Merged Entity may seek to raise further funds through equity or debt financing, joint ventures, production sharing arrangements or other means. Failure to obtain sufficient financing for the Merged Entity's activities and future projects may result in delay and indefinite postponement of development or

research. There can be no assurance that additional finance will be available when needed or, if available, the terms of the financing might not be favourable to the Merged Entity and might involve substantial dilution to shareholders.

Further, the Merged Entity, in the ordinary course of its operations and developments, may be required to issue financial assurances, particularly insurances and bond/bank guarantee instruments to secure statutory and environmental performance undertakings and commercial arrangements. The Merged Entity's ability to provide such assurances is subject to external financial and credit market assessments, and its own financial position. Loan agreements and other financing rearrangements such as debt facilities, convertible note issue and finance leases (and any related guarantee and security) that may be entered into by the Merged Entity may contain covenants, undertakings and other provisions which, if breached, may entitle lenders to accelerate repayment of loans and there is no assurance that the Merged Entity would be able to repay such loans in the event of an acceleration. Enforcement of any security granted by the Merged Entity or default under a finance lease could also result in the loss of assets.

The Merged Entity is exposed to risks associated with its financial instruments (consisting of cash, receivables, accounts payable and accrued liabilities due to third parties from time to time). This includes the risk that a third party to a financial instrument fails to meet its contractual obligations; the risk that the Merged Entity will not be able to meet its financial obligations as they fall due; and the risk that market prices may which will affect the Merged Entity's income.

(iii) Product liability and uninsured risks

Through its intended business, the Merged Entity 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 Merged Entity may not be able to maintain insurance for product or service liability on reasonable terms in the future and, in addition, the Merged Entity's insurance may not be sufficient to cover large claims, or the insurer could disclaim coverage on claims.

Although the Merged Entity endeavours to work to rigorous standards there is still the potential for adverse events. 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, and injury to the Merged Entity's reputation or increased insurance costs.

If the Merged Entity fails to meet its clients' expectations, the Merged Entity's reputation could suffer and it could be liable for damages.

Further, the Merged Entity is exposed to the risk of catastrophic loss to necessary equipment or facilities which would have a serious impact on the Merged Entity's operations. The Merged Entity 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.

(iv) Unforeseen expenditure risk

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

(v) Management of growth

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

(f) General Risks

(i) 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 Merged Entity's production activities, as well as on its ability to fund those activities.

(ii) Market conditions

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

- (A) general economic outlook;
- (B) introduction of tax reform or other new legislation;
- (C) interest rates and inflation rates;
- (D) changes in investor sentiment toward particular market sectors;
- (E) the demand for, and supply of, capital; and
- (F) 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 Merged Entity nor the Directors warrant the future performance of the Merged Entity or any return on an investment in the Merged Entity.

(iii) Insurance risks

The Merged Entity intends to insure its operations in accordance with industry practice. However, in certain circumstances, the Merged Entity'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 Merged Entity.

(iv) Loss of key personnel

The responsibility to oversee the day-to-day operations and the strategic management of the Merged Entity depends substantially on its senior management and its key personnel. There can be no assurance that the Merged Entity will be no detrimental effect on the Merged Entity if one or more of these employees cease their employment.

(v) New market

The market for the Merged Entity'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 the Merged Entity's Shares will develop or continue after the completion of the Offer. The price at which the Merged Entity's Shares trade on ASX after listing may be higher or lower than the Public Offer 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 Merged Entity have no control, such as exchange rates, changes to government policy, legislation or regulation and other events or factors.

There can be no guarantee that an active market in the Merged Entity's Shares will develop or that the price of the Shares will increase.

There may be relatively few or many potential buyers or sellers of the Shares on ASX at any given time. This may increase the volatility of the market price of the 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.

(vi) Investment speculative

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Merged Entity or by investors in the Merged Entity. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Merged Entity and the value of its shares.

Merged Entity should be considered a highly speculative investment and you should consult your professional advisers before deciding whether to accept the Offer.

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## **10. YOUR CHOICES AS AN AUSCANN SHAREHOLDER**

The choices that are available to you as an AusCann Shareholder are set out below. Your directors encourage you to consider your personal risk profile, investment strategy, tax position and financial circumstances before making any decision in relation to your AusCann Shares.

### **10.1 Accept the Offer**

The consequences of accepting the Offer are described in section 8.8 of this Target's Statement. In particular, if you accept the Offer and the Offer becomes Unconditional you will receive:

- (a) one (1) TWH Share; and
- (b) 0.1924 Performance Share,

for every one of your AusCann Shares;

You will not be able to sell your AusCann Shares to anyone else, including by accepting any Competing Proposal (including a Superior Proposal) that might emerge, unless either the Offer does not become Unconditional or you are able to withdraw your acceptance in the circumstances described in section 8.9 of this Target's Statement.

### **10.2 Reject the Offer**

If you do not wish to accept the Offer and wish to retain your AusCann Shares, no action is required.

However, if you do not accept the Offer and TWH becomes entitled to compulsorily acquire your AusCann Shares under the Corporations Act, you may be provided with your Offer Consideration later than AusCann Shareholders who chose to accept the Offer.

TWH has stated in its Bidder's Statement that if it becomes entitled to 90% of all AusCann Shares it intends to progress to compulsory acquisition. Further details on compulsory acquisition are provided in section 8.13 of this Target's Statement.

If the Offer becomes Unconditional, but TWH does not become entitled to compulsorily acquire your AusCann Shares, you will be a minority shareholder in AusCann. Some of the implications of becoming a minority AusCann shareholder are described in section 9.4 of this Target's Statement.

### **10.3 Sell your AusCann Shares**

You may decide to try to sell your AusCann Shares otherwise than by way of the Offer. If you do:

- (a) you will receive payment based on the price at which you privately negotiate with a third party and will not be able to accept the Offer or any Competing Proposal that may emerge; and
- (b) depending on the sale price achieved, you may receive more or less for your AusCann Shares than the value of the Offer Consideration.

The taxation implications of privately selling your AusCann Shares depend on a number of factors and will vary according to your particular circumstances.

You should seek your own specific professional advice regarding the taxation consequences for you of privately selling your AusCann Shares relative to accepting the Offer.

## 11. INFORMATION RELATING TO YOUR DIRECTORS

### 11.1 Interests of directors in AusCann

As at the date of this Target's Statement, your directors have a relevant interest in the number of AusCann Shares set out in the table below.

| Director                       | AusCann Shares |
|--------------------------------|----------------|
| Dr Malcolm Washer <sup>1</sup> | 213,142,093    |
| Ms Elaine Darby <sup>2</sup>   | 194,669,779    |
| Mr Harry Karelis <sup>3</sup>  | 196,090,726    |
| Hon Cheryl Edwardes            | Nil            |
| Mr Bruce McHarrie              | Nil            |
| Mr Bruce Linton <sup>4</sup>   | 460,658,336    |

**Notes:**

1. Held in Dr Washer's own name, or by entities he controls, namely Mal Washer Nominees Pty Ltd.
2. Held in Ms Darby's own name.
3. Held in Mr Karelis' own name, or by entities he controls, namely Gemelli Nominees Pty Ltd (**Gemelli Nominees**).
4. Held by Canopy, an entity of which Mr Linton is a director and a major shareholder.

### 11.2 Dealings by directors in AusCann Securities

None of your directors have acquired or disposed of a relevant interest in any AusCann Securities in the 4 month period ending on the date immediately before the date of this Target's Statement.

### 11.3 Interest and dealings in TWH Shares

As at the date of this Target's Statement:

- (a) neither AusCann, nor any of your directors, have a Relevant Interest in any TWH Shares or the shares of any related body corporate of TWH; and
- (b) there have been no acquisitions or disposals of TWH Shares by any of your directors in the 4 months ending on the date of this Target's Statement.

### 11.4 Benefits and agreements

Save as disclosed below:

- (a) no person has been or will be given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from a board or managerial office of AusCann or Related Body Corporate of AusCann, as a result of the Offer;
- (b) there are no agreements made between any of your directors and any other person in connection with, or conditional upon, the outcome of the Offer, other than in their capacity as a holder of AusCann Shares;
- (c) none of your directors have agreed to receive, or are entitled to receive any benefit from TWH which is conditional on, or related to, the Offer, other than in their capacity as a holder of AusCann Shares; and
- (d) none of your directors have any interest in any contract entered into by TWH.

Upon completion of the Offer TWH intends to continue to conduct the AusCann business as its sole focus. The Merged Entity's principal operating location will be Carabooda, Western Australia.

TWH does not currently intend to terminate or alter any employment arrangements with the existing AusCann personnel.

### ***Employee Incentive Scheme***

Following completion of the Offer it is TWH's intention to put in place an appropriate employee incentive scheme. The Proposed 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 to acquire Shares in the Merged Entity. TWH Shareholders approved the implementation of a plan on 31 October 2016. Accordingly, subject to the Offer completing, it is proposed that the Merged Entity adopt the employee share option plan (**Plan**).

The purpose of the Plan is to:

- (a) reward employees and consultants of the Merged Entity;
- (b) assist in the retention and motivation of employees and consultants of the Merged Entity;
- (c) provide an incentive to employees and consultants of the Merged Entity to grow shareholder value by providing them with an opportunity to receive an ownership interest in the Merged Entity.

### ***Executive Service Agreements***

AusCann has entered into an executive service agreement with proposed Managing Director, Ms Elaine Darby, and a consultancy agreement with proposed Executive Director, Mr Harry Karelis. TWH intends to uphold its obligations under these agreements. The key terms of these agreements are summarised as follows.

- (a) Ms Elaine Darby (Managing Director)

Ms Darby will receive an annual salary of \$200,000, and is entitled to be reimbursed for all reasonable expenses incurred in the performance of her duties. She will participate in the employee incentive scheme that TWH intends to put in place following completion of the Offer. 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.

Termination under the agreement is by way of 3 months' notice by either party, and the agreement contains customary provisions regarding confidentiality, and company ownership of intellectual property. If the Merged Entity 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.

- (b) Gemelli Nominees/Mr Harry Karelis (Executive Director)

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. Gemelli Nominees will receive a monthly consultancy fee of \$10,000 (exclusive of GST) for the provision of at least 16 hours work each week. Due to the nature of the consultancy arrangements, Mr Karelis is not entitled payment by the company of salary, holiday pay, sick pay, severance pay, long service leave or any other entitled which an employee has in respect of their employment. Mr Karelis is entitled to reimbursement of reasonable expenses and expenditure.

At the Company'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.

The agreement contains customary provisions regarding confidentiality, and Company ownership of intellectual property.

The Merged Entity 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, the Merged Entity may also terminate the Consultancy Agreement by giving written notice. Gemelli Nominees may also terminate the Consultancy Agreement without cause.

It is proposed that the Merged Entity will appoint the Proposed Directors. The Hon Cheryl Edwardes, Dr Malcolm Washer and Messrs Bruce Linton and Bruce McHarrie will be appointed as non-executive directors and will be entitled to receive \$197,100 in directors' fees in aggregate.

The current Directors of TWH, Messrs David Wheeler, Nicholas Calder and Simon Taylor will receive 50,000 TWH Options (respectively and on a post-Consolidation basis) upon the Offer becoming Unconditional, as consideration for and in recognition of the services provided by them as a Director of TWH, including in respect of the Offer, and as a method of providing remuneration without depletion of the TWH's cash reserves. The TWH Options will be exercisable at \$0.21 within 36 months of completion of the Offer.

The following advisers will also receive a fee from TWH for consulting services provided to TWH in relation to the Offer, to be issued as follows:

|                    | <b>CPS Capital</b> | <b>Gemelli Nominees</b> | <b>Dr Stewart Washer</b> |
|--------------------|--------------------|-------------------------|--------------------------|
| TWH Shares         | 153,552,779        | 68,435,891              | 68,435,891               |
| Performance Rights | 29,547,221         | 13,168,700              | 13,168,700               |

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## **12. ADDITIONAL INFORMATION**

### **12.1 Effect of the takeover on AusCann's material contracts**

None of the material contracts to which AusCann is a party contain change of control provisions that may be triggered as a result of, or as a result of acceptances of, the Offer.

### **12.2 Material litigation**

AusCann is not involved in any ongoing litigation that is material in the context of AusCann and its subsidiaries taken as a whole.

### **12.3 Bid Implementation Agreement**

On 9 May 2016, TWH announced that it had entered into the Heads of Agreement with AusCann in relation to the Offer by TWH for all of the AusCann Shares.

On 29 September 2016 TWH entered into a Bid Implementation Agreement, superseding the Heads of Agreement entered into previously, setting out the agreed terms of the Offer.

The terms of the Bid Implementation Agreement are summarised in section 10.1 of the Bidder's Statement.

### **12.4 Due Diligence**

Due diligence on AusCann was conducted on behalf of TWH prior to the Offer. The due diligence was a process undertaken under obligations of confidentiality.

### **12.5 Consents**

HLB Mann Judd has given and has not, before the lodgement of this Target's Statement with ASIC, withdrawn its written consent to be named in this Target's Statement in respect of the Offer in the form and context in which it is named and to the inclusion of the Independent Expert's Report in the Target's Statement. HLB Mann Judd does not make, or purport to make, any other statement in this Target's Statement other than those contained in the Independent Expert's Report. To the maximum extent permitted by law, HLB Mann Judd expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name.

As permitted by ASIC Class Order 01/1543 this Target's Statement contains statements which are made, or based on statements made, in documents lodged with ASIC or given to the ASX, or announced on the Company Announcements Platform of the ASX, by TWH. Pursuant to that Class Order, the consent of the person who made the statement is not required for the inclusion of such statements in this Target's Statement. Any AusCann Shareholder who would like to receive a copy of any of those documents may obtain a copy (free of charge) during the Offer Period by contacting AusCann by email at [info@auscann.com.au](mailto:info@auscann.com.au).

As permitted by ASIC Class Order 03/635, this Target's Statement may include or be accompanied by certain statements:

- (a) fairly representing a statement by an official person; or
- (b) from a public official document or a published book, journal or comparable publication.

In addition, as permitted by ASIC Class Order 07/429, this Target's Statement contains share price trading data sourced from IRESS Market Technology Limited without its consent.

### **12.6 No other material information**

This Target's Statement is required to include all the information that AusCann Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- (a) only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in this Target's Statement; and
- (b) only if the information is known to any director of AusCann.

Your directors are of the opinion that the information that AusCann Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- (a) the information contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- (b) the information contained in TWH's releases to the ASX, and in the documents lodged by AusCann with ASIC before the date of this Target's Statement; and
- (c) the information contained in this Target's Statement.

Your directors have assumed, for the purposes of preparing the Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, your directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all statements contained in it.

In deciding what information should be included in this Target's Statement, your directors have had regard to:

- (a) the nature of the AusCann Shares;
- (b) the matters that AusCann Shareholders may reasonably be expected to know;
- (c) the fact that certain matters may reasonably be expected to be known to AusCann Shareholders' professional advisers; and
- (d) the time available to AusCann to prepare this Target's Statement.

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## 13. GLOSSARY

In this Target's Statement (including its Annexures), unless the context otherwise requires:

**Acceptance Form** means the form of acceptance for the Offer accompanying the Bidder's Statement or alternatively any acceptance form sent to an AusCann Shareholder by TWH's share registry in relation to the Offer.

**Acquisition** means the acquisition of 100% of the issued capital of AusCann.

**Announcement Date** means 29 September 2016, being the date the Offer was announced on ASX.

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means ASX Limited ACN 008 624 691 or the Australian Securities Exchange (as the context requires).

**ASX Listing Rules** means the official listing rules of ASX, as amended from time to time.

**AusCann** means AusCann Group Holdings Limited (ACN 601 953 860).

**AusCann Material Adverse Change** has the meaning ascribed to it in the Bidder's Statement.

**AusCann Options** means the options to acquire fully paid ordinary shares in the issues capital of AusCann, issued to Canopy exercisable at \$0.01 per option on or before 36 months from the date of issue.

**AusCann Securities** means securities on issue in the capital of AusCann.

**AusCann Share** means a fully paid ordinary share in the capital of AusCann.

**Bid Conditions** means the conditions of the Offer, set out in section 8 of Annexure A to the Bidder's Statement.

**Bid Implementation Agreement** or **BIA** means the bid implementation agreement between TWH and AusCann dated 29 September 2016.

**Bid Period** has the meaning given to that term in the Corporations Act.

**Bidder's Statement** means the bidder's statement of TWH dated 31 October 2016 (including the Annexures).

**Board** means the board of directors of AusCann.

**Business Day** means a day that is not a Saturday, Sunday or any other day which is a public holiday or a bank holiday in Perth, Western Australia.

**Canopy** means Canopy Growth Corporation (formerly Tweed Marijuana Inc.), a company incorporated and existing in Canada and listed on the TSX Venture exchange as CGC.

**Competing Proposal** has the meaning ascribed to it in the Bidder's Statement.

**Constitution** means the constitution of AusCann.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Essential Resolutions** has the meaning ascribed to it in the Bidder's Statement.

**Heads of Agreement** means the heads of agreement entered into between AusCann and TWH on or around 7 May 2016.

**Independent Expert** or **HLB Mann Judd** means HLB Mann Judd Corporate (WA) Pty Ltd.

**Independent Expert's Report** means the concise Independent Expert's Report prepared by the Independent Expert in connection with the Offer, a copy of which is contained in Annexure A to this Target's Statement.

**Merged Entity** means TWH and its subsidiaries following the acquisition by TWH of all, or a portion of, AusCann Shares.

**New Constitution** has the meaning given to that term in section 7.4 of this Target's Statement.

**Offer** means the off market takeover offer by TWH to acquire AusCann Shares on the terms and conditions set out in the Bidder's Statement.

**Offer Consideration** means the TWH Shares and Performance Shares to be issued under the Offer.

**Offer Period** means the period during which an Offer is open for acceptance.

**Official List** of the ASX means the official list of entities that ASX has admitted and not removed.

**Option Purchase Agreement** means the agreement whereby TWH will acquire the AusCann Options from Canopy.

**Performance Milestone** means the performance based milestone specified in clause 6 of Annexure C to the Bidder's Statement.

**Performance Share** means a share in the capital of TWH issued on the terms and conditions set out in Annexure C to the Bidder's Statement.

**Performance Right** means a right to be issued a TWH Share on the same terms and conditions as those set out for a Performance Share in Annexure C of the Bidder's Statement.

**Prescribed Occurrence** has the meaning ascribed to it in the Bidder's Statement.

**Public Authority** means any government or any governmental, semi-governmental, statutory or judicial entity, agency or authority, whether in Australia or elsewhere, including (without limitation) any self-regulatory organisation established under statute or otherwise discharging substantially public or regulatory functions, and ASX or any other stock exchanges.

**Public Offer** means the public offer of securities in the capital of TWH to raise a minimum of at least \$3 million and up to \$5 million at an issue price of \$0.20 per Share.

**Record Date** means the date set by TWH under section 633(2) of the Corporations Act, being 5:00pm (WST) on 4 November 2016.

**Related Body Corporate** has the meaning given in section 50 of the Corporations Act.

**Relevant Interest** has the meaning given in section 9 of the Corporations Act.

**Superior Proposal** means a Competing Proposal in relation to AusCann that the AusCann Board determines in good is:

- (a) reasonably capable of being valued and completed in a timely manner, taking into account all aspects of the Competing Proposal and the person making it; and
- (b) more favourable to AusCann Shareholders as a whole than the Offer, taking into account all the terms and conditions of the Competing Proposal.

**Target's Statement** means this document being the statement of AusCann under Part 6.5 of Division 3 of the Corporations Act.

**TWH** means TW Holdings Limited (ACN 008 095 207).

**TWH Option** means an option to acquire a TWH Share.

**TWH Share** means a fully paid ordinary share in the capital of TWH.

**TWH Securities** means securities on issue in the capital of TWH.

**Unconditional** means TWH issuing a notice in accordance with section 630(3) of the Corporations Act, declaring that the Offer is free or freed (as the case may be) from all defeating conditions otherwise applicable to the Offer other than the Prescribed Occurrence Condition, subject to compliance with section 650F(1)(a) of the Corporations Act.

**WST** means Western Standard Time, being the time in Perth, Western Australia.

## 13.2 Interpretation

In this Target's Statement, unless the context otherwise requires:

- (a) other words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (b) words of any gender include all genders;

- (c) words indicating the singular include the plural and vice versa;
- (d) an expression indicating a person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- (e) a reference to a section, clause, attachment and schedule is a reference to a section of, clause of and an attachment and schedule to this Target's Statement as relevant;
- (f) a reference to any legislation includes all delegated legislation made under it and amendments, consolidations, replacements or re-enactments of any of them;
- (g) headings and bold type are for convenience only and do not affect the interpretation of this Target's Statement;
- (h) a reference to time is a reference to WST in Western Australia; and
- (i) a reference to dollars, \$, A\$, AUD, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia.

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**14. AUTHORISATION**

This Target's Statement has been approved by a resolution passed by all directors of AusCann.

Signed for and on behalf of AusCann.



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**Elaine Darby**  
Managing Director

## **ANNEXURE A - INDEPENDENT EXPERT'S REPORT**



**Mann Judd Corporate (WA) Pty Ltd**

ACN 008 878 555

Licensed Investment Adviser

Independent Expert's Report

# AusCann Group Holdings Limited

## Opinion: Fair and reasonable

HLB Mann Judd Corporate (WA) Pty Ltd AFSL 250903  
Level 4, 130 Stirling Street Perth WA 6000. PO Box 8124 Perth BC 6849 Telephone +61 (08) 9227 7500. Fax +61 (08) 9227 7533.  
Email: [hlb@hlbwa.com.au](mailto:hlb@hlbwa.com.au). Website: <http://www.hlb.com.au>

HLB Mann Judd Corporate (WA) Pty Ltd is a member of  International, a worldwide organisation of accounting firms and business advisers.



**Mann Judd Corporate (WA) Pty Ltd**  
ACN 008 878 555

Licensed Investment Adviser

## FINANCIAL SERVICES GUIDE

Dated 3 November 2016

### 1. HLB Mann Judd Corporate (WA) Pty Ltd

HLB Mann Judd Corporate (WA) Pty Ltd ABN 69 008 878 555 (“HLB Mann Judd Corporate” 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.

### 2. Financial Services Guide

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 a financial services licensee.

This FSG includes information about:

- who we are and how we can be contacted;
- the services we are authorised to provide under our **Australian Financial Services Licence, Licence No. 250903**;
- remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

### 3. Financial services we are licensed to provide

We hold an Australian Financial Services Licence which authorises us to provide financial product advice in relation to:

- securities;
- interests in managed investment schemes excluding investor directed portfolio services;
- superannuation; and
- debentures, stocks or bonds issued or proposed to be issued by a government.

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.

### 4. 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 and there is no statutory exemption relating to the matter, 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.

## **5. Benefits that we may receive**

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

Except for the fees referred to above, neither HLB Mann Judd Corporate, 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.

## **6. Remuneration or other benefits received by us**

HLB Mann Judd Corporate has no employees. All personnel who complete reports for HLB Mann Judd Corporate are partners of HLB Mann Judd (WA Partnership). None of those partners are eligible for bonuses directly in connection with any engagement for the provision of a report.

## **7. 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.

## **8. Associations and relationships**

HLB Mann Judd Corporate is wholly owned by HLB Mann Judd (WA Partnership). Also, our directors are partners in HLB Mann Judd (WA Partnership). Ultimately the partners of HLB Mann Judd (WA Partnership) own and control HLB Mann Judd Corporate.

From time to time HLB Mann Judd Corporate or HLB Mann Judd (WA Partnership) may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

## **9. Complaints resolution**

### **9.1. 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. Complaints must be in writing, addressed to The Complaints Officer, HLB Mann Judd Corporate (WA) Pty Ltd, Level 4, 130 Stirling Street, Perth WA 6000.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within **7 days** and investigate the issues raised. As soon as practical, and not more than **one month** after receiving the written complaint, we will advise the complainant in writing of the determination.

## 9.2 *Referral to external disputes 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 Limited (“FOS”). FOS independently and impartially resolves disputes between consumers, including some small business, and participating financial services providers.

Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly via the details set out below.

Financial Ombudsman Service Limited  
GPO Box 3  
Melbourne VIC 3001  
Toll free: 1300 78 08 08  
Facsimile: (03) 9613 6399

## 10. Contact details

You may contact us using the details at the foot of page 1 of this FSG.



**Mann Judd Corporate (WA) Pty Ltd**  
ACN 008 878 555

Licensed Investment Adviser

1611 AUS092 REP  
LDI

3 November 2016

The Directors  
AusCann Group Holdings Limited  
85 Carabooda Road  
CARABOODA WA 6033

Dear Sirs

## INDEPENDENT EXPERT'S REPORT

### 1. INTRODUCTION

On 17 March 2016, TW Holdings Limited ("TWH" or the "Bidder") announced an off-market takeover bid ("Bid") for 100% of the fully paid ordinary shares in AusCann Group Holdings Limited ("AusCann" or the "Company"). A Bidder's Statement was also released on 31 October 2016 which offered the shareholders of AusCann ("Shareholders") the following consideration for their shares ("the Offer"):

- One TWH Share; and
- Approximately 0.1924 Performance Share,

for every one AusCann Share that they hold.

The Offer is subject to Bid Conditions which are summarised in section 8.3 of the Target's Statement and repeated in Section 1.1 of this Report.

The full details of the Offer are included in the Bidder's Statement which was served on AusCann on 31 October 2016. An overview of the Offer is provided in Section 1 of this Report. The directors of AusCann ("Directors") are required to issue a Target's Statement, in response to the Bidder's Statement, which will include their recommendation as to whether Shareholders should accept the Offer.

### 2. PURPOSE OF THE REPORT

The Directors have requested that HLB Mann Judd Corporate (WA) Pty Ltd ("HLB") provide an independent expert's report ("Report") advising whether, in our opinion, the Offer is fair and reasonable to the Shareholders of AusCann.

HLB Mann Judd Corporate (WA) Pty Ltd AFSL 250903  
Level 4, 130 Stirling Street Perth WA 6000. PO Box 8124 Perth BC 6849 Telephone +61 (08) 9227 7500. Fax +61 (08) 9227 7533.  
Email: [hlb@hlbwa.com.au](mailto:hlb@hlbwa.com.au). Website: <http://www.hlb.com.au>

HLB Mann Judd Corporate (WA) Pty Ltd is a member of  International, a world-wide organisation of accounting firms and business advisers

## 2. PURPOSE OF THE REPORT (CONTINUED)

Our Report has been prepared to assist Shareholders in their decision whether to accept or reject the Offer.

We have prepared this Report having regard to the relevant Australian Securities and Investments Commission (“ASIC”) Regulatory Guide 111 “Content of Expert’s Reports” (“RG 111”) and Regulatory Guide 112 “Independence of Experts” (“RG 112”).

This Report is to be included in a Target’s Statement to be sent to Shareholders and has been prepared exclusively for the purpose of assisting Shareholders in their consideration of the Offer. The Report should not be used for any other purpose.

## 3. SUMMARY AND OPINION

In order to assess whether the Offer is fair and reasonable we have:

- assessed whether the Offer is fair by estimating the fair market value of an ordinary AusCann share (on a control basis) and comparing the value to the estimated fair market value of the consideration to be received by Shareholders pursuant to the Offer; and
- assessed the reasonableness of the Offer by considering other advantages and disadvantages of the Offer to Shareholders.

### 3.1. Fairness

Set out in the table below is a comparison of our assessment of the fair market value of an AusCann share with the consideration being offered by TWH under the Offer.

|  | Preferred | High      | Low       |
|--|-----------|-----------|-----------|
| Value of an AusCann share (Section 6.4)      | \$0.00098 | \$0.00098 | \$0.00089 |
| Value of consideration offered (Section 7.1) | \$0.0021  | \$0.0022  | \$0.0020  |

**The consideration offered by TWH under the terms of the Offer is above the preferred value of our estimate of the fair market value of an AusCann share.**

**Accordingly it is our opinion that the Offer is fair.**

### Valuation of an AusCann share

As set out in Section 6 of the attached Report, the fair market value of an AusCann share has been determined using the net assets method on a going concern basis.

### **Valuation of consideration**

As set out in Section 7 of the attached Report, we have valued the consideration offered to Shareholders under the Offer at between \$0.0020 and \$0.0022, with a preferred value of \$0.0021.

### **3.2. Reasonableness**

In accordance with ASIC Regulatory Guide 111 “Content of expert reports” (“RG 111”), an offer is reasonable if it is fair. On this basis, in our opinion, the Offer is reasonable. We have also identified the following factors in relation to the reasonableness of the Offer:

#### **3.2.1. Advantages of accepting the Offer**

- The Offer is fair. RG 111 states that an offer is reasonable if it is fair.
- Shareholders of AusCann will become shareholders in a company with cash reserves to develop AusCann’s research, testing, clinical trials and medicinal cannabis products. Under the Public Offer, TWH is looking to raise a minimum of \$3,000,000 (prior to the costs of issue) and up to \$5,000,000 (prior to the costs of issue). These funds, together with TWH’s current funds and AusCann’s funds, will provide the merged entity with significant funds to progress the initiatives noted above;
- TWH is listed on ASX. As a result, shareholders of AusCann will gain the ability to trade the TWH shares they will receive as Offer consideration, should the Offer be successful (subject to any trading restrictions that ASX may impose on some or all of the TWH shares to be received as Offer consideration);
- The AusCann Board, in the absence of a superior proposal, unanimously recommends that AusCann shareholders accept the Offer. Each of the directors have also indicated that they intend to accept the Offer in respect of all AusCann shares they control. As the AusCann directors hold a significant portion of the total AusCann shareholding, acceptance of the offer by the directors will assist in TWH achieving the minimum acceptance of 90% of AusCann’s shareholding which in turn will trigger the other advantages noted above;
- The Board of AusCann has not received any alternative proposal to the Offer; and
- In addition to AusCann shareholders receiving 1 TWH share for each share they hold in AusCann, which we have valued in the attached Report, AusCann shareholders will also receive approximately 0.1924 TWH Performance Shares for every 1 share they hold in AusCann. As noted in Section 8.1, whilst we have not ascribed a value to this portion of the consideration due to the milestones noted being based on future events, the outcome of which cannot be determined at the date of this Report with any certainty, should any of the noted milestones be achieved, AusCann shareholders will receive additional shares in TWH as consideration.

### *3.2.2. Disadvantages of accepting the Offer*

The Bidder's Statement contains in section 9 various risks of accepting the Offer. These include the following:

- If the Offer becomes unconditional, AusCann shareholders who accept the Offer will become TWH shareholders and will continue to be exposed to the risks associated with an investment in AusCann;
- The TWH shares offered as consideration will be subject to fluctuations in value due to the vagaries of the stock market;
- Under the Offer, TWH will issue a significant number of new TWH shares. AusCann shareholders who intend to dispose of their TWH shares may find that the value of their TWH shares has decreased; and
- TWH currently has 602 million shares on issue. On completion of the Offer and the Public Offer, it is proposed that the merged entity will have up to 4.3 billion shares on issue. If the minimum amount of \$3 million is raised under the Public Offer, the existing AusCann shareholders will retain approximately 71.1% of the merged entity. If the maximum amount of \$5 million is raised under the Public Offer, the existing AusCann shareholders will retain 67.8% of the merged entity. There is also a risk that the interests of all shareholders will be further diluted as a result of future capital raisings required in order to fund the development of the business.

### *Conclusion on reasonableness*

We have considered the above factors. We consider that, on balance, the advantages of the Offer outweigh the disadvantages. We are therefore of the view that the position of non-associated shareholders if the Offer is accepted, would be more advantageous than if the Offer is not accepted.

Accordingly, we are of the opinion that the Offer is **reasonable** to the non-associated shareholders.

### *3.2.3. Opinion*

**We are of the opinion that the Offer is fair and reasonable to AusCann's Shareholders.**

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully

**HLB MANN JUDD CORPORATE (WA) PTY LTD**

**Licensed Investment Advisor (AFSL Licence number 250903)**



**L DI GIALLONARDO**

**Authorised Representative**

AUSCANN GROUP HOLDINGS LIMITED

INDEPENDENT EXPERT'S REPORT

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AUSCANN GROUP HOLDINGS LIMITED

INDEPENDENT EXPERT'S REPORT

1. *DETAILS OF THE TWH OFFER*

1.1. *Summary*

On 31 October 2016, TWH served a Bidder's Statement on AusCann and lodged copies of the Bidder's Statement with ASIC and the Australian Securities Exchange Ltd ("ASX") on the same date. The terms of the Offer are described in Section 1 of the Bidder's Statement.

The Offer is to acquire 100% of the fully paid ordinary shares in AusCann. AusCann Shareholders are offered the following consideration:

- One TWH Share; and
- Approximately 0.1924 Performance Share,

for every one AusCann Share that Shareholders hold.

The Offer is subject to various conditions which are set out in Section 8.3 of the Target's Statement. These are set out below:

i) *Approval of Essential Resolutions*

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

ii) *Public Offer*

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

iii) *Minimum acceptance*

On or before the end of the Offer Period TWH has a relevant interest in more than 90% 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.

iv) *ASX consent to re-quotations*

TWH receives from ASX written confirmation that ASX will terminate the suspension of TWH 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.

*v) Option offers*

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

*vi) Completion under other agreements*

No later than at the same time as completion occurs with each AusCann Shareholder with respect to their AusCann Shares under the Offer, TWH also completes the sale and purchase or cancellation (as the case may be) of all of the:

- AusCann Shares under the Pre-Existing Sale Agreements (except to the extent that TWH is entitled to and does acquire such AusCann Shares under the Offer); and
- AusCann Options under the Option Purchase Agreement.

*vii) 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:

- the Offer to be lawfully made to and accepted by the AusCann Shareholders;
- the transactions contemplated by the Bidder's Statement to be completed; and
- 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.

*viii) No regulatory action and consents*

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

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

in consequence of or in connection with the Offer (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 Offer and the completion of any transaction contemplated by the Bidder's Statement or which requires the divestiture by TWH of any AusCann Securities or any material assets of AusCann or any subsidiary of AusCann.

*ix) No AusCann Material Adverse Change*

Between the Announcement Date and the end of the Offer Period (each inclusive), no AusCann Material Adverse Change occurs.

*x) 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 TWH (whether or not becoming public) or AusCann, other than that which is in the public domain as at the Announcement Date.

*xi) 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 TWH 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 TWH, other than in the ordinary course of ordinary business, for the purposes of soliciting, encouraging or facilitating any proposal with respect to:

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

*xii) 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.

*xiii) 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).

*xiv) Escrow*

Each AusCann Shareholder (including Canopy) enters into such form of restriction agreement in respect of the TWH Securities issued to them including any TWH Shares issued upon satisfaction of the Performance Milestone under the terms of the Performance Shares or pursuant to the exercise of a TWH Option as ASX may require.

## 1.2. TWH Intentions

A statement of TWH intentions is included in sections 7.2 to 7.5 of the Bidder's Statement.

The Offer is conditional upon TWH acquiring a Relevant Interest in at least 90% of the AusCann Shares on issue. If TWH waives that condition, it may, as a result of its Offer, acquire less than 90% of AusCann. If TWH acquires less than 90% of all AusCann shares under the Offer but sufficient Shares to exercise control over the management and operations of AusCann, TWH's intentions are as follows:

### i) General

TWH will implement the intentions described below to the extent possible and economically feasible and subject to the requirements of the Corporations Act and any other applicable laws or regulations. These intentions specifically include those in respect of strategic review, corporate matters, corporate office and employees and general business integration.

TWH intends, to the extent possible, to implement the intentions detailed in sections 7.2 to 7.5 of the Bidder's Statement where they are consistent with AusCann being a controlled entity of (but not wholly owned by) TWH and are considered to be in the best interests of AusCann Shareholders as a whole, including the rights of minority shareholders.

### ii) AusCann research and development expenditure

TWH intends, to the extent possible, to implement the current budgeted expenditure program in relation to research and development activities.

### iii) Composition of the Board

In the event that TWH gains control of AusCann, the current Directors of TWH will resign and the Proposed Directors will comprise the respective AusCann and TWH Boards.

### iv) Remaining AusCann Shareholders

If TWH acquires less than 90% of the AusCann Shares on issue, then AusCann Shareholders should be aware that if they do not accept the Offer they may become a "locked-in" minority after the end of the Offer Period (i.e. if TWH holds a majority of AusCann Shares but is not entitled to compulsorily acquire the remaining AusCann Shares).

It is possible that, even if TWH is not entitled to proceed to compulsory acquisition of minority holdings after the end of the Offer Period under Part 6A.1 of the Corporations Act, it may subsequently become entitled to exercise rights of general compulsory acquisition under Part 6D.2 of the Corporations Act (for example, as a result of acquisitions of AusCann Shares in reliance on the '3% creep' exception in item 9 of Section 611 of the Corporations Act). If so, it intends to exercise those rights.

v) Dividends and funding

AusCann does not currently pay dividends. The payment of dividends by AusCann is at the discretion of the AusCann Board. TWH has not formed an intention about retaining or varying the current dividend policy of AusCann (through its nominees on the board of AusCann), and will do so following completion of the Offer.

vi) Limitations in giving effect to intentions

There may be limitations to TWH's intentions as outlined in this Section due to the legal obligations of AusCann's directors to have regard to the best interests of AusCann and its shareholders, including the rights of minority shareholders, and the requirements of the Corporations Act and other applicable laws, and Listing Rules relating to transactions between related parties. TWH may require legal and financial advice before deciding what action to take in connection with the intentions outlined in this Section.

The extent to which TWH will be able to implement these intentions will be subject to:

- the Corporations Act and the Listing Rules, in particular in relation to related party transactions and conflicts of interests;
- the legal obligation of the directors of AusCann to act for proper purposes and in the best interests of AusCann Shareholders as a whole; and
- the level of control that TWH will be able to exert over the operations and strategy of AusCann.

If TWH does not acquire effective control of AusCann, TWH's intentions are as follows:

- i) TWH does not expect to be in a position to give effect to the intentions set out in sections 7.3 or 7.4 of the Bidder's Statement; and
- ii) TWH would have regard to the circumstances at the time and consider the appropriate courses of action that are in the best interests of TWH Shareholders. Such courses of action might include, but not be limited to, disposing of its shareholding in AusCann, acquiring further AusCann Shares as permitted by law, seeking representation on the AusCann Board and exercising its voting rights as a major shareholder as it deems fit.

## **2. SCOPE OF THE REPORT**

### **2.1. Purpose of the Report**

Under Section 640 of the Corporations Act 2001 ("Section 640") a target's statement given in response to an Offer must include, or be accompanied by, an independent expert's report if either the bidder's voting power in the target is 30% or more, or the bidder and target have one or more common directors. The independent expert's report is required for the purpose of providing shareholders of the target company with an objective and disinterested view as to whether the offer is fair and reasonable and to provide them with sufficient information to make an effective, informed decision as to whether to accept or reject the offer.

TWH and AusCann do not have any common directors. As at the Announcement Date, AusCann Shareholders holding 32.6% of the AusCann Shares have entered into Pre-existing Sale Agreements with TWH, pursuant to which those AusCann Shareholders have agreed to sell their AusCann Shares to TWH. Under the terms of the Pre-existing Sale Agreements, the relevant AusCann Shareholders will receive the same consideration that is offered to AusCann Shareholders under the Offer. It is arguable whether an independent expert's report is required to accompany the Target's Statement for the purposes of Section 640. Notwithstanding this, the directors of AusCann have requested that HLB prepare this Report as if it were an independent expert's report pursuant to Section 640, and to provide an opinion on whether the Offer is fair and reasonable to Shareholders.

The Bidder's Statement and the Target's Statement contain considerable information in respect of the Offer. **We recommend all Shareholders read these documents in full.**

This Report is to be included in the Target's Statement to be sent to Shareholders and has been prepared for the exclusive purpose of assisting Shareholders in their consideration of the Offer. This Report cannot and should not be relied upon for any other purpose.

## **2.2. Regulatory Guidance**

Neither the ASX Listing Rules ("Listing Rules") nor the Corporations Act 2001 ("Act") defines the meaning of "fair and reasonable". In determining whether the Offer is fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. RG 111 provides guidance as to what matters an independent expert should consider to assist security holders in making informed decisions about transactions.

RG 111 suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Offer is a control transaction as defined by RG 111 and we have therefore assessed the Offer as a control transaction to consider whether, in our opinion, it is fair and reasonable to Shareholders.

## **2.3. Basis of Evaluation**

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities the subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities the subject of the offer in a control transaction, the expert should consider this value inclusive of a control premium. Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being "not fair", the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regards to the above, HLB has completed this comparison in two parts:

- assessed whether the Offer is fair by estimating the fair market value of an ordinary AusCann share (on a control basis) and comparing the value to the estimated fair market value of the consideration to be received by Shareholders pursuant to the Offer (see Section 8.2); and
- assessed the reasonableness of the Offer by investigating other significant factors to which Shareholders might give consideration, prior to approving the Offer, after reference to the value derived above. This will include assessing the advantages and disadvantages of the Offer to Shareholders (see Section 8.3).

This Report has been prepared in accordance with the requirements of the professional standard APES 225 *Valuation Services* ("APES 225") as issued by the Accounting Professional & Ethical Standards Board.

In accordance with the requirements of APES 225, we advise that this assignment is a Valuation Engagement as defined by that standard as follows:

*"an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Member is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time."*

### **2.3.1 Individual circumstances**

We have evaluated the Offer for Shareholders as a whole. We have not considered the effect of the Offer on the particular circumstances of individual Shareholders. Due to their particular circumstances, individual Shareholders may place a different emphasis on various aspects of the Offer from the ones adopted in this Report. Accordingly, individual Shareholders may reach different conclusions to ours on whether the Offer is fair and reasonable. If in doubt, Shareholders should consult an independent adviser.

### **2.4. Limitations and Reliance on Information**

HLB's opinion is based on economic, sharemarket, business trading and other conditions and expectations prevailing at the date of this Report. These conditions can change significantly over relatively short periods of time. If these conditions did change materially the valuations and opinions could be different in these changed circumstances.

This Report is also based upon financial information and other information provided by AusCann. HLB has considered and relied upon this information. HLB has no reason to believe that any material facts have been withheld. The information provided to HLB has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the TWH offer is fair and reasonable. However, in preparing reports such as this, time is limited and HLB does not warrant that its enquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. In any event, an opinion as to fairness and reasonableness is more in the nature of an overall review rather than a detailed audit or investigation.

#### **2.4 Limitations and Reliance on Information (continued)**

An important part of the information used in forming an opinion of the kind expressed in this Report is comprised of the opinions and judgment of management. This type of information was also evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or valuation.

Preparation of this Report does not imply that HLB has audited in any way the management accounts or other records of AusCann. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years except as otherwise noted.

The information provided to HLB included historical financial information and budgets for AusCann and its key business. AusCann is responsible for this information. HLB has used and relied on this information for the purpose of analysis. HLB has assumed that this information was prepared appropriately and accurately based on the information available to management at the time and within the practical constraints and limitations of such information. HLB has assumed that this information does not reflect any material bias, either positive or negative. HLB has no reason to believe otherwise. The achievability of the budgets provided is not warranted or guaranteed by HLB. Future profits and cash flows are inherently uncertain, as they are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the Company or its management. As a result, actual results may be significantly more or less favourable.

### **3. ECONOMIC ANALYSIS**

In order to provide an analysis of the general economic environment that the Company is operating in, the following is a brief report on the latest Government economic statement.

At its meeting on 1 November 2016, the Reserve Bank of Australia Board ("Board") decided to leave the cash rate unchanged at 1.5%. In support of this decision, the Board provided the following commentary:

*"The global economy is continuing to grow, at a lower than average pace. Labour market conditions in the advanced economies have improved over the past year, but growth in global industrial production and trade remains subdued. Economic conditions in China have steadied recently, supported by growth in infrastructure and property construction, although medium-term risks to growth remain. Inflation remains below most central banks' targets.*

*Commodity prices have risen over recent months, following the very substantial declines over the past few years. The higher commodity prices have supported a rise in Australia's terms of trade, although they remain much lower than they have been in recent years.*

*Financial markets are functioning effectively. Funding costs for high-quality borrowers remain low and, globally, monetary policy remains remarkably accommodative. Government bond yields have risen, but are still low by historical standards.*

*In Australia, the economy is growing at a moderate rate. The large decline in mining investment is being offset by growth in other areas, including residential construction, public demand and exports. Household consumption has been growing at a reasonable pace, but appears to have slowed a little recently. Measures of household and business sentiment remain above average.*

*Labour market indicators continue to be somewhat mixed. The unemployment rate has declined this year, although there is considerable variation in employment growth across the country. Part-time employment has been growing strongly, but employment growth overall has slowed. The forward-looking indicators point to continued expansion in employment in the near term.*

*Inflation remains quite low. The September quarter inflation data were broadly as expected, with underlying inflation continuing to run at around 1½ %. Subdued growth in labour costs and very low cost pressures elsewhere in the world mean that inflation is expected to remain low for some time.*

*Low interest rates have been supporting domestic demand and the lower exchange rate since 2013 has been helping the traded sector. Financial institutions are in a position to lend for worthwhile purposes. These factors are assisting the economy to make the necessary adjustments, though an appreciating exchange rate could complicate this.*

*The Bank's forecasts for output growth and inflation are little changed from those of three months ago. Over the next year, the economy is forecast to grow at close to its potential rate, before gradually strengthening. Inflation is expected to pick up gradually over the next two years.*

*In the housing market, supervisory measures have strengthened lending standards and some lenders are taking a more cautious attitude to lending in certain segments. Turnover in the housing market and growth in lending for housing have slowed over the past year. The rate of increase in housing prices is also lower than it was a year ago, although prices in some markets have been rising briskly over the past few months. Considerable supply of apartments is scheduled to come on stream over the next couple of years, particularly in the eastern capital cities. Growth in rents is the slowest for some decades.*

*Taking account of the available information, and having eased monetary policy at its May and August meetings, the Board judged that holding the stance of policy unchanged at this meeting would be consistent with sustainable growth in the economy and achieving the inflation target over time”.*

Source: [www.rba.gov.au](http://www.rba.gov.au) Statement by Philip Lowe, Governor: Monetary Policy Decision 1 November 2016

#### **4. PROFILE OF AUSCANN**

##### **4.1. Company History and Background**

AusCann was registered on 22 September 2014 as AusCann Group Holdings Pty Ltd and changed its status to that of a public company on 10 June 2015. Via proposed contractual arrangements, AusCann 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 in Section 4.2 an overview of AusCann's activities and projects.

#### **4.2. Overview of AusCann's Activities and Projects**

##### **(a) AusCann's Business Model**

AusCann has the ability to deliver high quality, economical and clinically validated cannabis medicines by:

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

AusCann's business model is based on:

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

AusCann's main objectives on completion of the Offer are:

- (i) having the TWH securities reinstated to trading on the ASX;
- (ii) undertaking research into, and development of, new medicinal cannabis strains, cultivation and extraction techniques;
- (iii) undertaking research into the clinical efficacy of medicinal cannabis products and delivery mechanisms for various medical conditions;

- (iv) obtaining relevant licensing for the cost effective cultivation and manufacture of high quality, clinically effective medicinal cannabis in Australia once regulations permit; and
- (v) the provision of relevant information to establish the Australian medical community's trust and confidence in the prescription of AusCann's medicinal cannabis products.

**(b) AusCann Research and Development**

**(i) Clinical Efficacy and Analytical Work**

AusCann will support robust clinical trials that provide quality evidence of the efficacy of AusCann's medicinal cannabis products and delivery mechanisms on 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 AusCann's Canadian partner Canopy Growth Corp. Once the cultivation, production and manufacture licensing regime is established in Australia, AusCann intends to supply clinical studies with its locally developed products. These clinical studies will also be deemed a valid supply under relevant legislation for domestic licensing purposes.

AusCann will undertake chemical analysis of produced and sourced medicinal cannabis extracts to support its clinical investigations. This analysis will be undertaken using AusCann 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 *Narcotic Drugs Act 1967* (Cth) ("ND Act").

AusCann is currently developing clinical trial protocols with clinicians for these studies. Once completed these protocols will then be submitted for Human Research Ethics Committees ("HREC") approval and R&D licence applications under section 41 of the *Poisons Act 1964* (WA). Once a R&D licence is obtained then AusCann may apply for a licence and permit to import the cannabis products.

**(ii) Education/Outreach**

AusCann is also focused on providing relevant information to the Australian medical community to establish trust and confidence in the prescription of AusCann'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. AusCann will arrange regular roadshow platforms in each city in which these

international clinicians and researchers can engage with the Australian medical community.

(iii) New medicinal cannabis strains, cultivation and extraction techniques

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

AusCann 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 AusCann and Murdoch University can apply for a research and development cultivation licence under the relevant legislation the parties will draw 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.

AusCann 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.

(iv) Licensing application for 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. The TGA issued an interim decision in April 2016 rescheduling cannabis products to schedule 8. The implementation of this rescheduling is imminent with the Office of Drug Control publically advising that rescheduling is expected to occur in August 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.

It is likely that 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.

(a) 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.

(b) Schedule 8 substance

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

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.

(v) Licensing application for education and outreach

No licensing or permits are required for the provision of education material to authorised medical clinicians.

(vi) Licensing applications for new medicinal cannabis strains, cultivation and extraction techniques

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.

(vii) Licensing applications for growing and manufacturing operations in Australia

The Narcotic Drugs Amendment Bill 2016 was passed by the Commonwealth Parliament in February 2016 which amended previous legislation 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 was 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 Therapeutic Goods Administration approved manufacturing sites.

In order to implement this strategy, AusCann intends to complete its 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 AusCann intends to immediately commence building one or more growing

operations. This may require additional financing (debt, equity or third party) in the future.

AusCann may also 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.

### **4.3 Legal Structure**

The Company's is a company limited by shares and is incorporated and domiciled in Australia.

### **4.4 Directors**

Details of AusCann's directors, along with a description of their experience and credentials are as follows:

Dr Malcolm 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.

Ms Elaine Darby  
*Managing Director*

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.

Mr 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.

Hon. Cheryl Edwardes  
*Director*

Hon. Cheryl Edwardes AM is a Company Director on a number of ASX Boards as well as private and not for profit associations. A solicitor by profession, Mrs Edwardes is a former Minister in the Court Government with extensive experience and knowledge of WA's legal and regulatory framework relating to mining projects, environmental, native title, heritage and land access. Mrs Edwardes assists the clients of FTI Consulting with a range of complex statutory approvals required for resources and infrastructure projects.

During her political career, Mrs Edwardes held positions including WA Attorney General, Minister for the Environment and Minister for Labour Relations. She also has broad experience and networks within China's business community.

Mr 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 sat on the Water and Sanitation Committee of the World Bank on behalf of Canada and has also worked through the Asia Development Bank. Bruce has a demonstrable track record of raising capital required for cannabis businesses.

Mr Bruce McHarrie  
*Non-Executive Director*

Mr McHarrie is a highly experienced senior executive and independent company director with a background in the life sciences industry focussed on finance, operations, business and investment management, and strategic planning.

In addition to AusCann, Mr McHarrie is a non-executive director of Adherium Limited, an ASX listed digital health technology company, he is chairman of the Animal Ethics Committee of the child health research organisation, Telethon Kids Institute, and undertakes corporate consulting activities.

Mr McHarrie previously served as the chief financial officer, director of operations and director of strategic projects with the Telethon Kids Institute in Western Australia. Prior to joining the Telethon Kids Institute, Mr McHarrie 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 two Institute spin-outs including publicly listed drug discovery company, Phylogica Limited, and has held a number of other non-executive director positions in biotechnology and not-for-profit healthcare organisations.

He is a Fellow of the Institute of Chartered Accountants Australia and New Zealand, holds a Bachelor of Commerce degree from the University of Western Australia, and is a graduate member of the Australian Institute of Company Directors. Mr McHarrie resides in Australia.

#### 4.5. Capital Structure and Shareholders

At the date of the Target's Statement, AusCann had the following securities on issue:

| Class of security            | Number        |
|------------------------------|---------------|
| AusCann Shares <sup>1</sup>  | 2,934,182,996 |
| AusCann Options <sup>2</sup> | 153,552,779   |

#### Notes:

1. AusCann has one class of voting shares on issue, being the AusCann Shares.
2. The AusCann Options are exercisable at \$0.01 per option on or before 36 months after their issue.

#### 4.6. Recent Capital Raisings

AusCann has completed the following capital raisings since its incorporation in September 2014:

- i) Equity placements amounting to \$835,000 between October 2014 and February 2015 undertaken at \$5,000 per share.
- ii) Convertible note issue of \$3,322,000 during the year ended 30 June 2016 with an equity conversion price of a 75% discount to the most recent capital raising. The convertible notes cannot be redeemed by the subscriber and can only be converted into equity. As such, the issue of the convertible notes are considered to be reflective of an equity issue at a value of \$3,750 (ie 75% of \$5,000).

#### 4.7. Financial Performance

The audited financial results of AusCann for the years ended 30 June 2015 and 2016 are set out below:

|                               | Audited<br>Year to<br>30 June 2016<br>\$ | Audited<br>Year to<br>30 June 2015<br>\$ |
|-------------------------------|--|--|
| Interest received             | 57,257                                   | 7,285                                    |
| Employee benefits expense     | (194,136)                                | -  |
| Impairment expense            | (56,221)                                 | -  |
| Depreciation                  | (181)                                    | (155)                                    |
| Share based payments expense  | (5,001,065)                              | -  |
| Consulting fees - directors   | (152,500)                                | (135,000)                                |
| Consulting fees - other       | (123,590)                                | (126,353)                                |
| Legal expenses                | (173,579)                                | (10,893)                                 |
| Other                         | (167,057)                                | (92,161)                                 |
| <b>Loss before income tax</b> | <b>(5,811,072)</b>                       | <b>(357,277)</b>                         |
| Income tax benefit            | -  | -  |
| <b>Loss after income tax</b>  | <b>(5,811,072)</b>                       | <b>(357,277)</b>                         |

The share based payments expense represents the value of shares and options issued to Canopy Growth Corporation.

#### 4.8. Financial Position

The audited statements of financial position of AusCann as at 30 June 2015 and 2016 are set out below:

|                                  | Audited<br>30 June 2016<br>\$ | Audited<br>30 June 2015<br>\$ |
|----------------------------------|-------------------------------|-------------------------------|
| <b>Current Assets</b>            |                               |                               |
| Cash assets                      | 2,960,890                     | 486,563                       |
| Other                            | 16,638                        | 36,118                        |
| <b>Total Current Assets</b>      | <b>2,977,528</b>              | <b>522,681</b>                |
| <b>Non Current Assets</b>        |                               |                               |
| Property, plant and equipment    | 363                           | 544                           |
| Intangible assets                | -                             | 56,221                        |
| <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                        | 16,513                        |
| Employee benefits                | 12,165                        | -                             |
| Unearned income                  | 250,000                       | -                             |
| Amounts due to shareholders      | -                             | 100,000                       |
| <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                       |
| Option reserve                   | 601,827                       | -                             |
| Accumulated losses               | (6,168,349)                   | (357,277)                     |
| <b>Total Equity</b>              | <b>2,625,006</b>              | <b>462,933</b>                |

As noted in Section 4.6 above, AusCann raised \$3,322,000 during the year ended 30 June 2016 via a convertible note issue with an equity conversion price of a 75% discount to the most recent capital raising. The convertible notes cannot be redeemed by the subscriber and can only be converted into equity. As such, the issue of the convertible notes were considered to be reflective of an equity issue and have been recognised as equity. It is arguable as to whether the convertible notes should be valued with the debt portion and the equity value of the embedded derivative recognised separately. Notwithstanding this, upon completion of the Proposed Transaction, the convertible notes will convert to equity, therefore the accounting treatment is not relevant for the purposes of this Report.

The Unearned Income amount of \$250,000 represents the fee received from TWH for the option to acquire AusCann. This fee is only refundable if the Proposed Transaction does not complete due to inaction by AusCann.

## 5. PROFILE OF TWH

### 5.1. Company History

TWH was registered on 26 February 1986 and was admitted to the Official List of ASX on 3 May 1989.

Since its incorporation, TWH has principally been focused on the preparation for the sale of Australian table and sparkling wines, principally through an Australia-wide distribution agreement. For a number of years, TWH has been considering other potential areas of interest and actively engaging in assessing such opportunities.

TWH has been seeking further investment opportunities outside of the wine industry. As announced to the ASX on 17 March 2016, TWH entered into a non-binding term sheet to acquire 100% of the issued share capital of AusCann ("Acquisition"). In addition, as announced to ASX, on 9 May 2016, TWH and AusCann entered into a binding heads of agreement in respect of the Acquisition ("Heads of Agreement").

On 29 September 2016, TWH announced to the ASX that the proposed terms of the Acquisition have changed and the Heads of Agreement has been superseded by a bid implementation agreement between TWH and AusCann ("Bid Implementation Agreement"). The Bid Implementation Agreement sets out the agreed terms of the Offer. A summary of the Bid Implementation Agreement can be found in section 10.1 of the Bidder's Statement.

As at 28 September 2016 (being the last trading day before the date the Bid Implementation Agreement was announced), TWH had 2,700 Shareholders and a market capitalisation of approximately \$5.4 million.

## 5.2. Directors

Details of Directors of TWH, as well as proposed directors of TWH, are set out in Section 6.3 of the Target's Statement.

## 5.3. Capital Structure and Shareholders

At the date of the Target's Statement, TWH had the following securities on issue:

| Class of security                                      | Number                   |
|--|--------------------------|
| TWH Shares currently on Issue <sup>1</sup>             | 602,362,410 <sup>2</sup> |
| TWH Performance Shares currently on Issue <sup>2</sup> | Nil                      |

### Notes:

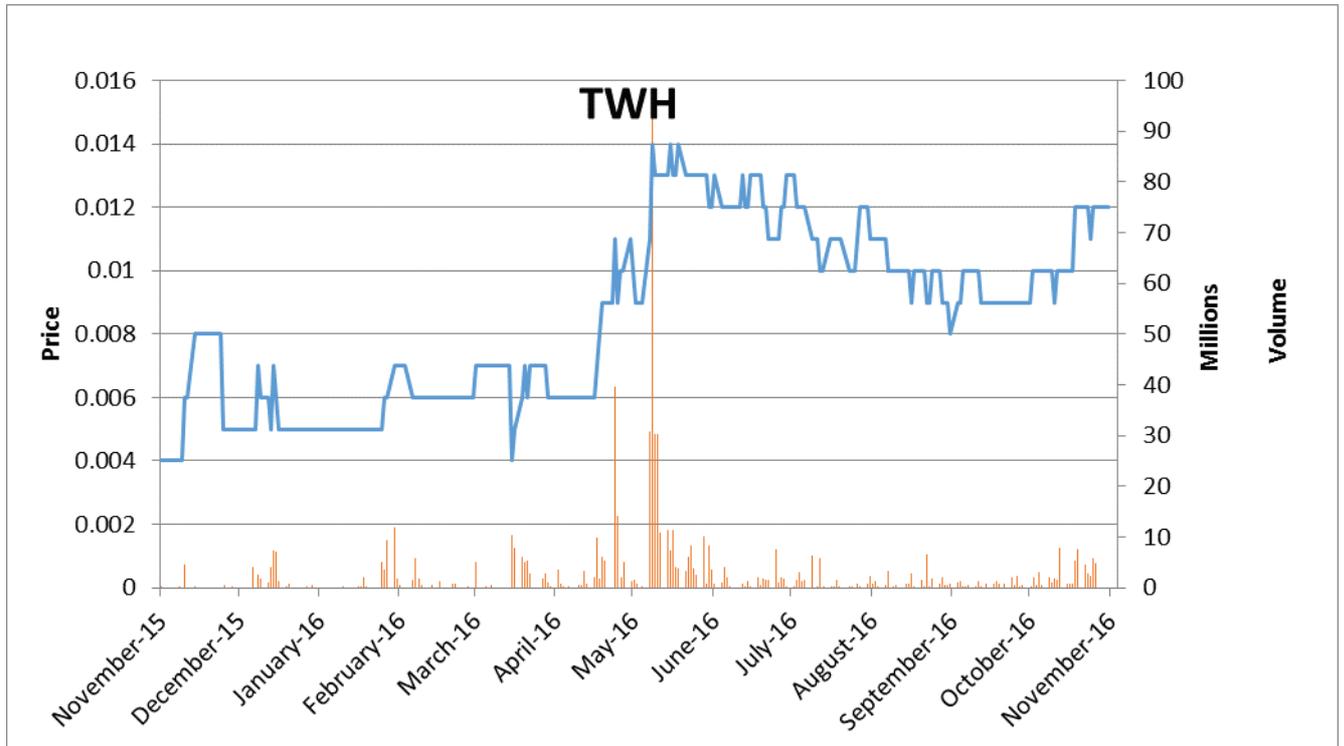
1. The rights attaching to the TWH Shares are summarised in section 7.5 of the Target's Statement.
2. It is proposed to consolidate the TWH Shares on the basis of 20:1. The number shown above is pre-Consolidation. Post-Consolidation, TWH will have up to 216,348,538 TWH Shares (inclusive of up to 25,000,000 TWH Shares to be issued pursuant to the Public Offer and 161,230,418 TWH Shares to be issued under the Offer) and 28,230,352 TWH Performance Shares and 2,749,231 Performance Rights on issue.

The top 20 shareholders in TWH as at 16 September 2016 are set out below:

| Shareholder  | Number of Shares (millions) | % of total shares on issue |
|--|-----------------------------|----------------------------|
| JDK Nominees Pty Ltd <Kenny Capital A/C>                                     | 52,817,403                  | 8.77                       |
| Celtic Capital Pty Ltd   | 35,000,000                  | 5.81                       |
| Mr Jason Peterson & Mrs Lisa Peterson <J & L Peterson S/F A/C>               | 15,000,000                  | 2.49                       |
| Mrs Katherine Elizabeth MacDermott <The Warrior A/C>                         | 13,586,367                  | 2.26                       |
| Nurragi Investments Pty Ltd  | 12,199,600                  | 2.03                       |
| Mr John Della Bosca <JA & JG Della Bosca Family A/C>                         | 10,750,000                  | 1.78                       |
| Mr Michael Andrew Whiting & Mrs Tracey Anne Whiting <Whiting Family S/F A/C> | 10,626,875                  | 1.76                       |
| Spinite Pty Ltd  | 10,000,000                  | 1.66                       |
| Agenis Pty Ltd <The Mark Collins S/F A/C>                                    | 8,400,000                   | 1.39                       |
| Mr Craig Peter Ball  | 7,969,375                   | 1.32                       |
| Mr Mario Di Lallo & Mrs Alison Valerie Di Lallo <M & A Super Fund A/C>       | 7,500,000                   | 1.25                       |
| Mr Adam Albert Atkins  | 6,200,000                   | 1.03                       |
| Foresight Pty Ltd  | 5,600,000                   | 0.93                       |
| Mr Robert Fraser & Mrs Tracey Fraser <Fraser Family S/F A/C>                 | 5,200,000                   | 0.86                       |
| Mr Danny Gan   | 5,000,000                   | 0.83                       |
| Mr Anthony Nicholas  | 5,000,000                   | 0.83                       |
| United Trolley Collections Pty Ltd   | 5,000,000                   | 0.83                       |
| Mr Christopher David Smerdon & Mrs Jane Louise Smerdon <No 2 Super A/C>      | 4,900,000                   | 0.81                       |
| Mr Huu Tho Nguyen  | 4,610,307                   | 0.77                       |
| Mr Barry Charles Jupp & Mr Clinton James Cash <Jupp & Cash S/F A/C>          | 4,286,010                   | 0.71                       |
|  | <b>229,625,937</b>          | <b>38.12</b>               |

#### 5.4 Share Price Performance

TWH's share price movements for the 12 months to the date of this Report, together with volumes traded are presented in the graph below:



There was minimal trading in TWH shares until December 2015, when a fully underwritten capital raising was completed. Following the announcement of the intended acquisition of AusCann on 17 March 2016, 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 between 26 April 2016 and 18 May 2016. TWH released a response to an ASX price query on 26 April 2016 which suggested that TWH was aware of heightened investor interest in its securities since the announcement of the Proposed Transaction, as well as the passing of legislation through both houses of the Victorian parliament which established a legal framework for patients to access cannabis products in some circumstances.

TWH's share price performance is discussed in further detail in Section 7.3 of this Report.

### 5.5 Financial Performance

The audited financial results of TWH for the years ended 30 June 2015 and 2016 are set out below:

|                                       | Audited<br>Year to<br>30 June 2016<br>\$ | Audited<br>Year to<br>30 June 2015<br>\$ |
|---------------------------------------|--|--|
| Interest and other income             | 5,482                                    | 12,557                                   |
| Administration expenses               | (235,908)                                | (161,279)                                |
| Employee benefits and directors' fees | (172,000)                                | (152,176)                                |
| Exclusivity fee                       | (250,000)                                | -  |
| Depreciation expense                  | -  | (1,552)                                  |
| <b>Loss before income tax</b>         | <b>(652,426)</b>                         | <b>(302,450)</b>                         |
| Income tax benefit                    | -  | -  |
| <b>Loss after income tax</b>          | <b>(652,426)</b>                         | <b>(302,450)</b>                         |

The financial results above are indicative of a non-trading company, with little revenue and the majority of expenditure represented by administration and staff costs. The Exclusivity Fee of \$250,000 represents a fee paid to AusCann for the option to acquire AusCann. This fee is only refundable if the Proposed Transaction does not complete due to inaction by AusCann.

### 5.6 Financial Position

The audited statements of financial position of TWH as at 30 June 2015 and 2016 are set out below:

|                                  | Audited<br>30 June 2016<br>\$ | Audited<br>30 June 2015<br>\$ |
|----------------------------------|-------------------------------|-------------------------------|
| <b>Current Assets</b>            |                               |                               |
| Cash assets                      | 370,270                       | 376,143                       |
| Trade and other receivables      | 10,281                        | 12,673                        |
| <b>Total Current Assets</b>      | <b>380,551</b>                | <b>388,816</b>                |
| <b>Total Assets</b>              | <b>380,551</b>                | <b>388,816</b>                |
| <b>Current Liabilities</b>       |                               |                               |
| Trade and other payables         | 60,605                        | 29,127                        |
| <b>Total Current Liabilities</b> | <b>60,605</b>                 | <b>29,127</b>                 |
| <b>Total Liabilities</b>         | <b>60,605</b>                 | <b>29,127</b>                 |
| <b>Net Assets</b>                | <b>319,946</b>                | <b>359,689</b>                |
| <b>Equity</b>                    |                               |                               |
| Issued capital                   | 81,099,059                    | 80,486,376                    |
| Accumulated losses               | (80,779,113)                  | (80,126,687)                  |
| <b>Total Equity</b>              | <b>319,946</b>                | <b>359,689</b>                |

TWH's financial position above is indicative of a listed shell, with TWH's only significant asset being cash.

## 6. VALUATION OF AUSCANN PRIOR TO THE OFFER

### 6.1. Valuation Summary

HLB has estimated the fair market value of an AusCann share to be in the range of \$0.00089 to \$0.00098 with a preferred value of \$0.00098.

For the purpose of our opinion, fair market value is defined as the amount at which the shares would change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell. We have not considered special value in this assessment.

In determining this amount, we estimated the fair market value of AusCann after considering the various methods, which are discussed in further detail at Section 6.2.

### 6.2. Valuation Methodology

Methodologies commonly used for valuing assets and businesses are as follows:

#### 6.2.1 Capitalisation of future maintainable earnings ("FME")

This method places a value on a business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ("EBIT") or earnings before interest, tax, depreciation and amortisation ("EBITDA"). The capitalisation rate or "earnings multiple" is adjusted to reflect which base is being used for FME.

#### 6.2.2 Discounted future cash flows ("DCF")

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

### **6.2.3 Net asset value**

Asset based methods estimate the market value of an entity'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
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis is usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when entities are not profitable, a significant proportion of the entity's assets are liquid or for asset holding companies.

### **6.2.4 Quoted Market Price Basis**

Another alternative valuation approach that can be used in conjunction with (or as a replacement for) any of the above methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a "deep" market in that security.

### **6.2.5 Methodology Adopted**

We consider that the most appropriate method for the valuation of AusCann is the net assets on a going concern methodology. No other methods are considered by us to be

relevant for the purposes of our Report. The basis of our selection of this methodology is as follows:

- AusCann does not have and trading assets and does not generate a profit. As such, the most appropriate basis of valuation is the book value of assets and liabilities.
- AusCann's shares are not listed on the ASX, therefore the quoted market price basis is not applicable.
- In our opinion, the DCF methodology cannot be used as future revenue and expenses cannot be forecast with sufficient reliability to meet the requirements of RG 111.
- The FME methodology is not appropriate as AusCann does not have a history of profits.

### 6.3 Sum of Parts Valuation

We have assessed the value of AusCann on the basis of the fair market value of the Company's underlying net assets on a going concern basis. AusCann's audited net assets are summarised below, together with our range of fair market values.

|  | Section Ref | Audited<br>30-Jun-06<br>\$ | Low<br>\$        | Valuation Range<br>High<br>\$ | Preferred<br>\$  |
|--|-------------|----------------------------|------------------|-------------------------------|------------------|
| Cash assets                                |             | 2,960,890                  | 2,960,890        | 2,960,890                     | 2,960,890        |
| Other current assets                       |             | 16,638                     | 16,638           | 16,638                        | 16,638           |
| Property, plant & equipment                |             | 363                        | 363              | 363                           | 363              |
| <b>Total assets</b>                        |             | <b>2,977,891</b>           | <b>2,977,891</b> | <b>2,977,891</b>              | <b>2,977,891</b> |
| Trade and other payables                   |             | 90,720                     | 90,720           | 90,720                        | 90,720           |
| Employee benefits                          |             | 12,165                     | 12,165           | 12,165                        | 12,165           |
| TWH fee received                           | 6.3.1       | 250,000                    | 250,000          | -                             | -                |
| <b>Total liabilities</b>                   |             | <b>352,885</b>             | <b>352,885</b>   | <b>102,885</b>                | <b>102,885</b>   |
| <b>Net Assets</b>                          |             | <b>2,625,006</b>           | <b>2,625,006</b> | <b>2,875,006</b>              | <b>2,875,006</b> |
|  |             |                            |                  |                               |                  |
|  |             |                            |                  |                               |                  |
|  |             |                            |                  |                               |                  |
| Fully paid shares on issue                 | 6.3.2       | 2,934,183                  | 2,934,183        | 2,934,183                     | 2,934,183        |
| <b>Fair market value per share (cents)</b> |             |                            | <b>\$0.00089</b> | <b>\$0.00098</b>              | <b>\$0.00098</b> |

All AusCann's assets and liabilities have been included at the amounts shown in the audited financial report for the year ended 30 June 2016 in our assessment of fair market value, except as set out below. We also provide background to the number of shares on issue noted above.

### 6.3.1 TWH fee received

The fee of \$250,000 represents a fee paid by TWH to AusCann for the option to acquire AusCann. This fee is only refundable if the Proposed Transaction does not complete due to inaction by AusCann. As the basis of this Report is predicated on the Offer being accepted, we have removed this liability as the amount will not be repayable to TWH.

### 6.3.2 Number of Shares and Options on Issue

The number of AusCann shares and options on issue at the date of this Report are as follows:

| Fully paid shares                                     | No.                  |
|---|----------------------|
| Balance per 30 June 2016 audited financial statements | 1,497                |
| Capital consolidation – 1,420,947.2923:1              | 2,127,158,108        |
| Issue of additional corrective shares to Canopy       | 1,692,360            |
| Conversion of convertible notes                       | 805,332,528          |
| <b>Balance at the date of this Report</b>             | <b>2,934,182,996</b> |

| Options                             | No.         |
|-------------------------------------|-------------|
| Issued to Canopy Growth Corporation | 153,552,779 |

These options are exercisable at \$0.01 within 36 months of issue.

### 6.4 Conclusion on the Fair Market Value of an AusCann Share

The value derived from the net assets method is considered to be the best estimate of the fair market value of a share in AusCann, being between \$0.00089 and \$0.00098 with a preferred value of \$0.00098.

## 7. VALUATION OF TWH FOLLOWING THE OFFER

We have estimated the fair market value of the shares in TWH post the Offer. When assessing non-cash consideration in control transactions, RG 111.31 suggests that a comparison should be made between the value of the securities being offered (allowing for a minority discount) and the value of the target entity's securities, assuming 100% of the securities are available for sale. This comparison reflects the fact that:

- a) The acquirer is obtaining or increasing control of the target; and
- b) The security holders in the target will be receiving scrip constituting minority interests in the combined entity.

Under RG 111.34, if in a scrip bid the target is likely to become a controlled entity of the bidder, the bidder's securities can also be valued using a notionally combined entity. However, it should be noted that the accepting holders are likely to hold minority interests in the combined entity. As a result, we have assessed the value of a TWH share following the Offer on a minority interest basis.

### 7.1 Net assets on a going concern methodology for valuing TWH

In valuing TWH, we have had regard to the same valuation methodologies we considered in valuing AusCann as set out in Section 6.2 of this Report. We consider that the most appropriate method for the valuation of TWH is the net assets on a going concern methodology. No other methods are considered by us to be relevant for the purposes of our Report. The basis of our selection of this methodology is as follows:

- TWH does not have and trading assets and does not generate a profit. As such, the most appropriate basis of valuation is the book value of assets and liabilities.
- TWH's shares are listed on the ASX. For the quoted market price basis of valuation to be reliable in valuing securities, there needs to be an adequately liquid and active market for the securities. We have considered this matter in Section 7.3 of this Report. Due to the matters set out in Section 7.3 of this Report, we do not believe that the quoted market price basis of valuation is appropriate for the purposes of our Report.
- In our opinion, the DCF methodology cannot be used as future revenue and expenses cannot be forecast with sufficient reliability to meet the requirements of RG 111.
- The FME methodology is not appropriate as TWH does not have a history of profits.

### 7.2 Sum-of-parts valuation of TWH following the Offer

We have considered the balances of assets and liabilities of TWH as at 30 June 2016 as set out in Section 5.6 of this Report. As the net assets of TWH at 30 June 2016 comprise mainly cash, we have not considered it necessary to determine any ranges of values. In our opinion, the net assets of TWH at 30 June 2016 of \$319,946 represents the value of TWH at that date.

Our determination of the valuation of TWH following the Offer is as follows:

|                                    | Section<br>Ref | Valuation Range  |                  |                  |
|------------------------------------|----------------|------------------|------------------|------------------|
|                                    |                | Low<br>\$        | High<br>\$       | Preferred<br>\$  |
| Cash assets                        |                | 370,270          | 370,270          | 370,270          |
| Trade and other receivables        |                | 10,281           | 10,281           | 10,281           |
| <b>Total assets</b>                |                | <b>380,551</b>   | <b>380,551</b>   | <b>380,551</b>   |
| Trade and other payables           |                | 60,605           | 60,605           | 60,605           |
| <b>Total liabilities</b>           |                | <b>60,605</b>    | <b>60,605</b>    | <b>60,605</b>    |
| <b>Net Assets</b>                  |                | <b>319,946</b>   | <b>319,946</b>   | <b>319,946</b>   |
| TWH capital raising (net of costs) | 7.2.1          | 2,650,000        | 2,650,000        | 2,650,000        |
|                                    |                | <b>2,969,946</b> | <b>2,969,946</b> | <b>2,969,946</b> |

|  |       | Number<br>000's | Number<br>000's | Number<br>000's |
|--|-------|-----------------|-----------------|-----------------|
| Fully paid shares on issue               |       | 602,362         | 602,362         | 602,362         |
| TWH capital raising                      | 7.2.1 | 300,000         | 300,000         | 300,000         |
| Advisor shares                           | 7.2.2 | 290,425         | 290,425         | 290,425         |
|  |       | 1,192,787       | 1,192,797       | 1,192,797       |
| <b>Value per share</b>                   |       | <b>\$0.0025</b> | <b>\$0.0025</b> | <b>\$0.0025</b> |
| Minority discount                        | 7.2.3 | 20%             | 13%             | 17%             |
| <b>Minority interest value per share</b> |       | <b>\$0.0020</b> | <b>\$0.0022</b> | <b>\$0.0021</b> |

### 7.2.1 TWH capital raising

One of the conditions of the Offer is that TWH is required to raise capital of at least \$3,000,000 (before costs) via the Public Offer. We have factored into our valuation above this capital raising of \$3,000,000 less estimated costs of the capital raising of \$350,000. The Public Offer is being proposed at a price of \$0.01 per share. Based on this, a total of 300,000,000 ordinary shares will be issued.

### 7.2.2 Advisor shares

One of the Essential Resolutions forming part of the conditions of the Offer is the issue by TWH of 290,424,561 shares to certain advisors. We have factored this into our valuation above.

### 7.2.3 Minority discount

If AusCann shareholders accept the Offer, they will individually become minority shareholders of TWH. To value the consideration on a minority interest basis, we have applied a minority discount to the value per share derived under the sum-of-parts valuation. Traditionally, the premiums required to obtain control of companies range between 15% and 25% of the minority interest values. We have therefore assessed a range for an appropriate minority interest discount (which is the inverse of a premium for control) of 13% to 20%.

## 7.3 Consideration of Quoted Market Price Basis

For the quoted market price basis to be reliable there needs to be an adequately liquid and active market for the securities. We consider the following characteristics to be representative of a liquid and active or "deep" market:

- Regular trading in a company's securities;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant and unexplained movements in the company's share price.

A company's shares should meet all of the above criteria to be considered as trading in a "deep" market, however, failure of a company's securities to exhibit all of the above

characteristics does not necessarily mean that the value of its shares determined on this basis cannot be considered relevant.

An analysis of the volume of trading in TWH shares for the 90 days prior to the date of this Report is set out below:

|         | Low<br>\$ | High<br>\$ | Cumulative<br>Volume Traded<br>No ('000) | As a % of<br>issued capital<br>as at 30 June<br>2016 |
|---------|-----------|------------|--|--|
| 10 days | 0.011     | 0.012      | 27,959                                   | 4.64%  |
| 30 days | 0.009     | 0.012      | 56,605                                   | 9.40%  |
| 60 days | 0.009     | 0.012      | 71,875                                   | 11.93%   |
| 90 days | 0.008     | 0.012      | 97,096                                   | 16.12%   |

This table indicates that the Company's shares display a low level of liquidity, with only 16.12% of the Company's issued capital at 30 June 2016 being traded in the 90 days prior to the date of this Report. We do not consider this level of trading in the Company's shares to be sufficiently adequate and to otherwise meet the criteria in order for the trading in the Company's shares to be considered as "deep".

## 8. EVALUATION AND OPINION

### 8.1 Offer consideration

The Offer is on the basis of scrip in the form of 1 TWH share and approximately 0.1924 TWH Performance Shares for every 1 AusCann share. The TWH Performance Shares will convert into TWH Shares on a one for one basis upon satisfaction of one of the following milestones:

- (a) AusCann obtaining the relevant Australian or international legal authorisations to cultivate and produce cannabis and cannabis resin for medicinal and related scientific purposes; or
- (b) AusCann being issued or acquiring an interest of not less than 49% in an entity that holds a legal authorisation for the cultivation and production of cannabis and cannabis resin for medicinal and related scientific purposes outside Australia; or
- (c) The Merged Entity being granted legal authorisation to cultivate and produce cannabis and cannabis resin for medicinal and related scientific purposes, or acquires an interest as referred to in (b) above.

As the milestones noted above are based on future events, the outcome of which cannot be determined at the date of this Report with any certainty, for the purposes of our valuation of the Offer consideration, we have not applied a value to this portion of the consideration. Therefore, the value of the consideration per 1 AusCann share is the value of 1 TWH share, as follows:

| Value of the Offer consideration               | Valuation Range |            |                 |
|--|-----------------|------------|-----------------|
|  | Low<br>\$       | High<br>\$ | Preferred<br>\$ |
| Assessed value of a TWH share                  | \$0.0020        | \$0.0022   | \$0.0021        |
| Value of the consideration per 1 AusCann share | \$0.0020        | \$0.0022   | \$0.0021        |

### 8.2 Is the Offer fair?

The value of an AusCann share prior to the Offer is compared to the value of the consideration offered per share by TWH, as shown below:

| Value of the Offer consideration             |         | Valuation Range |            |                 |
|--|---------|-----------------|------------|-----------------|
|  |         | Low<br>\$       | High<br>\$ | Preferred<br>\$ |
| Value of an AusCann share                    | Section | \$0.00089       | \$0.00098  | \$0.00098       |
| Value of the consideration offered per share | Section | \$0.0020        | \$0.0022   | \$0.0021        |

The consideration offered by TWH under the terms of the Offer is above the preferred value of our estimate of the fair market value of an AusCann share.

**Accordingly, it is our opinion that the Offer is fair.**

### 8.3 Is the Offer reasonable?

We are not aware of any alternative proposal that might offer the shareholders of AusCann a premium over the value ascribed to its shares resulting from the Offer. In determining whether the Offer is reasonable, we have also considered the advantages and disadvantages of the Offer, as follows:

#### 8.3.1 Advantages of accepting the Offer

- The Offer is fair. RG 111 states that an offer is reasonable if it is fair.
- Shareholders of AusCann will become shareholders in a company with cash reserves to develop AusCann's research, testing, clinical trials and medicinal cannabis products. Under the Public Offer, TWH is looking to raise a minimum of \$3,000,000 (prior to the costs of issue) and up to \$5,000,000 (prior to the costs of issue). These funds, together with TWH's current funds and AusCann's funds, will provide the merged entity with significant funds to progress the initiatives noted above;

- TWH is listed on ASX. As a result, shareholders of AusCann will be gain the ability to trade the TWH shares they will receive as Offer consideration, should the Offer be successful (subject to any trading restrictions that ASX may impose to some or all of the TWH shares to be receives as Offer consideration);
- The AusCann Board, in the absence of a superior proposal, unanimously recommends that AusCann shareholders accept the Offer. Each of the directors have also indicated that they intend to accept the Offer in respect of all AusCann shares they control. As the AusCann directors hold a significant portion of the total AusCann shareholding, acceptance of the offer by the directors will assist in TWH achieving the minimum acceptance of 90% of AusCann's shareholding which in turn will trigger the other advantages noted above;
- The Board of AusCann has not received any alternative proposal to the Offer;
- In addition to AusCann shareholders receiving 1 TWH share for each share they hold in AusCann, which we have valued above, AusCann shreholders will also receive approximately 0.1924 TWH Performance Shares for every 1 share they hold in AusCann. As noted in Section 8.1 above, whilst we have not ascribed a value to this portion of the consideration due to the milestones noted being based on future events, the outcome of which cannot be determined at the date of this Report with any certainty, should any of the noted milestones be achieved, AusCann shareholders will receive additional shares in TWH as consideration.

### *8.3.2 Disadvantages of accepting the Offer*

The Bidder's Statement contains in section 9 various risks of accepting the Offer. These include the following:

- If the Offer becomes unconditional, AusCann shareholders who accept the Offer will become TWH shareholders and will continue to be exposed to the risks associated with an investment in AusCann;
- The TWH shares offered as consideration will be subject to fluctuations in value due to the vagaries of the stock market;
- Under the Offer, TWH will issue a significant number of new TWH shares. AusCann shareholders who intend to dispose of their TWH shares may find that the value of their TWH shares has decreased; and
- TWH currently has 602 million shares on issue. On completion of the Offer and the Public Offer, it is proposed that the merged entity will have up to 4.3 billion shares on issue. If the minimum amount of \$3 million is raised under the Public Offer, the existing AusCann shareholders will retain approximately 71.1% of the merged entity. If the maximum amount of \$5 million is raised under the Public Offer, the existing AusCann shareholders will retain 67.8% of the merged entity. There is also a risk that the interests of all shareholders will be further diluted as a result of future capital raisings required in order to fund the development of the business.

*Conclusion on reasonableness*

We have considered the above factors. We consider that, on balance, the advantages of the Offer outweigh the disadvantages. We are therefore of the view that the position of non-associated shareholders if the Offer is accepted, would be more advantageous than if the Offer is not accepted.

**Accordingly, we are of the opinion that the Offer is reasonable to the non-associated shareholders.**

*8.4 Opinion*

**We are of the opinion that the Offer is fair and reasonable.**

9. APPENDICES

Appendix 1 – Glossary of Terms

| TERM                   | DEFINITION   |
|------------------------|--|
| Announcement Date      | 29 September 2016, being the date the Offer was announced on ASX   |
| ASIC                   | Australian Securities and Investments Commission                   |
| ASX                    | Australian Securities Exchange Limited                             |
| AusCann or the Company | AusCann Group Holdings Limited                                     |
| DCF                    | Discounted cash flows  |
| Directors              | Directors of AusCann   |
| EBIT                   | Earnings before Interest and Tax                                   |
| EBITDA                 | Earnings before Interest, Tax, Depreciation and Amortisation       |
| FME                    | Capitalisation of future maintainable earnings                     |
| HLB                    | HLB Mann Judd Corporate (WA) Pty Ltd                               |
| NTA                    | Net tangible assets  |
| Section 640            | Section 640 of the Corporations Act 2001                           |
| Shareholders           | Existing shareholders in AusCann, other than TWH                   |
| TWH or the Bidder      | TW Holdings Limited  |
| Offer                  | TWH's offer to acquire the shares held by each AusCann shareholder |

## *Appendix 2 - Qualifications, Declarations and Consents*

HLB, which is a wholly owned entity of HLB Mann Judd Chartered Accountants, is a Licensed Investment Adviser and holder of an Australian Financial Services Licence under the Act and its authorised representatives are qualified to provide this Report. The authorised representative of HLB responsible for this Report has not provided financial advice to AusCann.

The author of this Report is Lucio Di Giallonardo. He is a Fellow of Chartered Accountants Australia and New Zealand, holds a Bachelor of Business, and has considerable experience in the preparation of independent expert reports and valuations of business entities in a wide range of industry sectors.

Prior to accepting this engagement, HLB considered its independence with respect to AusCann with reference to ASIC Regulatory Guide 112 and APES 225. In HLB's opinion, it is independent of AusCann.

This Report has been prepared specifically for the shareholders of AusCann. It is not intended that this Report be used for any other purpose other than to accompany the Target's Statement to be sent to AusCann's shareholders. In particular, it is not intended that this Report should be used for any purpose other than as an expression of the opinion as to whether or not the Offer is fair and reasonable to the non-associated shareholders of AusCann. HLB disclaims any assumption of responsibility for any reliance on this Report to any person other than those for whom it was intended, or for any purpose other than that for which it was prepared.

The statements and opinions given in this Report are given in good faith and in the belief that such statements and opinions are not false or misleading. In the preparation of this Report, HLB has relied on and considered information believed, after due inquiry, to be reliable and accurate. HLB has no reason to believe that any information supplied to it was false or that any material information has been withheld.

HLB has evaluated the information provided to it by AusCann and other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially misstated or would not provide a reasonable basis for this Report. HLB has not, nor does it imply that it has, audited or in any way verified any of the information provided to it for the purposes of the preparation of this Report.

In accordance with the Corporations Act 2001, HLB provides the following information and disclosures:

- HLB will be paid its usual professional fee based on time involvement at normal professional rates, for the preparation of this Report. This fee, estimated not to exceed \$20,000 excluding GST, is not contingent on the conclusion, content or future use of this Report.
- Apart from the aforementioned fee, neither HLB, nor any of its associates will receive any other benefits, either directly or indirectly, for or in connection with the preparation of this Report.
- HLB and its directors and associates do not have any interest in AusCann.
- HLB and its directors and associates do not have any relationship with AusCann or any associate of AusCann.