



## CAPITAL MINING ENTERS INTO NON-BINDING CONDITIONAL TERM SHEET TO ACQUIRE 100% OF TASMANIAN BASED COMPANY, CANNABINOID EXTRACTS AUSTRALIA PTY LTD

### Capital Mining Limited

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### Directors

**Dr James Ellingford**  
(Non-Executive Director)

**Mr Robert McCauley**  
(Executive Director/CEO)

**Mr Peter Torney**  
(Non-Executive Director)

### Company Secretary

Mrs Elizabeth Hunt

- Capital Mining Limited ('CMY') has entered into a non-binding proposal to acquire 100% of Cannabinoid Extracts Australia Pty Ltd ('CEA') from Essential Oils of Tasmania Pty Ltd ('EOT').
- Subject to legislative reform and the grant of licences from the Department of Health and Human Services, Tasmania ('DHHS') and Therapeutic Goods Administration ('TGA'), CEA intends to aim to cultivate industrial hemp and extract cannabidiol from industrial hemp on a commercial scale.
- Changes to Tasmanian legislation regarding the scheduling of cannabidiol are currently proposed (although there is no guarantee that will occur).
- On 3 October 2014, EOT submitted an application to the DHHS for a licence to cultivate industrial hemp for the purposes of extracting cannabidiol from the harvested crop. A request is proposed to be made to transfer this licence application from EOT to CEA as part of the acquisition.
- On 12 February 2015, CEA submitted an application to the TGA for a licence to manufacture and process cannabidiol.
- CMY intends to maintain a close working relationship with EOT, drawing on its core production competencies.

Capital Mining Limited (ASX: 'CMY') is pleased to announce that it has entered the early stages of negotiating the proposed acquisition of Cannabinoid Extracts Australia Pty Ltd (ACN 603 956 949) ('CEA') from Essential Oils of Tasmania Pty Ltd (ACN 124 346 649) ('EOT'). CMY and EOT have executed a high-level, non-binding Term Sheet which sets out some of the proposed terms of the acquisition.

The proposed acquisition of CEA is in line with CMY's strategy of becoming a turnkey market leader in medicinal cannabis and hemp based products with expertise to achieve the entire product value chain.



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The CEA opportunity may add to the three medicinal cannabis and hemp businesses which CMY is proposing to acquire in Canada and North America.

The terms of the CEA proposal are non-binding and subject to final agreement.

CMY will need to seek shareholder approval for the transaction and will also need to re-comply with the new listing requirements set out in Chapters 1 and 2 of the ASX Listing Rules once a final agreement is entered into.

### **CEA Company Overview**

Tasmanian-based CEA was established by EOT for the purpose of applying for growing and processing licences for the manufacture of cannabidiol ('CBD'). EOT and CEA are currently in discussions with the Tasmanian and Federal Governments in relation to the licence applications. It is not currently legal to conduct the proposed CBD business in Australia, so law reforms would be needed before that may occur.

By seeking to negotiate the acquisition of CEA, CMY seeks to acquire the opportunity to leverage the unique core competencies that EOT has already developed locally in Tasmania. Mr. Pierre Fallourd, Chief Executive Officer of EOT's parent company, Atlas Pearls and Perfumes Ltd (ASX:ATP), commented: "EOT's innovations, which already enables us to extract essential oils, flavours and bio-actives from botanicals, will be made available for processing of industrial hemp for therapeutic purposes." Details of any arrangement between CMY and EOT will be subject to final agreement.

Subject to feasibility, the transfer of licence applications from EOT to CEA and then the necessary law reforms and grant of licence approvals as required from both State and Federal governments, CEA intends to produce high purity CBD for use in a wide range of products including oils, lotions, capsules, gums, tinctures and topical applications. CEA's production process is proposed to involve extracting CBD from the highest yielding field stock of industrial hemp crops grown under hot-house conditions and processed with supercritical CO<sub>2</sub> extraction to obtain the most pure fractions of CBD.

CEA intends to procure industrial hemp seeds from a range of sources, including locally sourced Tasmanian Industrial Hemp and the Australian Hemp Growers Association. CMY's proposed Managing Director Michael Sautman commented: "CEA has excellent business potential and it complements the North American and Canadian businesses that CMY are proposing to acquire to transform CMY into a broad based and fully integrated medicinal cannabis and hemp operation.

### **Advantages and Applications of Cannabidiol**

Cannabidiol is a non-psychoactive compound in cannabis with proven therapeutic properties, including in the relief of convulsions, inflammation, anxiety and nausea. There are also studies indicating that CBD may have neuroprotective properties.



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17 April 2015

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Research has demonstrated that cannabidiol has therapeutic benefits in the treatment of multiple sclerosis, epilepsy, pain reduction and Alzheimer's disease. No observed fear or anxiety-related behaviour is associated with use of CBD, offering a potentially favorable alternative to many other prescribed treatments.

### **Terms of the Acquisition**

CMY has entered into a high-level, non-binding Term Sheet with EOT to acquire 100% of CEA on the following terms:

- **Consideration**

- an AUD\$125,000 cash payment from CMY to EOT 60 days from signing the Term Sheet provided written confirmation has been obtained by then from the DHHS of the transfer of the Tasmanian licence application to CEA, otherwise it becomes payable if that written confirmation is received from the DHHS; and
- if CEA successfully obtains licences to grow, manufacture and process industrial hemp to produce CBD from both the Tasmanian and Federal Governments (which may never happen) CMY would provide the following consideration to EOT:
  - an additional AUD\$125,000 cash payment to EOT;
  - 500,000 CMY shares at a deemed issue price of 20 cents per share; and
  - 500,000 CMY options exercisable at \$0.30 each on or before 3 years from the date of completion of the proposed acquisition of CEA.

Other conditions are also proposed and EOT is also currently entitled to recoup from CMY the legal costs associated with progressing the licence applications and CMY proposes to provide further funding to advance the licence applications for CEA as required.

If a binding agreement is entered into for CMY to acquire CEA, CMY will update the market as to the final agreed material terms and any further material information.

### **Risks that necessary licences won't be granted and that CEA's proposed business will continue to be prohibited by Australian laws**

Pursuant to the non-binding Term Sheet, completion of the acquisition of CEA is proposed to be subject to EOT transferring its Tasmanian licence application to CEA and the grant of licences to CEA to grow, manufacture and process industrial hemp by both the Tasmanian and Federal Governments.

There is a risk that the DHHS will not permit the transfer of licence application from EOT to CEA. There is a further risk that Tasmanian and/or Federal legislative changes will not occur to allow the grant of licences sought by CEA and even if those law reforms occur, the licences may not be granted to CEA.



ASX/Media Release  
17 April 2015

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EOT and CEA have been actively pursuing licences for the cultivation of industrial hemp and the production of CBD since August 2014. EOT presented to the Legislative Council Sessional Committee Government Administration A, Legalised Medicinal Cannabis on 22 September 2014.

On 3 October 2014, shortly following EOT's presentation to the Tasmanian Parliament, EOT submitted an application to the DHHS to manufacture and process industrial hemp. This application is proposed to be transferred to CEA as part of the acquisition (subject to governmental approvals of that transfer), and has been met with site visits from Federal Senator Eric Abetz, Hon. Michael Ferguson MP, Hon. Jeremy Rockcliff MP and Ruth Forrest, the chair of the Legislative Council Sessional Committee Government Administration A, Legalised Medicinal Cannabis.

An interim decision was published on 5 February 2015 by the Advisory Committee on Medicines Scheduling recommending that CBD for therapeutic use be included in Schedule 4 of the Poisons Standard. On 12 February 2015, CEA submitted an application to the TGA for a licence to manufacture and process industrial hemp for the purpose of the extraction of CBD.

#### ***Update on other CMY activities***

##### **Debt Financing**

CMY has entered into an unsecured loan agreement whereby the total loan of \$150,000 can be drawn down immediately. The interest is repayable in 12 months at an interest rate of 6% per annum.

##### **Consolidation of Capital**

Subject to shareholders' approval, CMY proposes to consolidate its capital, in accordance with ASX requirements for recompliance with Chapters 1 and 2 of the ASX Listing Rules, to achieve a notional share price of at least \$0.20 following consolidation.

The Board of CMY have agreed an indicative consolidation ratio of no less than 33.33:1 (equivalent to an approximate pre-consolidation price of \$0.006 per CMY share) based on recommendations from its lead broker, BBY.

**-ENDS-**



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17 April 2015

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17 April 2015

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