

CANDY CLUB HOLDINGS LIMITED

ACN 629 598 778

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is given that the Meeting will be held at:

Date: 9 January 2020
Time: 11:00 am (AEDT)
Venue: Seasons Botanic Gardens Melbourne
Address: 348 St Kilda Road Melbourne VIC 3004

The business of the Meeting affects your shareholding and your vote is important.

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders at 5:00 PM AEDT on 7 January 2020.

CANDY CLUB HOLDINGS LIMITED ACN 629 598 778
NOTICE OF EXTRAORDINARY GENERAL MEETING 2020

MEETING DETAILS

Notice is hereby given that the Extraordinary General Meeting of Candy Club Holdings Limited ACN 629 598 778 will be held at Seasons Botanic Gardens Melbourne 348 St Kilda Road Melbourne VIC 3004 on 9 January 2020 at 11:00 am (AEDT) (hereinafter referred to as **'the Meeting'**).

Important notes:

1. You may vote on the items of business to be considered at the Meeting, either in person at the Meeting or by completing and returning the Proxy Form enclosed herein.
2. If you attend the Meeting, you will need to register at the registration desk on the day. Registration will commence at 10:45 am AEDT.
3. Discussion will take place on all the items of business set out in the Agenda below.
4. The Explanatory Statement to this Notice of Meeting provides additional information on matters to be considered at the Meeting. The Explanatory Statement and the Proxy Form are part of this Notice of Meeting.
5. Terms and abbreviations used in this Notice of Meeting and Explanatory Memorandum are defined in the Glossary at page 35 of this Notice.

As explained in the 'voting exclusion statement' below, certain shareholders are excluded from voting in relation to particular Resolutions and the Company must disregard any votes cast by those shareholders. Please do not vote if your vote must be disregarded.

AGENDA

1. RESOLUTION 1 – RATIFICATION OF ISSUE OF CONVERSION SECURITIES TO NON-RELATED PARTIES

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 1,232,659 Shares and 1,666,209 Class A Options on 7 November 2019 to sophisticated or professional investors, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

Voting Exclusion: The Company will disregard any votes cast in favour of this Resolution by or on behalf any person who participated in the issue of the Conversion Securities pursuant to this Resolution and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

2. RESOLUTION 2 – RATIFICATION OF ISSUE OF LEAD MANAGER SHARES, LEAD MANAGER OPTIONS AND LEAD MANAGER PERFORMANCE OPTIONS

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 825,000 Shares and 6,825,000 Class A Options on 7 November 2019 to the Lead Manager or its nominees, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

Voting Exclusion: The Company will disregard any votes cast in favour of this Resolution by or on behalf of the Lead Manager, its nominees and any of their associates. However, the

Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

3. RESOLUTION 3 – APPROVAL OF ISSUE OF REMAINING CONVERSION SECURITIES TO RELATED PARTY – CHI KAN TANG

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the issue of Shares and Options pursuant to conversion of the Debts Payable under the Debt Raising to Chi Kan Tang (a director of the Company) on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

Voting Exclusion: The Company will disregard any votes cast in favour of this Resolution by or on behalf of Chi Kan Tang and any of his associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

4. RESOLUTION 4 – APPROVAL OF ISSUE OF REMAINING CONVERSION SECURITIES TO RELATED PARTY – JCKB PTY LTD

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the issue of Shares and Options pursuant to conversion of the Debts Payable under the Debt Raising to JCKB Pty Ltd, being an entity controlled by James Baillieu (a director of the Company) on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

Voting Exclusion: The Company will disregard any votes cast in favour of this Resolution by or on behalf of JCKB Pty Ltd, James Baillieu and any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

5. RESOLUTION 5 – APPROVAL OF ISSUE OF REMAINING CONVERSION SECURITIES TO RELATED PARTY – RJIR PTY LTD <ZDR FAMILY TRUST>

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the issue of Shares and Options pursuant to conversion of the Debts Payable under the Debt Raising to RJIR Pty Ltd <ZDR Family Trust>, being an entity controlled by Zachry Rosenberg (a former director of the Company) on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

Voting Exclusion: The Company will disregard any votes cast in favour of this Resolution by or on behalf of RJIR Pty Ltd <ZDR Family Trust>, Zachry Rosenberg and any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

6. RESOLUTION 6 – APPROVAL OF ACQUISITION OF RELEVANT INTEREST BY RELATED PARTIES – JAMES BAILLIEU AND JCKB PTY LTD

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, for the purposes of section 611 (Item 7) of the Corporations Act and for all other purposes, approval is given for the following acquisitions of relevant interests in the issued voting shares of the Company otherwise prohibited by section 606(1) of the Corporations Act:

- (a) the acquisition of a relevant interest in up to 25.27% of the Company’s voting shares by JCKB Pty Ltd (based on all of the Conversion Shares, the Loan Shares and the Placement Shares being issued as a result of Resolutions 4, 7 and 8 being passed); and*
- (b) the acquisition of a relevant interest in up to 25.27% of the Company’s voting shares by James Baillieu (based on all of the Conversion Shares, the Loan Shares and the Placement Shares being issued as a result of Resolutions 4, 7 and 8 being passed),*

on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

Voting Exclusion: The Company will disregard any votes cast in favour of this Resolution by or on behalf of JCKB Pty Ltd, James Baillieu and any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Expert’s Report: Shareholders should carefully consider the report prepared by the Independent Expert for the purposes of the Shareholder approval required for Resolution 6 under section 611 Item 7 of the Corporations Act. The Independent Expert’s Report comments on the fairness and reasonableness of the transactions the subject of this Resolution to the non-associated Shareholders of the Company.

7. RESOLUTION 7 – APPROVAL OF ISSUE OF PLACEMENT SECURITIES TO RELATED PARTY – JKCB PTY LTD

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, subject to the passing of Resolution 6, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the issue of the Placement Securities to JCKB Pty Ltd, being an entity controlled by James Baillieu (a director of the Company), on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

Voting Exclusion: The Company will disregard any votes cast in favour of this Resolution by or on behalf of JCKB Pty Ltd, James Baillieu and any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

8. RESOLUTION 8 – APPROVAL OF ISSUE OF LOAN SHARES TO RELATED PARTY – JCKB PTY LTD

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, subject to the passing of Resolution 6, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the grant of a right to convert the Loan into Shares in satisfaction of the Loan and interest payable under the Loan, and the subsequent issue of Shares to JCKB Pty Ltd, being an entity controlled by James Baillieu (a director of the Company) upon the exercise of such right, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

Voting Exclusion: The Company will disregard any votes cast in favour of this Resolution by or on behalf of JCKB Pty Ltd, James Baillieu and any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in

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

9. RESOLUTION 9 – ISSUE OF DIRECTOR OPTIONS TO RELATED PARTY – ANDREW CLARK

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the issue of 3,100,000 Director Options to Andrew Clark, being a Director of the Company (or his nominee), on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

Voting Exclusion: The Company will disregard any votes cast in favour of this Resolution by or on behalf of Andrew Clark and any of his associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

10. RESOLUTION 10 – APPROVAL OF ISSUE OF MANAGEMENT SHARES TO RELATED PARTY – SABONE INTERNET INVESTMENTS LLC

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the grant of a right to convert the Management Fee Amount into Shares, and the subsequent issue of Shares to Sabone Internet Investments LLC, being an entity controlled by Keith Cohn (a Director of the Company) upon the exercise of such right, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

Voting Exclusion: The Company will disregard any votes cast in favour of this Resolution by or on behalf of Keith Cohn, Sabone Internet Investments LLC and any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

11. RESOLUTION 11 – APPROVAL OF ISSUE OF MANAGEMENT SHARES TO NON-RELATED PARTIES

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That for the purposes of Listing Rule 7.1 and for all other purposes, approval is given for the grant of a right to convert the Management Fee Amount into Shares, and the subsequent issue of Shares to non-related management personnel of the Company upon the exercise of such right, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

Voting Exclusion: The Company will disregard any votes cast in favour of this Resolution by or on behalf any person who is entitled to be issued Management Shares pursuant to this Resolution and any associates of those persons, and any person who is expected to participate in, or who will obtain a material benefit as a result of the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in the entity). However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

12. RESOLUTION 12 – APPROVAL OF ISSUE OF MANAGEMENT OPTIONS TO RELATED PARTY – SABONE INTERNET INVESTMENTS LLC

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

“That for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the grant of 15,600,000 Options to Sabone Internet Investments LLC, being an entity controlled by Keith Cohn (a Director of the Company), on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

Voting Exclusion: The Company will disregard any votes cast in favour of this Resolution by or on behalf of Keith Cohn, Sabone Internet Investments LLC and any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

13. RESOLUTION 13 – REPLACEMENT OF CONSTITUTION

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

“That, for the purposes of section 136(2) of the Corporations Act and for all other purposes, approval is given for the Company to repeal its existing Constitution and adopt a new constitution in its place in the form as signed by the Chair of the Meeting for identification purposes.”

Dated: 5 December 2019

By order of the Board

**Justyn Stedwell
Company Secretary**

INFORMATION FOR SHAREHOLDERS

Entitlement to attend and vote at the Meeting

The Directors have determined pursuant to Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) that for the purpose of ascertaining a person's entitlement to vote at the Meeting, a person will be recognized as a Shareholder and the holder of Shares and will be entitled to vote at the Meeting if that person is registered as a holder of those Shares at 5:00 pm AEDT on 7 January 2020.

Votes

Voting on each resolution will be by way of a poll. On a poll, every member present in person or by attorney or by proxy or, in the case of a body corporate, by a representative, shall have one vote for each share held by him, her or it.

In the case of joint Shareholders, all holders may attend the Meeting but only one holder may vote at the Meeting in respect of the relevant Shares (including by proxy). If more than one joint holder is present, and more than one of the joint holders vote in respect of the relevant Shares, only the vote of the joint holder whose name stands first in the register in respect of the relevant Shares is counted.

Proxies

A Shareholder entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of the Shareholder.

Where the Shareholder is entitled to cast two or more votes, the Shareholder may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

A proxy need not be a Shareholder and may be a body corporate.

If a Shareholder appoints a body corporate as a proxy, that body corporate will need to ensure that it appoints an individual as its corporate representative to exercise its powers at the Meeting and provide satisfactory evidence of the appointment of its corporate representative prior to the commencement of the Meeting.

If a Shareholder appoints two proxies and the appointment does not specify the proportion or number of the Shareholder's votes each proxy may exercise, each proxy may exercise half of the votes.

If you choose to appoint a proxy, you are encouraged to direct your proxy how to vote on the Resolutions by marking either "For", "Against" or "Abstain" on the form of proxy for that item of business. An instrument of proxy deposited or received at the registered office of the Company in which the name of the appointee is not filed in will be deemed to be given in the favour of the Chair of the Meeting.

Voting by Proxy if appointment specifies way to vote:

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution, and if that appointment does specify the way the proxy is to vote, then the following applies:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote as directed; and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution then the proxy must not vote on a show of hands; and
- if the proxy is the chair of the meeting at which the resolution is voted on then the proxy must vote on a poll and must vote as directed; and
- if the proxy is not the chair then the proxy need not vote on the poll, but if the proxy does so, the proxy must vote as directed.

Transfer of non - chair proxy to chair in certain circumstances:

Section 250BC of the Corporations Act provides that if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
 - if a record of attendance is made for the meeting - the proxy is not recorded as attending the meeting;
 - the proxy does not vote on the resolution,
- the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

Undirected vote - Resolutions 1 to 13

Subject to the voting restrictions set out in the Voting Exclusion Statements, the Chair will vote undirected proxies on, and in favour of all Resolutions.

A form of proxy accompanies this Notice.

A corporate Shareholder must sign the proxy form in accordance with its constitution or otherwise in accordance with the Corporations Act.

To be effective, the instrument of appointment of a proxy (and power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority) must be received by the Company, by mail at PO Box 305 Fitzroy VIC 3065, in person at Unit 1, 205-207 Johnston Street Fitzroy VIC 3065 or by facsimile on + 61 (0) 3 8678 1747 by 11:00 am AEDT on 7 January 2020.

Proxy Forms received later than this time will be invalid.

Questions

A reasonable opportunity will be given to Shareholders to ask questions and/or make comments on the management of the Company at the Meeting.

If you have any questions in regard to this Notice, please contact the Company Secretary, Justyn Stedwell, on +61(0) 3 9191 0135.

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions.

1. RESOLUTION 1 – RATIFICATION OF ISSUE OF CONVERSION SECURITIES TO NON-RELATED PARTIES

1.1 General

On 7 November 2019, the Company issued 1,232,659 Shares and 1,666,209 Class A Options (collectively referred to as the “**Conversion Securities**”) to non-related party investors upon conversion of amounts payable to such persons as at 5 August 2019 (namely, A\$98,613) under a debt raising facility offered by the Company on the following terms (“**Debt Raising**”):

- (a) interest shall accrue and be payable on the principal advanced under the Debt Raising at the interest rate of 10% per annum;
- (b) in addition to the principal and interest, the Company shall be required to pay investors a ‘Line Fee’ equivalent to 3% of the respective principal amount advanced under the Debt Raising;
- (c) subject to the Company obtaining shareholder approval (if required), the investors shall be issued 6.67 Class A Options (rounded up to the nearest whole number) for every US\$1.00 advanced under the Debt Raising (“**Debt Raising Options**”). A total of 433,530 Debt Raising Options were issued to Non-Related Parties pursuant to the Debt Raising on 7 November 2019; and
- (d) subject to the Company obtaining Shareholder approval (if required), the Company may, at its option, convert all amounts payable under the Debt Raising (“**Debts Payable**”) into securities in the Company on terms identical to the non-renounceable rights issue announced by the Company to the ASX on 4 July 2019, that is, shares will be issued upon conversion of monies owing at the conversion price of A\$0.08 (8 cents) per Share (“**Conversion Shares**”), and 1 free attaching Class A Option will be issued for every Conversion Share issued (“**Conversion Options**”).

1.2 ASX Listing Rule 7.1

Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

Listing Rule 7.4 sets out an exception to Listing Rule 7.1. It provides that where a company in general meeting ratifies the previous issue of securities made pursuant to Listing Rule 7.1 (and provided that the previous issue did not breach Listing Rule 7.1) those securities will be deemed to have been made with shareholder approval for the purpose of Listing Rule 7.1.

Accordingly, approval is sought for the ratification of the issue of the Conversion Securities (comprising of and 1,232,659 Conversion Shares, and 1,232,659 Conversion Options and 433,530 Debt Raising Options) to non-related parties of the Company that participated in the Debt Raising.

By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

1.3 Technical information required by ASX Listing Rule 7.5

Pursuant to and in accordance with Listing Rule 7.5, the following information is provided in relation to the ratification of the issue of the Conversion Securities:

- (a) a total of 1,232,659 Shares and 1,666,209 Class A Options were issued;
- (b) the Conversion Shares were issued at a deemed issue price of A\$0.08 (8 cents) per Conversion Share, representing the offer price under the non-renounceable rights issue announced by the Company to the ASX on 4 July 2019, in full satisfaction of all of the Debts Payable as at 5 August 2019 (namely A\$98,613) while the Conversion Options and the Debt Raising Options were issued for nil consideration; and
- (c) the Conversion Shares rank pari passu with the other Shares on issue and are on the same terms as the other Shares on issue, while the Conversion Options and the Debt Raising Options rank pari passu with the other Class A Options on issue, the terms of which are summarised in Annexure A;
- (d) the Conversion Securities were issued to sophisticated and professional investors who participated in the Debt Raising. None of these subscribers are related parties of the Company;
- (e) no funds will be raised by the Company in respect of the issue of the Conversion Securities, however the issuance of the Conversion Shares and the Conversion Options resulted in repayment in full of the Debts Payable and satisfied the Company's obligation to issue the Debt Raising Options; and
- (f) a voting exclusion statement is contained in Resolution 1.

1.4 Interests and Recommendations of Directors

None of the current Board members have a material personal interest in the outcome of Resolution 4. Based on the information available, including that contained in this Explanatory Memorandum, all of the Directors recommend that the Shareholders vote in favour of Resolution 4.

2. RESOLUTION 2 – RATIFICATION OF ISSUE OF LEAD MANAGER SHARES, LEAD MANAGER OPTIONS AND LEAD MANAGER PERFORMANCE OPTIONS

2.1 General

As noted in the Company's prospectus for a non-renounceable rights offer announced to the ASX on 4 July 2019, subject to the achievement of the following performance milestones, the Lead Manager is entitled to be issued up to 6,000,000 Class A Options ("**Lead Manager Performance Options**"):

- assisting the Company to raise in excess of US\$300,000 pursuant to the Debt Raising; and
- assisting the Company to raise the maximum amount sought to be raised by the Board under the rights offer announced to the ASX on 4 July 2019 (including pursuant to the Shortfall Offer and Shortfall Placement thereunder).

The Board determined that the milestones were achieved to its satisfaction and on 7 November 2019 the Company completed the issue of the Lead Manager Performance Options to the Lead Manager and its nominees.

Additionally, under the terms of its engagement, the Lead Manager is also entitled to capital raising fees in the amount of A\$66,000, which the Company settled by the issuance of 825,000 Shares at a conversion price of A\$0.08 (8 cents) ("**Lead Manager Shares**") and 825,000 Class A Options for nil consideration ("**Lead Manager Options**") on 7 November 2019.

2.2 ASX Listing Rule 7.1

A summary of the operation of Listing Rule 7.1 is provided in section 1.2 of this Explanatory Memorandum.

Accordingly, approval is sought for the ratification of the issue of the Lead Manager Options and the Lead Manager Shares. By ratifying this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

2.3 Technical information required by ASX Listing Rule 7.5

Pursuant to and in accordance with Listing Rule 7.5, the following information is provided in relation to the ratification of the issue of the Lead Manager Shares, Lead Manager Options and Lead Manager Performance Options:

- (a) a total of 6,825,000 Class A Options and 825,000 Shares were issued;
- (b) the Lead Manager Options and Lead Manager Performance Options were issued for nil consideration while the Lead Manager Shares were issued at a deemed issue price of A\$0.08 (8 cents) per Lead Manager Share, representing the offer price under the non-renounceable rights issue announced by the Company to the ASX on 4 July 2019;
- (c) the Lead Manager Shares rank pari passu with the other Shares on issue and are on the same terms as the other Shares on issue, while the Lead Manager Options and Lead Manager Performance Options rank pari passu with the other Class A Options on issue, the terms of which are summarised in Annexure A;
- (d) the Lead Manager Shares, the Lead Manager Options and the Lead Manager Performance Options were issued to the Lead Manager and its nominees;
- (e) no funds will be raised by the Company in respect of the issue of the Lead Manager Shares, the Lead Manager Options and the Lead Manager Performance Options. However the issue will satisfy the Company's obligations to pay capital raising fees and issue Securities to the Lead Manager under a corporate advisory and capital raising mandate entered into with the Lead Manager in connection with the non-renounceable rights offer announced by the Company to the ASX on 4 July 2019; and
- (f) a voting exclusion statement is contained in Resolution 2.

2.4 Interests and Recommendations of Directors

None of the current Board members have a material personal interest in the outcome of Resolution 2. Based on the information available, including that contained in this Explanatory Memorandum, all of the Directors recommend that the Shareholders vote in favour of Resolution 2.

3. RESOLUTION 3 – ISSUE OF REMAINING CONVERSION SECURITIES TO RELATED PARTY – CHI KAN TANG

3.1 General

On 13 June 2019 and 23 July 2019, Chi Kan Tang advanced the sums of US\$300,000 (approximately A\$440,400) and US\$135,000 (approximately A\$198,180) to the Company pursuant to the Debt Raising. A summary of the terms of the Debt Raising is contained in Section 1.1 of this Explanatory Memorandum.

On 5 August 2019, the Company exercised its right to convert all amounts payable by Chi Kan Tang under the Debt Raising as at such date, being A\$460,175 ("**Debts Payable**"), which would necessitate the issue of the 8,313,261 Conversion Shares, 8,313,261 Conversion Options as well as 2,901,450 Debt Raising Options (collectively referred to as the "**Conversion Securities**"). However, in compliance with the Corporations Act on 5 August 2019, only 7,062,730 Conversion Shares and 7,062,730 Conversion Options of the Conversion Securities were issued pursuant to the "Debt Conversion Facility" under the non-renounceable rights offer announced by the Company to the ASX on 4 July 2019.

Therefore, subject to the passing of this Resolution 3, the Company seeks to issue the balance of the Conversion Securities pursuant to conversion of the Debts Payable, being 1,250,531 Conversion Shares, 1,250,531 Conversion Options as well as 2,901,450 Debt Raising Options (collectively referred to as the “**Remaining Conversion Securities**”) to Chi Kan Tang (a Director of the Company).

Resolution 3 seeks Shareholder approval for the purpose of Listing Rule 10.11 and for all other purposes for the issue of the Remaining Conversion Securities to Chi Kan Tang.

3.2 ASX Listing Rule 10.11

Listing Rule 10.11 requires Shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party of the entity. With reference to section 228 of the Corporations Act, a “related party” of the Company includes the directors of the Company and any entities that the directors control.

Chi Kan Tang is a related party of the Company by virtue of being a director of the Company.

It is the view of the Company that the exceptions set out in Listing Rule 10.12 do not apply to the proposed issue of the Remaining Conversion Securities. Accordingly, approval is sought for the issue of the Remaining Conversion Securities to Chi Kan Tang.

3.3 ASX Listing Rule 7.2

Exception 14 of Listing Rule 7.2 provides that where shareholder approval is obtained under Listing Rule 10.11, additional shareholder approval is not required under Listing Rule 7.1.

Accordingly, subject to Resolution 3 being passed, the issue of the Remaining Conversion Securities to Chi Kan Tang will not be included in the 15% calculation of the Company’s annual placement capacity pursuant to Listing Rule 7.1.

3.4 Chapter 2E of the Corporations Act

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company’s members in the manner set out in sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

The Company considers that the terms of Debt Raising and the issue of the proposed issue of the Remaining Conversion Securities thereunder are reasonable in the circumstances as the Company and Chi Kan Tang were dealing at arm’s length, namely, the conversion of the Debts Payable is on terms identical to the non-renounceable rights issue announced by the Company to the ASX on 4 July 2019 and the terms of the Debt Raising (including the issuance of the Debt Raising Options) are otherwise on terms identical to the Debt Raising offered to non-related investors referred to in Resolution 1.

Furthermore, the Company considers the Line Fee and the Debt Raising Options represent reasonable arm’s length consideration to account for additional risk borne by the investor investing in the Debt Raising.

Accordingly it is the view of the Company that Shareholder approval is not required for the issue of the Remaining Conversion Securities for the purposes of Chapter 2E of the Corporations Act.

3.5 Shareholder Approval (Listing Rule 10.11)

Pursuant to and in accordance with the requirements of Listing Rule 10.13, the following information is provided in relation to the proposed issue of the Remaining Conversion Securities to Chi Kan Tang:

- (a) the related party proposing to participate in the issue of the Remaining Conversion Securities is Chi Kan Tang, a Director of the Company;
- (b) subject to the passing of this Resolution, the Company intends issue the Remaining Conversion Securities to Chi Kan Tang, being 1,250,531 Shares and 4,151,981 Class A Options;
- (c) subject to the passing of this Resolution, the Company intends to issue the Remaining Conversion Securities to Chi Kan Tang on the date of the Meeting or such other date as the Directors may determine but no later than one (1) month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules);
- (d) the Conversion Shares will rank pari passu with and be issued on the same terms as other Shares on issue, while the Conversion Options and the Debt Raising Options will rank pari passu with the other Class A Options on issue, the terms of which are summarised in Annexure A;
- (e) the Conversion Shares will be issued in satisfaction of the Company's obligation to issue Conversion Shares upon conversion of the Debts Payable, at a deemed issue price of A\$0.08 (8 cents) per Conversion Share, representing the offer price under the non-renounceable rights issue announced by the Company to the ASX on 4 July 2019, while the Conversion Options and the Debt Raising Options will be issued for nil consideration;
- (f) no funds will be raised by the Company in respect of the issue of the Remaining Conversion Securities, however it will satisfy the Company's obligations to issue the Debt Raising Options and result in full repayment of the Debts Payable; and
- (g) a voting exclusion statement is contained in Resolution 3.

3.6 Relevant Interests – Chi Kan Tang

As at the date of this Notice, Chi Kan Tang has a relevant interest in 16.15% of the voting Shares of the Company, as follows:

Holder of relevant interest	Registered holder of relevant interest	Nature of relevant interest	Shares	Voting Interest
Chi Kan Tang	Chi Kan Tang	Registered holder	28,250,819*	16.15%

**Note: in addition to such Shares, as at the date of this Notice, Chi Kan Tang holds 7,062,730 Class A Options, and this table assumes that such Options have not been exercised.*

This Resolution 3 seeks the approval for the issue of the Remaining Conversion Securities to Chi Kan Tang, being 1,250,531 Conversion Shares, 1,250,531 Conversion Options as well as 2,901,450 Debt Raising Options.

The impact of the issue of the Remaining Conversion Securities on the voting power of Chi Kan Tang is discussed below. The following tables and paragraphs assume that:

- (i) Resolution 3 is passed and the Conversion Shares are issued; and
- (ii) no other Shares are issued.

Shareholders should note that Chi Kan Tang may increase or decrease his voting power prior to the issue of the Remaining Conversion Securities. Any increase or decrease prior in their relevant interest in voting shares will have a corresponding impact on the calculation of the maximum increase in the voting power, and the total voting power, of Chi Kan Tang.

(i) Scenario 1 – Only Resolution 3 is passed

Assuming only Resolution 3 is passed and all Resolutions other than Resolution 3 are not passed, the issue of the Remaining Conversion Securities, will result in Chi Kan Tang having a relevant interest in up to 16.75% of the voting power of the Company, as follows:

Holder of relevant interest	Registered holder of relevant interest	Nature of relevant interest	Shares	Voting Interest
Chi Kan Tang	Chi Kan Tang	Registered holder	29,501,350*	16.75%

**Note: in addition to such Shares, following the issue of the Remaining Conversion Securities, Chi Kan Tang will also hold 11,214,711 Class A Options, and this table assumes that such Options have not been exercised.*

(i) Scenario 2 – All Resolutions are passed

Assuming all Resolutions are passed, including this Resolution 3, the issue of the Remaining Conversion Securities, will result in Chi Kan Tang having a relevant interest in up to 12.86% of the voting power of the Company:

Holder of relevant interest	Registered holder of relevant interest	Nature of relevant interest	Shares	Voting Interest
Chi Kan Tang	Chi Kan Tang	Registered holder	29,501,350*	12.86%

**Note: in addition to such Shares, following the issue of the Remaining Conversion Securities, Chi Kan Tang will also hold 11,214,711 Class A Options, and this table assumes that such Options have not been exercised.*

3.7 Interests and Recommendations of Directors

Other than Chi Kan Tang, none of the current Board members have a material personal interest in the outcome of Resolution 3. Based on the information available, including that contained in this Explanatory Memorandum, all of the Directors (other than Chi Kan Tang) recommend that the Shareholders vote in favour of Resolution 3.

4. RESOLUTION 4 – ISSUE OF REMAINING CONVERSION SECURITIES TO RELATED PARTY – JCKB PTY LTD

4.1 General

On 22 July 2019, prior to his appointment as a Director, James Baillieu advanced the sum of US\$250,000 (approximately A\$367,000) to the Company pursuant to the Debt Raising. A summary of the terms of the Debt Raising is contained in Section 1.1 of this Explanatory Memorandum.

On 5 August 2019, the Company exercised its right to convert all amounts payable by James Baillieu under the Debt Raising as at such date, being A\$379,521 (“**Debts Payable**”), which

would necessitate the issue of the 4,744,006 Conversion Shares, 4,744,006 Conversion Options as well as 1,667,500 Debt Raising Options (collectively referred to as the “**Conversion Securities**”). However, in compliance with the Corporations Act on 5 August 2019, only 2,178,228 Conversion Shares and 2,178,228 Conversion Options of the Conversion Securities, were issued pursuant to the “Debt Conversion Facility” under the non-renounceable rights offer announced by the Company to the ASX on 4 July 2019.

Therefore, subject to the passing of this Resolution 4, the Company seeks to issue the balance of the Conversion Securities pursuant to conversion of the Debts Payable, being 2,565,778 Conversion Shares, 2,565,778 Conversion Options as well as 1,667,500 Debt Raising Options (collectively referred to as the “**Remaining Conversion Securities**”) to JCKB Pty Ltd, being an entity controlled by and nominee of James Baillieu (a Director of the Company).

Resolution 4 seeks Shareholder approval for the purpose of Listing Rule 10.11 and for all other purposes for the issue of the Remaining Conversion Securities to JCKB Pty Ltd, being an entity controlled by James Baillieu.

4.2 ASX Listing Rule 10.11

A summary of Listing Rule 10.11 is contained in Section 3.2 of this Explanatory Memorandum.

JCKB Pty Ltd is a related party of the Company by virtue of being an entity controlled by James Baillieu, who is a Director of the Company.

It is the view of the Company that the exceptions set out in Listing Rule 10.12 do not apply to the proposed issue of the Remaining Conversion Securities. Accordingly, approval is sought for the issue of the Remaining Conversion Securities to JCKB Pty Ltd.

4.3 ASX Listing Rule 7.2

Exception 14 of Listing Rule 7.2 provides that where shareholder approval is obtained under Listing Rule 10.11, additional shareholder approval is not required under Listing Rule 7.1.

Accordingly, subject to Resolution 4 being passed, the issue of the Remaining Conversion Securities to JCKB Pty Ltd will not be included in the 15% calculation of the Company’s annual placement capacity pursuant to Listing Rule 7.1.

4.4 Chapter 2E of the Corporations Act

A summary of Chapter 2E of the Corporations Act is contained in section 3.4 of this Explanatory Memorandum.

The Company considers that the terms of Debt Raising and the issue of the proposed issue of the Remaining Conversion Securities thereunder are reasonable in the circumstances as the Company and James Baillieu were dealing at arm’s length, namely, the conversion of the Debts Payable is on terms identical to the non-renounceable rights issue announced by the Company to the ASX on 4 July 2019 and the terms of the Debt Raising (including the issuance of the Debt Raising Options) are otherwise on terms identical to the Debt Raising offered to non-related investors referred to in Resolution 1.

Furthermore, the Company considers the Line Fee and the Debt Raising Options represent reasonable arm’s length consideration to account for additional risk borne by the investor investing in the Debt Raising. Accordingly it is the view of the Company that Shareholder approval is not required for the issue of the Remaining Conversion Securities for the purposes of Chapter 2E of the Corporations Act.

4.5 Shareholder Approval (Listing Rule 10.11)

Pursuant to and in accordance with the requirements of Listing Rule 10.13, the following information is provided in relation to the proposed issue of the Remaining Conversion Securities to JCKB Pty Ltd:

- (a) the related party proposing to participate in the issue of the Remaining Conversion Securities is JCKB Pty Ltd, being an entity controlled by James Baillieu, a Director of the Company;
- (b) subject to the passing of this Resolution, the Company intends issue the Remaining Conversion Securities to JCKB Pty Ltd, being 2,565,778 Shares and 4,233,278 Class A Options;
- (c) subject to the passing of this Resolution, the Company intends to issue the Remaining Conversion Securities to JCKB Pty Ltd on the date of the Meeting or such other date as the Directors may determine but no later than one (1) month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules);
- (d) the Conversion Shares will rank pari passu with and be issued on the same terms as other Shares on issue, while the Conversion Options and the Debt Raising Options will rank pari passu with the other Class A Options on issue, the terms of which are summarised in Annexure A;
- (e) the Conversion Shares will be issued in satisfaction of the Company's obligation to issue Conversion Shares upon conversion of the Debts Payable, at a deemed issue price of A\$0.08 (8 cents) per Conversion Share, representing the offer price under the non-renounceable rights issue announced by the Company to the ASX on 4 July 2019, while the Conversion Options and the Debt Raising Options will be issued for nil consideration;
- (f) no funds will be raised by the Company in respect of the issue of the Remaining Conversion Securities, however it will satisfy the Company's obligations to issue the Debt Raising Options and result in full repayment of the Debts Payable; and
- (g) a voting exclusion statement is contained in Resolution 4.

4.6 Interests and Recommendations of Directors

Other than James Baillieu, none of the current Board members have a material personal interest in the outcome of Resolution 4. Based on the information available, including that contained in this Explanatory Memorandum, all of the Directors (other than James Baillieu) recommend that the Shareholders vote in favour of Resolution 4.

5. RESOLUTION 5 – ISSUE OF CONVERSION SECURITIES TO RELATED PARTY – RJIR PTY LTD <ZDR FAMILY TRUST>

5.1 General

On 23 July 2019, Zachry Rosenberg (a former director of the Company) advanced the sum of A\$50,000 to the Company pursuant to the Debt Raising. A summary of the terms of the Debt Raising is contained in Section 1.1 of this Explanatory Memorandum.

On 5 August 2019, the Company exercised its right to convert all amounts payable by Zachry Rosenberg under the Debt Raising as at such date, being A\$51,693 ("**Debts Payable**"), which would necessitate the issue of the 646,152 Conversion Shares, 646,152 Conversion Options as well as 227,180 Debt Raising Options (collectively referred to as the "**Conversion Securities**"). However in compliance with the Corporations Act on 5 August 2019, only 591,874 Conversion Shares and 591,874 Conversion Options of the Conversion Securities, were issued pursuant to the "Debt Conversion Facility" under the non-renounceable rights offer announced by the Company to the ASX on 4 July 2019.

Therefore, in conjunction with the repayment to Zachry Rosenberg of outstanding principal and interest on the Debts Payable in the amount A\$4,343, subject to the passing of this Resolution 5, the Company seeks to issue the balance of the Conversion Securities pursuant to conversion of the Debts Payable, being 646,152 Debt Raising Options (collectively referred to as the "**Remaining Conversion Securities**") to RJIR Pty Ltd <ZDR Family Trust>, being an entity controlled by and nominee of Zachry Rosenberg (a former Director of the Company).

Resolution 5 seeks Shareholder approval for the purpose of Listing Rule 10.11 and for all other purposes for the issue of the Remaining Conversion Securities to RJIR Pty Ltd <ZDR Family Trust>, being an entity controlled by Zachry Rosenberg.

5.2 ASX Listing Rule 10.11

A summary of Listing Rule 10.11 is contained in Section 3.2 of this Explanatory Memorandum.

RJIR Pty Ltd <ZDR Family Trust>, is a related party of the Company by virtue of being an entity controlled by Zachry Rosenberg, who is a former director of the Company.

It is the view of the Company that the exceptions set out in Listing Rule 10.12 do not apply to the proposed issue of the Remaining Conversion Securities. Accordingly, approval is sought for the issue of the Remaining Conversion Securities to RJIR Pty Ltd <ZDR Family Trust>.

5.3 ASX Listing Rule 7.2

Exception 14 of Listing Rule 7.2 provides that where shareholder approval is obtained under Listing Rule 10.11, additional shareholder approval is not required under Listing Rule 7.1.

Accordingly, subject to Resolution 5 being passed, the issue of the Remaining Conversion Securities to RJIR Pty Ltd <ZDR Family Trust> will not be included in the 15% calculation of the Company's annual placement capacity pursuant to Listing Rule 7.1.

5.4 Chapter 2E of the Corporations Act

A summary of Chapter 2E of the Corporations Act is contained in section 3.4 of this Explanatory Memorandum.

The Company considers that the terms of Debt Raising and the issue of the proposed issue of the Remaining Conversion Securities thereunder are reasonable in the circumstances as the Company and James Baillieu were dealing at arm's length, namely, the conversion of the Debts Payable is on terms identical to the non-renounceable rights issue announced by the Company to the ASX on 4 July 2019 and the terms of the Debt Raising (including the issuance of the Debt Raising Options) are otherwise on terms identical to the Debt Raising offered to non-related investors referred to in Resolution 1.

Furthermore, the Company considers the Line Fee and the Debt Raising Options represent reasonable arm's length consideration to account for additional risk borne by the investor investing in the Debt Raising. Accordingly it is the view of the Company that Shareholder approval is not required for the issue of the Remaining Conversion Securities for the purposes of Chapter 2E of the Corporations Act.

5.5 Shareholder Approval (Listing Rule 10.11)

Pursuant to and in accordance with the requirements of Listing Rule 10.13, the following information is provided in relation to the proposed issue of the Remaining Conversion Securities to RJIR Pty Ltd <ZDR Family Trust>:

- (a) the related party proposing to participate in the issue of the Remaining Conversion Securities is RJIR Pty Ltd <ZDR Family Trust>, being an entity controlled by Zachry Rosenberg, a former Director of the Company;
- (b) subject to the passing of this Resolution, the Company intends issue the Remaining Conversion Securities to RJIR Pty Ltd <ZDR Family Trust>, being 227,180 Class A Options;
- (c) subject to the passing of this Resolution, the Company intends to issue the Remaining Conversion Securities to RJIR Pty Ltd <ZDR Family Trust> on the date of the Meeting or such other date as the Directors may determine but no later than one (1) month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules);

- (d) the Debt Raising Options will rank pari passu with the other Class A Options on issue, the terms of which are summarised in Annexure A;
- (e) the Debt Raising Options will be issued for nil consideration;
- (f) no funds will be raised by the Company in respect of the issue of the Remaining Conversion Securities, however it will satisfy the Company's obligations to issue the Debt Raising Options; and
- (g) a voting exclusion statement is contained in Resolution 5.

5.6 Interests and Recommendations of Directors

None of the current Board members have a material personal interest in the outcome of Resolution 5. Based on the information available, including that contained in this Explanatory Memorandum, all of the Directors recommend that the Shareholders vote in favour of Resolution 5.

6. RESOLUTION 6 – APPROVAL OF ACQUISITION OF RELEVANT INTEREST BY RELATED PARTY – JAMES BAILLIEU AND JCKB PTY LTD

6.1 General

As at the date of this Notice, James Baillieu has a relevant interest in 5.04% of the voting Shares of the Company, as follows:

Holder of relevant interest	Registered holder of relevant interest	Nature of relevant interest	Shares	Voting Interest
James Baillieu	James Baillieu	Registered holder	8,712,910*	5.04%

**Note: in addition to such Shares, as at the date of this Notice, James Baillieu holds 2,178,228 Class A Options, and this table assumes that such Options have not been exercised.*

Furthermore, as at the date of this Notice, JCKB Pty Ltd (being an entity controlled by James Baillieu) has a relevant interest in 5.04% of the voting Shares of the Company, as follows:

Holder of relevant interest	Registered holder of relevant interest	Nature of relevant interest	Shares	Voting Interest
JCKB Pty Ltd	James Baillieu	Person with whom JCKB Pty Ltd acts in concert	8,712,910*	5.04%

**Note: in addition to such Shares, as at the date of this Notice, James Baillieu holds 2,178,228 Class A Options, and this table assumes that such Options have not been exercised.*

Resolutions 4, 7 and 8 seek the approval for the issue of up to 49,300,514 Shares to JKCB Pty Ltd, being an entity controlled by James Baillieu (a Director of the Company), which if approved, will collectively result in James Baillieu, JCKB Pty Ltd and their associates having a relevant interest in up to 25.27% of the voting power of the Company (assuming all Resolutions are passed).

6.2 Section 606 of the Corporations Act

(a) Statutory Prohibition

Pursuant to section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the Company increases:

- (i) from 20% or below to more than 20%; or
- (ii) from a starting point that is above 20% and below 90%,

(“**Prohibition**”).

(b) Voting Power

The voting power of a person in a body corporate is determined in accordance with section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company which the person and the person's associates have a relevant interest.

(c) Associates

For the purposes of determining voting power under the Corporations Act, a person (“**the second person**”) is an “associate” of the other person (“**the first person**”) if:

- (i) (pursuant to section 12(2) of the Corporations Act) the first person is a body corporate and the second person is:
 - (A) a body corporate the first person controls;
 - (B) a body corporate that controls the first person; or
 - (C) a body corporate that is controlled by an entity that controls the person;
- (ii) the second person has entered or proposed to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; or
- (iii) the second person is a person with whom the first person is acting or proposed to act, in concert in relation to the company's affairs.

Associates are, therefore, determined as a matter of fact. For example where a person controls or influences the board or the conduct of a company's business affairs, or acts in concert with a person in relation to the company's business affairs.

(d) Relevant Interests

Section 608(1) of the Corporations Act provides that a person has a relevant interest in securities if they are:

- (i) are the holder of the securities;
- (ii) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (iii) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

In addition, section 608(3) of the Corporations Act provides that a person has a relevant interest in securities that any of the following has:

- (i) a body corporate in which the person's voting power is above 20%; or
- (ii) a body corporate that the person controls.

6.3 Reason Section 611 Approval is Required

Item 7 of section 611 of the Corporations Act provides an exception to the Prohibition, whereby a person may acquire a relevant interest in a company's voting shares with shareholder approval.

If Resolutions 4, 7 and 8 are passed, following the issue of the Conversion Shares, the Placement Shares and the Loan Shares respectively to JCKB Pty Ltd, James Baillieu and JCKB Pty Ltd will have a relevant interest in up to 25.27% of the voting power in the Company.

Therefore Shareholder approval under Item 7 of section 611 of the Corporations Act is required to enable the issue of the Conversion Shares, the Placement Shares and the Loan Shares. Accordingly, this Resolution 6 seeks Shareholder approval for the acquisition of relevant interests in up to 25.27% of the Company's voting Shares by James Baillieu and JCKB Pty Ltd ("**the Acquisition**").

Section 6.4(b) of this Explanatory Statement below details the potential maximum increase in voting power of James Baillieu and JCKB Pty Ltd as a result of the Acquisition.

6.4 Specific Information required by Section 611 Item 7 of the Corporations Act and ASIC Regulatory Guide 74

The following information is required to be provided to the Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval for Item 7 of section 611 of the Corporations Act. Shareholders are also referred to the Independent Expert's Report prepared by Nexia Perth Corporate Finance Pty Ltd (AFSL 289 358) annexed to this Explanatory Statement at Annexure D.

(a) Identity of the Acquirer and its Associates

The acquirers of relevant interests in the Company's voting shares as a result of the Acquisition are:

- James Baillieu, a Director of the Company and whose associates include JCKB Pty Ltd, being an entity controlled by James Baillieu; and
- JCKB Pty Ltd, whose sole director, secretary and shareholder as at the date of this Notice, is James Baillieu and whose associates therefore include James Baillieu with whom JCKB Pty Ltd acts in concert.

(b) Relevant Interest and Voting Power

The relevant interests in Shares held by James Baillieu and JCKB Pty Ltd as at the date of this Notice is summarised in Section 6.1 of this Explanatory Statement.

Assuming all Resolutions other than Resolution 7 and 8 are passed and all Conversion Shares are issued, including but not limited to the Conversion Shares to be issued to JCKB Pty Ltd pursuant to Resolution 4 and the Company does not issue any other additional Shares, the relevant interests in Shares held by James Baillieu and JCKB Pty Ltd will be as follows:

Holder of relevant interest	Registered holder of relevant interest	Nature of relevant interest	Shares	Voting Interest
James Baillieu	James Baillieu	Registered holder	8,712,910	4.77%
	JCKB Pty Ltd	Body corporate controlled by James Baillieu	2,565,778	1.40%
	Total		11,278,688	6.17%
JCKB Pty Ltd	JCKB Pty Ltd	Registered holder	2,565,778	1.40%
	James Baillieu	Person with whom JCKB Pty Ltd proposes to act in concert	8,712,910	4.77%
	Total		11,278,688	6.17%

The impact of the issue of the Placement Shares and the Loan Shares on the voting power of James Baillieu and JCKB Pty Ltd is discussed below. The following tables and paragraphs assume that:

- (i) Resolution 4 is passed and the Conversion Shares are issued; and
- (ii) no other Shares are issued.

Shareholders should note that JCKB Pty Ltd, James Baillieu or their associates may increase or decrease their voting power prior to the issue of the Placement Shares and the Loan Shares. Any increase or decrease prior in their relevant interest in voting shares will have a corresponding impact on the calculation of the maximum increase in the voting power, and the total voting power, of James Baillieu, JCKB Pty Ltd and their associates.

(i) Scenario 1 – Resolutions 7 and 8 passed

Assuming, in addition to the assumptions referred to above in Section 6.4(b) of the Explanatory Memorandum, all Resolutions are passed and the Placement Shares and the Loan Shares are issued to JCKB Pty Ltd pursuant to Resolutions 7 and 8 respectively, the relevant interests in Shares held by James Baillieu and JCKB Pty Ltd will be as follows:

Holder of relevant interest	Registered holder of relevant interest	Nature of relevant interest	Shares	Voting Interest
James Baillieu	James Baillieu	Registered holder	8,712,910	3.80%

	JCKB Pty Ltd	Body corporate controlled by James Baillieu	49,300,514	21.48%
	Total		58,013,424	25.27%
JCKB Pty Ltd	JCKB Pty Ltd	Registered holder	49,300,514	21.48%
	James Baillieu	Person with whom JCKB Pty Ltd proposes to act in concert	8,712,910	3.80%
	Total		58,013,424	25.27%

(ii) Scenario 2 – Resolution 7 passed but Resolution 8 not passed

Assuming, in addition to the assumptions referred to above in Section 6.4(b) of the Explanatory Memorandum, all Resolutions other than Resolution 8 are passed and only the Loan Shares are not issued to JCKB Pty Ltd pursuant to Resolution 8, the relevant interests in Shares held by James Baillieu and JCKB Pty Ltd will be as follows:

Holder of relevant interest	Registered holder of relevant interest	Nature of relevant interest	Shares	Voting Interest
James Baillieu	James Baillieu	Registered holder	8,712,910	4.32%
	JCKB Pty Ltd	Body corporate controlled by James Baillieu	21,315,778	10.57%
	Total		30,028,688	14.90%
JCKB Pty Ltd	JCKB Pty Ltd	Registered holder	21,315,778	10.57%
	James Baillieu	Person with whom JCKB Pty Ltd proposes to act in concert	8,712,910	4.32%
	Total		30,028,688	14.90%

(iii) Scenario 3 – Resolution 8 passed but Resolution 7 not passed

Assuming, in addition to the assumptions referred to above in Section 6.4(b) of the Explanatory Memorandum, all Resolutions other than Resolution 7 are passed and only

the Placement Shares are not issued to JCKB Pty Ltd pursuant to Resolution 7, the relevant interests in Shares held by James Baillieu and JCKB Pty Ltd will be as follows:

Holder of relevant interest	Registered holder of relevant interest	Nature of relevant interest	Shares	Voting Interest
James Baillieu	James Baillieu	Registered holder	8,712,910	4.13%
	JCKB Pty Ltd	Body corporate controlled by James Baillieu	30,550,514	14.49%
	Total		39,263,424	18.62%
JCKB Pty Ltd	JCKB Pty Ltd	Registered holder	30,550,514	14.49%
	James Baillieu	Person with whom JCKB Pty Ltd proposes to act in concert	8,712,910	4.13%
	Total		39,263,424	18.62%

(c) **Reasons for the proposed issue of Placement Shares and Loan Shares**

As set out in section 7 of this Explanatory Statement, the Company is proposing to issue the Placement Shares to JCKB Pty Ltd, being an entity controlled by James Baillieu, in consideration for the advancement of the subscription sum of A\$1,500,000 by James Baillieu. In the absence of Shareholder approval for Resolutions 6 and 7, the Placement will not proceed.

As set out in section 8 of this Explanatory Statement, the Company is proposing to issue the Loan Shares to JCKB Pty Ltd, being an entity controlled by James Baillieu, upon conversion of the principal sum and accumulated interest under a loan of A\$1,500,000 advanced by James Baillieu. In the absence of Shareholder approval for Resolutions 6 and 8, the issue of the Loan Shares will not proceed.

(d) **Date of proposed issue of Placement Shares and Loan Shares**

Subject to the passing of this Resolution 6 and Resolution 7, the Company intends to issue the Placement Shares to JCKB Pty Ltd on the date of the Meeting or such other date as the Directors may determine but no later than one (1) month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules).

Subject to the passing of this Resolution 6 and Resolution 8, the Company intends to issue the Loan Shares to JCKB Pty Ltd on the date of the Meeting or such other date as the Directors may determine but no later than one (1) month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules).

(e) **Material terms of proposed issue of Placement Shares and Loan Shares**

The Loan Shares and the Placement Shares will rank pari passu with the other Shares on issue and will be issued on the same terms as the other Shares on issue.

(f) **James Baillieu's and JCKB Pty Ltd's Intentions**

James Baillieu and JCKB Pty Ltd have informed the Company that as at the date of this Notice and on the basis of the facts and information available to them, that they:

- (i) have no present intention of making any significant changes to the business of the Company;
- (ii) have no present intention to inject further capital into the Company;
- (iii) have no present intention regarding the future employment of the present employees of the Company;
- (iv) have no present intention to redeploy any fixed assets of the Company;
- (v) have no present intention to transfer any property between the Company and themselves;
- (vi) have no present intention to change the Company's existing policies in relation to financial matters or dividends; and
- (vii) have no present intention to change the Board.

In his capacity as a major shareholder and Director, James Baillieu will continue to provide input regarding the direction of the Company's business, including in relation to the above matters where appropriate.

These present intentions may change as new information becomes available, as circumstances change or in light of all material information, facts and circumstances necessary to assess the operation, commercial, taxation and financial implications of those decisions at the relevant time.

(g) **Capital Structure**

Details of the effect to the Company's capital structure resulting from the issue of the Placement Shares and the Loan Shares is set out in Section 6.4(b) above of this Explanatory Statement.

6.5 Advantages of the issue of the Acquisition of Relevant Interests – Resolution 6

The Directors (other than James Baillieu) are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on proposed Resolution 6:

- (a) the Acquisition will permit the Placement to occur, and accordingly the funds raised thereunder will provide the Company with additional working capital flexibility, and enable the Company to increase the inventory of confectionary sold and employ additional sales personnel;
- (b) the Acquisition will permit the Company to satisfy amounts payable under the Loan, which where otherwise outstanding may result in an event of default under the Loan if the Company does not have access to sufficient funds to repay the Loan;
- (c) the Acquisition will permit the Company to satisfy amounts payable under the Loan, thereby preserving the Company's cash reserves;
- (d) the issue of Securities in connection with the Acquisition may provide an opportunity for enhanced liquidity in the Company's shares;

- (e) the Acquisition may give rise to a market re-pricing of the Company's shares; and
- (f) the Independent Expert's Report prepared by Nexia Perth Corporate Finance Pty Ltd (AFSL 289 358) concludes that the issue of the Placement Shares and Loan Shares is fair and reasonable to the non-associated Shareholders.

6.6 Disadvantages of the Acquisition of Relevant Interests – Resolution 6

The Directors (other than James Baillieu) are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on proposed Resolution 6:

- (a) the Acquisition will increase the voting power of James Baillieu and JCKB Pty Ltd (and their associates) in the Company up to a maximum of approximately 25.27%, reducing the voting power of non-associated Shareholders in the Company in aggregate to a maximum of approximately 74.73%;
- (b) with a shareholding of 25.27%, James Baillieu and JCKB Pty Ltd would have voting power to block the passing of special resolutions of the Company; and
- (c) there is no guarantee that the Company's Shares will not fall in value as a result of the issue of Securities to JCKB Pty Ltd associated with the Acquisition.

6.7 Independent Expert's Report – Resolution 6

The Independent Expert's Report prepared by Nexia Perth Corporate Finance Pty Ltd (AFSL 289 358) (a copy of which is attached as Annexure D to this Explanatory Statement) assesses whether the Acquisition of relevant interests in the Company by James Baillieu, JCKB Pty Ltd and their associates are fair and reasonable to the non-associated Shareholders of the Company.

The Independent Expert's Report concludes that the transactions contemplated by Resolution 6 are fair and reasonable to the non-associated Shareholders of the Company.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the Independent Expert's Report, the methodology of the valuation and the sources of information and assumptions made.

6.8 Interests and Recommendations of Directors

Other than James Baillieu, none of the current Board members have a material personal interest in the outcome of Resolution 6. Based on the information available, including that contained in this Explanatory Memorandum and the Independent Expert's Report, all of the Directors (other than James Baillieu) recommend that the Shareholders vote in favour of Resolution 6 as they believe the advantages outweigh the disadvantages and that the Acquisition and associated issue of the Placement Shares and the Loan Shares are in the best interests of the Company.

The Directors are not aware of any other information other than as set out in this notice that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 6.

7. RESOLUTION 7 – ISSUE OF PLACEMENT SECURITIES TO RELATED PARTY – JCKB PTY LTD

7.1 General

As announced to the ASX on 16 September 2019, subject to obtaining Shareholder approval, James Baillieu has agreed to commit to advance A\$1,500,000 to the Company ("**the Placement**") in consideration for the issue of 18,750,000 Shares at deemed issue price of A\$0.08 per Share ("**Placement Shares**") and 18,750,000 Class A Options for nil consideration ("**Placement Options**").

Resolution 7 seeks Shareholder approval for the purpose of Listing Rule 10.11 and for all other purposes, for the issue of the Placement Shares and Placement Options pursuant to the Placement (collectively “the Placement Securities”) to JCKB Pty Ltd, being an entity controlled by James Baillieu.

7.2 ASX Listing Rule 10.11

A summary of Listing Rule 10.11 is contained in Section 3.2 of this Explanatory Memorandum.

JCKB Pty Ltd is a related party of the Company by virtue of being an entity controlled by James Baillieu, who is a Director of the Company.

It is of the view of the Company that the exceptions set out in Listing Rule 10.12 do not apply to the proposed issue of the Placement Securities. Accordingly, Shareholder approval is sought for the issue of the Placement Securities.

7.3 ASX Listing Rule 7.2

Exception 14 of Listing Rule 7.2 provides that where shareholder approval is obtained under Listing Rule 10.11, additional shareholder approval is not required under Listing Rule 7.1. Accordingly, subject to Resolution 7 being passed, the issue of the Placement Securities will not be included in the 15% calculation of the Company’s annual placement capacity pursuant to Listing Rule 7.1.

7.4 Chapter 2E of the Corporations Act

A summary of Chapter 2E of the Corporations Act is contained in section 3.4 of this Explanatory Memorandum.

The Company considers that the terms of the Placement are reasonable in the circumstances as the Company and James Baillieu were dealing at arm’s length, namely, the Placement is on terms identical to the non-renounceable rights issue announced by the Company to the ASX on 4 July 2019. Accordingly it is the view of the Company that Shareholder approval is not required for the issue of the Placement Securities pursuant to Chapter 2E of the Corporations Act.

7.5 Shareholder Approval (Listing Rule 10.11)

Pursuant to and in accordance with the requirements of Listing Rule 10.13, the following information is provided in relation to the proposed issue of the Placement Securities:

- (a) the related party proposing to participate in the issue of Placement Securities is JCKB Pty Ltd, being an entity controlled by James Baillieu, a Director of the Company;
- (b) the maximum number of Placement Securities to be issued to JCKB Pty Ltd will be 18,750,000 Shares and 18,750,000 Class A Options;
- (c) subject to the passing of Resolution 6 and this Resolution 7, the Company intends to issue the Placement Securities to JCKB Pty Ltd on the date of the Meeting or such other date as the Directors may determine but no later than one (1) month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules);
- (d) the Placement Shares will rank pari passu with, and will be issued on the same terms as the other Shares of on issue while the Placement Options will rank pari passu with the other Class A Options on issue. The terms of the Class A Options are attached to this Notice as Annexure A;
- (e) the Placement Shares will be issued for conversion of the entire amount of the Placement (and interest accumulated thereunder), at a deemed issue price of A\$0.08 (8 cents) per Placement Share, representing the offer price under the non-renounceable rights issue announced by the Company to the ASX on 4 July 2019, while the Placement Options will be issued for nil consideration;

- (f) the Company will raise A\$1,500,000 pursuant to the issue of the Placement Securities which the Company intends to use to provide additional working capital flexibility; and
- (g) a voting exclusion statement is contained in Resolution 7.

7.6 Interests and Recommendations of Directors

Other than James Baillieu none of the current Board members have a material personal interest in the outcome of Resolution 7. Based on the information available, including that contained in this Explanatory Memorandum, all of the Directors (other than James Baillieu) recommend that the Shareholders vote in favour of Resolution 7.

8. RESOLUTION 8 – ISSUE OF LOAN SHARES TO RELATED PARTY – JCKB PTY LTD

8.1 General

As announced to the ASX on 16 September 2019, pursuant to a loan agreement between the Company and James Baillieu dated 13 September 2019, James Baillieu provided a loan to the Company in the amount of A\$1,500,000 (“**Loan**”).

Under the terms of the Loan, subject to the Company obtaining Shareholder approval, the Company or James Baillieu may elect for all or part of the amounts payable under the Loan to be converted into Shares (“**Loan Shares**”) at the conversion price of A\$0.057 (5.7 cents), being the last traded price of the Company’s quoted Shares prior to the trading halt requested on 12 September 2019 (“**the Conversion Right**”).

Subject to the passing of this Resolution 8, on the date being three (3) months from the date of the Loan (“**Loan Conversion Date**”) the Company seeks to exercise the Conversion Right and convert the Loan and interest accumulated thereunder up to the Loan Conversion Date, being the amount of A\$1,590,000 (“**Loan Conversion Amount**”) into 27,984,736 Loan Shares.

Resolution 8 seeks Shareholder approval for the purpose of Listing Rule 10.11 and for all other purposes for the grant of the Conversion Right, including the subsequent issue of the Loan Shares to James Baillieu’s nominee, JCKB Pty Ltd upon the exercise of the Conversion Right on the Loan Conversion Date.

8.2 ASX Listing Rule 10.11

A summary of Listing Rule 10.11 is contained in Section 3.2 of this Explanatory Memorandum.

JCKB Pty Ltd is a related party of the Company by virtue of being an entity controlled by James Baillieu, who is a Director of the Company.

It is the view of the Company that the exceptions set out in Listing Rule 10.12 do not apply to the proposed grant of the Conversion Right. Accordingly, approval is sought for the grant of the Conversion Right and the subsequent issue of the Loan Shares upon the exercise of such right.

8.3 ASX Listing Rule 7.2

Exception 14 of Listing Rule 7.2 provides that where shareholder approval is obtained under Listing Rule 10.11, additional shareholder approval is not required under Listing Rule 7.1. Accordingly, subject to Resolution 8 being passed, the issue of the Loan Shares will not be included in the 15% calculation of the Company’s annual placement capacity pursuant to Listing Rule 7.1.

8.4 Chapter 2E of the Corporations Act

A summary of Chapter 2E of the Corporations Act is contained in Section 3.4 of this Explanatory Memorandum.

As the Company considers that the terms of the Loan were reasonable in the circumstances as the Company and James Baillieu were dealing at arm's length, namely the terms of the Loan were on terms no more favourable than otherwise available to the Company at the time of the Loan, it is the view of the Company that the execution of the Loan does not constitute giving a financial benefit, as the exception contained in section 210 of the Corporations Act (arm's length terms) applies. Accordingly it is the view of the Company that Shareholder approval is not required for the grant of the Conversion Right pursuant to Chapter 2E of the Corporations Act.

8.5 Shareholder Approval (Listing Rule 10.11)

Pursuant to and in accordance with the requirements of Listing Rule 10.13, the following information is provided in relation to the proposed grant of the Conversion Right, and any subsequent issue of Loan Shares upon the proposed execution of the Conversion Right on the Loan Conversion Date:

- (a) the related party proposing to participate in the issue of Loan Shares is JCKB Pty Ltd, being an entity controlled by James Baillieu, a Director of the Company;
- (b) subject to the passing of this Resolution, the Company intends to convert the entire amount of the Loan Conversion Amount, being an amount of A\$1,590,000, into the Loan Shares. Therefore the maximum number of Loan Shares to be issued to JCKB Pty Ltd will be 27,984,736 Shares;
- (c) subject to the passing of Resolution 6 and this Resolution 8, the Company intends to issue the Loan Shares to JCKB Pty Ltd on the Loan Conversion Date or such other date as the Directors may determine but no later than one (1) month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules);
- (d) the Loan Shares will rank pari passu with, and will be issued on the same terms as, the other Shares on issue;
- (e) the Loan Shares will be issued for conversion of the entire amount of the Loan Conversion Amount, at a deemed issue price of A\$0.057 (5.7 cents) per Loan Share, representing the price of the Company Share's trading on ASX on the day prior to the day the Company entered into the Loan;
- (f) no funds will be raised by the Company in respect of the issue of the Loan Shares, however it will result in repayment in full of the Loan Conversion Amount; and
- (h) a voting exclusion statement is contained in Resolution 8.

8.6 Interests and Recommendations of Directors

Other than James Baillieu none of the current Board members have a material personal interest in the outcome of Resolution 8. Based on the information available, including that contained in this Explanatory Memorandum, all of the Directors (other than James Baillieu) recommend that the Shareholders vote in favour of Resolution 8.

9. RESOLUTION 9 – ISSUE OF DIRECTOR OPTIONS TO RELATED PARTY – ANDREW CLARK

9.1 General

The Company seeks to issue 3,100,000 Director Options to Andrew Clark (or his nominee) as part of this equity based remuneration.

Resolution 9 seeks Shareholder approval for the purpose of Listing Rule 10.11 for the issue of the Director Options to Andrew Clark (or his nominee).

9.2 ASX Listing Rule 10.11

A summary of Listing Rule 10.11 is contained in Section 3.2 of this Explanatory Memorandum.

Andrew Clark is a related party of the Company by virtue of being a Director of the Company.

It is of the view of the Company that the exceptions set out in Listing Rule 10.12 do not apply to the proposed issue of the Director Options. Accordingly, approval is sought for the issue of the Director Options to Andrew Clark (or his nominee).

9.3 ASX Listing Rule 7.2

Exception 14 of Listing Rule 7.2 provides that where shareholder approval is obtained under Listing Rule 10.11, additional shareholder approval is not required under Listing Rule 7.1. Accordingly, subject to Resolution 9 being passed, the issue of the Director Options will not be included in the 15% calculation of the Company's annual placement capacity pursuant to Listing Rule 7.1.

9.4 Chapter 2E of the Corporations Act

A summary of Chapter 2E of the Corporations Act is contained in section 3.4 of this Explanatory Memorandum.

In considering the issue of the Director Options to Andrew Clark (or his nominee), being a non-executive director of the Company, the Board acknowledges that the ASX Corporate Governance Principles and Recommendations consider it acceptable to issue non-executive directors with equity based remuneration to align their interests with the shareholders of the Company. However, the Corporate Governance Principles and Recommendations recommend that non-executive directors should not receive options with performance hurdles attached or performance rights.

The Board notes that the Director Options to be issued to Andrew Clark (or his nominee) are consistent with the ASX Corporate Governance Principles and Recommendations as the Director Options will not be subject to any conditions based on the performance of Andrew Clark.

The Company considers the issue of Director Options to Andrew Clark (or his nominee) to be an effective method of incentivising Andrew Clark without requiring further expenditure by the Company, and to further align Andrew Clark's interests with that of Shareholders.

An alternative to the issue of the Director Options would be to increase the cash remuneration for Andrew Clark. However, given the current stage of development of the Company, and the necessity for cash resources to be preserved and directed into the growth of the Company's business, the Board (with the exception of Andrew Clark) considers the issue of the Director Options to be an appropriate cash-free method of remunerating Andrew Clark for his commitment and contribution to the Company.

On this basis, the Directors (with the exception of Andrew Clark) consider that the issue of the Director Options constitutes "reasonable remuneration" in respect of Andrew Clark's position, which falls within the exception in section 211(1) of the Corporation Act, and therefore, Shareholder approval pursuant to Chapter 2E of the Corporations Act is not required.

Accordingly, Resolution 9 does not seek approval for the purposes of Chapter 2E of the Corporations Act.

9.5 Shareholder Approval (Listing Rule 10.11)

Pursuant to and in accordance with the requirements of Listing Rule 10.13, the following information is provided in relation to the proposed issue of the Director Options:

- (a) the related party proposing to participate in the issue of Director Options is Andrew Clark (or his nominee), a Director of the Company;

- (b) the maximum number of Director Options to be issued to Andrew Clark will be 3,100,000 Director Options;
- (c) subject to the passing of this Resolution 9, the Company intends to issue the Director Options on the date of the Meeting or such other date as the Directors may determine but no later than one (1) month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules);
- (d) the Director Options will be issued on the terms summarised in Annexure B;
- (e) the Director Options will be issued for nil consideration;
- (f) no funds will be raised by the Company in respect of the issue of the Director Options; and
- (g) a voting exclusion statement is contained in Resolution 9.

9.6 Interests and Recommendations of Directors

Other than Andrew Clark none of the current Board members have a material personal interest in the outcome of Resolution 9. Based on the information available, including that contained in this Explanatory Memorandum, all of the Directors (other than Andrew Clark) recommend that the Shareholders vote in favour of Resolution 9.

10. RESOLUTION 10 – ISSUE OF MANAGEMENT SHARES TO RELATED PARTY – SABONE INTERNET INVESTMENTS LLC

10.1 General

Pursuant to an employment contract entered into with the Company's subsidiary, Keith Cohn is entitled to salary of US\$275,000 (approximately A\$403,700) per annum ("**Original Salary**"). Subject to the Company obtaining Shareholder approval, Keith and the Company have agreed to reduce the salary payable to Keith thereunder to US\$225,000 (approximately A\$330,300) per annum ("**Revised Salary**") in consideration for the issue of Shares to the value of US\$100,000 (approximately A\$154,297) ("**Management Shares**"), being at a 100% premium to the difference between the Original Salary and the Revised Salary ("**Management Fee Reduction**").

The Management Shares are to be issued, at the conversion price of A\$0.08 (8 cents) per Share, representing the offer price under the non-renounceable rights issue announced by the Company to the ASX on 4 July 2019, resulting in the issue of 1,865,672 Management Shares for the Management Fee Reduction.

Resolution 10 seeks Shareholder approval for the purpose of Listing Rule 10.11 and for the issue of the Management Shares to Keith Cohn's nominee, Sabone Internet Investments LLC.

10.2 ASX Listing Rule 10.11

A summary of Listing Rule 10.11 is contained in Section 3.2 of this Explanatory Memorandum.

Sabone Internet Investments LLC is a related party of the Company by virtue of being an entity controlled by Keith Cohn, who is a director of the Company.

It is the view of the Company that the exceptions set out in Listing Rule 10.12 do not apply to the proposed grant of the Management Conversion Right. Accordingly, approval is sought for the grant of the Management Conversion Right, and the subsequent issue of the Management Shares upon the exercise of such right.

10.3 ASX Listing Rule 7.2

A summary of the operation of Listing Rule 7.1 is provided in section 1.2 of this Explanatory Memorandum.

Exception 14 of Listing Rule 7.2 provides that where shareholder approval is obtained under Listing Rule 10.11, additional shareholder approval is not required under Listing Rule 7.1.

Accordingly, subject to Resolution 10 being passed, the issue of the Management Shares to Sabone Internet Investments LLC will not be included in the 15% calculation of the Company's annual placement capacity pursuant to Listing Rule 7.1.

10.4 Chapter 2E of the Corporations Act

A summary of Chapter 2E of the Corporations Act is contained in section 3.4 of this Explanatory Memorandum.

The Company considers the issue of Management Shares to Keith Cohn (or his nominee) to be an effective method of preserving the Company's capital and incentivising Keith Cohn without requiring further expenditure by the Company, and to further align Keith Cohn's interests with that of Shareholders.

An alternative to the issue of the Management Shares would be to continue to pay Keith Cohn the salary that Keith Cohn is otherwise entitled to under his employment contract with the Company's subsidiary. However, given the current stage of development of the Company, and the necessity for cash resources to be preserved and directed into the growth of the Company's business, the Board (with the exception of Keith Cohn) considers the issue of the Management Shares in consideration for Keith Cohn accepting a temporary reduction to his salary to be an appropriate cash-free method of remunerating Keith Cohn for his commitment and contribution to the Company.

On this basis, the Directors (with the exception of Keith Cohn) consider that the issue of the Management Shares constitutes "reasonable remuneration" in respect of Keith Cohn's position, which falls within the exception in section 211(1) of the Corporation Act, and therefore, Shareholder approval pursuant to Chapter 2E of the Corporations Act is not required.

Furthermore, as the Directors (with the exception of Keith Cohn) consider that the terms of the Management Conversion Right are reasonable in the circumstances as the Company and Keith Cohn were dealing at arm's length, namely the Management Shares represent reasonable consideration to Keith Cohn for agreeing to the Management Fee Reduction, while the conversion price represents the offer price under the non-renounceable rights issue announced by the Company to the ASX on 4 July 2019, it is the view of the Directors (with the exception of Keith Cohn) that the exception in section 210(1) of the Corporation Act also applies to the proposed issue of the Management Shares, and therefore, Shareholder approval pursuant to Chapter 2E of the Corporations Act is not required.

10.5 Shareholder Approval (Listing Rule 10.11)

Pursuant to and in accordance with the requirements of Listing Rule 10.13, the following information is provided in relation to the proposed issue of the Management Shares:

- (a) the related party proposing to participate in the issue of the Management Shares is Sabone Internet Investments LLC, being an entity controlled by Keith Cohn, a Director of the Company;
- (b) subject to the passing of this Resolution 10, the Company intends to issue 1,865,672 Management Shares for the conversion of the Management Fee Reduction (namely US\$100,000) to be issued to Sabone Internet Investments LLC;
- (c) subject to the passing of this Resolution 10, the Company intends to issue the Management Shares to Sabone Internet Investments LLC on the date of the Meeting or such other date as the Directors may determine but no later than one (1) month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules);

- (d) the Management Shares will rank pari passu with, and will be issued on the same terms as, the other Shares on issue;
- (e) the Management Shares will be issued at a deemed issue price of A\$0.08 (8 cents) per Management Share, representing the offer price under the non-renounceable rights issue announced by the Company to the ASX on 4 July 2019;
- (f) no funds will be raised by the Company in respect of the issue of the Management Shares, however it will result in a reduction in the salary otherwise payable to Keith Cohn under his employment contract entered into with the Company's subsidiary; and
- (g) a voting exclusion statement is contained in Resolution 10.

10.6 Interests and Recommendations of Directors

Other than Keith Cohn none of the current Board members have a material personal interest in the outcome of Resolution 10. Based on the information available, including that contained in this Explanatory Memorandum, all of the Directors (other than Keith Cohn) recommend that the Shareholders vote in favour of Resolution 10.

11. RESOLUTION 11 – ISSUE OF MANAGEMENT SHARES TO NON-RELATED PARTIES

11.1 General

Pursuant to respective employment contracts entered into with the Company's subsidiary, various employees of the Company are entitled to aggregate salary of US\$455,000 (approximately A\$667,939) per annum ("**Original Salary**"). The employees and the Company have agreed to reduce the salary payable to the employees thereunder to, in aggregate US\$395,000 (approximately A\$579,859) per annum ("**Revised Salary**") in consideration for the issue of Shares to the value of US\$120,000 (approximately A\$176,160) ("**Management Shares**"), being at a 100% premium to the difference between the Original Salary and the Revised Salary ("**Management Fee Reduction**").

Resolution 11 seeks Shareholder approval for the purpose of Listing Rule 7.1 and for all other purposes for the issue of the Management Shares to the relevant employees.

11.2 ASX Listing Rule 7.1

A summary of the operation of Listing Rule 7.1 is provided in section 1.2 of this Explanatory Memorandum.

Accordingly, approval is sought for the issue of the Management Shares non-related employees of the Company.

By approving the issuance of the Management Shares pursuant to this Resolution 11, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

11.3 Shareholder Approval (Listing Rule 7.1)

Pursuant to and in accordance with the requirements of Listing Rule 7.3, the following information is provided in relation to the proposed issue of the Management Shares:

- (a) subject to the passing of this Resolution 11, the Company intends to issue 2,238,806 Management Shares for the conversion of the Management Fee Reduction (namely US\$120,000) to be issued to the relevant non-related employees;
- (b) subject to the passing of this Resolution 11, the Company intends to issue the Management Shares to the non-related employees on the date of the Meeting or such other date as the Directors may determine but no later than three (3) months after the

date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules);

- (c) the Management Shares will be issued at a deemed issue price of A\$0.08 (8 cents) per Management Share, representing the offer price under the non-renounceable rights issue announced by the Company to the ASX on 4 July 2019;
- (d) the non-related parties to whom the Management Shares are proposed to be issued, the amount of the Management Fee Reduction applicable to each such party as well as their roles in the Company is provided below:

Non-Related Party	Role	Original Salary	Revised Salary	Management Fee Reduction	Management Shares
Chad Burbarch	Chief Operating Officer	US\$230,000 (approximately A\$337,640)	US\$180,000 (approximately A\$264,240)	US\$100,000 (approximately A\$149,254)	1,865,672
Nicholas Giordano	Chief Financial Officer	US\$225,000 (approximately A\$330,300)	US\$215,000 (approximately A\$315,620)	US\$20,000 (approximately A\$29,851)	373,134
Total				US\$120,000 (approximately A\$179,105)	2,238,806

- (e) the Management Shares will rank pari passu with, and will be issued on the same terms as, the other Shares of the Company;
- (f) no funds will be raised by the Company in respect of the issue of the Management Shares, however it will result in a reduction in the salary otherwise payable to the non-related employees under their respective employment contracts entered into with the Company's subsidiary; and
- (g) a voting exclusion statement is contained in Resolution 11.

11.6 Interests and Recommendations of Directors

None of the current Board members have a material personal interest in the outcome of Resolution 11. Based on the information available, including that contained in this Explanatory Memorandum, all of the Directors recommend that the Shareholders vote in favour of Resolution 11.

12. RESOLUTION 12 – ISSUE OF MANAGEMENT OPTIONS TO RELATED PARTY – SABONE INTERNET INVESTMENTS LLC

12.1 General

To further align the interests of Keith Cohn, executive Director, with that of the Company, the Company seeks to issue a total of 15,600,000 unquoted Options in the Company to Keith Cohn's nominee, Sabone Internet Investments LLC for nil consideration ("**Management Options**") as follows:

Class	Options	Exercise Price	Expiry Date
Class A	5,200,000	\$0.20	Four (4) years from the date of issue
Class B	5,200,000	\$0.25	Four (4) years from the date of issue
Class C	5,200,000	\$0.30	Four (4) years from the date of issue
TOTAL	15,600,000		

The full proposed terms of the Management Options are summarised in Annexure C of this Notice.

Resolution 12 seeks Shareholder approval for the purpose of Listing Rule 10.11 and for the issue of the Management Options to Keith Cohn's nominee, Sabone Internet Investments LLC.

12.2 ASX Listing Rule 10.11

A summary of Listing Rule 10.11 is contained in Section 3.2 of this Explanatory Memorandum.

Sabone Internet Investments LLC is a related party of the Company by virtue of being an entity controlled by Keith Cohn, who is a director of the Company.

It is the view of the Company that the exceptions set out in Listing Rule 10.12 do not apply to the proposed issue of the Management Options. Accordingly, approval is sought for the issue of the Management Options to Sabone Internet Investments LLC.

12.3 ASX Listing Rule 7.2

A summary of the operation of Listing Rule 7.1 is provided in section 1.2 of this Explanatory Memorandum.

Exception 14 of Listing Rule 7.2 provides that where shareholder approval is obtained under Listing Rule 10.11, additional shareholder approval is not required under Listing Rule 7.1.

Accordingly, subject to Resolution 12 being passed, the issue of the Management Options to Sabone Internet Investments LLC will not be included in the 15% calculation of the Company's annual placement capacity pursuant to Listing Rule 7.1.

12.4 Chapter 2E of the Corporations Act

A summary of Chapter 2E of the Corporations Act is contained in section 3.4 of this Explanatory Memorandum.

The Company considers the issue of Management Options to Keith Cohn (or his nominee) to be an effective method of incentivising Keith Cohn without requiring further expenditure by the Company, and to further align Keith Cohn's interests with that of Shareholders.

An alternative to the issue of the Management Options would be to pay Keith Cohn additional salary. However, given the current stage of development of the Company, and the necessity for cash resources to be preserved and directed into the growth of the Company's business, the Board (with the exception of Keith Cohn) considers the issue of the Management Options to be

an appropriate cash-free method of remunerating Keith Cohn for his commitment and contribution to the Company.

On this basis, the Directors (with the exception of Keith Cohn) consider that the issue of the Management Options constitutes “reasonable remuneration” in respect of Keith Cohn’s position, which falls within the exception in section 211(1) of the Corporation Act, and therefore, Shareholder approval pursuant to Chapter 2E of the Corporations Act is not required.

12.5 Shareholder Approval (Listing Rule 10.11)

Pursuant to and in accordance with the requirements of Listing Rule 10.13, the following information is provided in relation to the proposed issue of the Management Options:

- (a) the related party proposing to participate in the issue of Director Options is Sabone Internet Investments LLC, being an entity controlled by Keith Cohn, a Director of the Company;
- (b) the maximum number of Management Options to be issued to Sabone Internet Investments LLC will be 15,600,000 Director Options;
- (c) subject to the passing of this Resolution 12, the Company intends to issue the Management Options on the date of the Meeting or such other date as the Directors may determine but no later than one (1) month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules);
- (d) the Management Options will be issued on the terms summarised in Annexure C;
- (e) the Management Options will be issued for nil consideration;
- (f) no funds will be raised by the Company in respect of the issue of the Management Options; and
- (g) a voting exclusion statement is contained in Resolution 12.

12.6 Interests and Recommendations of Directors

Other than Keith Cohn none of the current Board members have a material personal interest in the outcome of Resolution 12. Based on the information available, including that contained in this Explanatory Memorandum, all of the Directors (other than Keith Cohn) recommend that the Shareholders vote in favour of Resolution 12.

13. RESOLUTION 13 – AMENDMENT OF CONSTITUTION

13.1 General

A company may modify or repeal its constitution or a provision of its constitution by a special resolution of Shareholders.

Resolution 9 is a special resolution which will enable the Company to repeal its existing Constitution and adopt a new constitution (“**Proposed Constitution**”) which is of the type required for a listed public company limited by shares. The Proposed Constitution has been updated to ensure it reflects the current provisions of the Corporations Act and Listing Rules.

This will incorporate amendments to the Corporations Act and Listing Rules since the current Constitution was adopted in 2018.

The Directors believe that it is preferable in the circumstances to replace the existing Constitution with the Proposed Constitution rather than to amend a multitude of specific provisions.

The Proposed Constitution is broadly consistent with the provisions of the existing Constitution. Many of the proposed changes are administrative or minor in nature.

The Directors believe these amendments are not material nor will they have any significant impact on Shareholders. It is not practicable to list all of the changes to the Constitution in detail in this Explanatory Statement, however, a summary of the proposed material changes is set out below.

A copy of the Proposed Constitution is available for review by Shareholders at the Company's website (www.candyclub.com) and at the office of the Company. A copy of the Proposed Constitution can also be sent to Shareholders upon making a request to the Company Secretary (+613 9191 0135). Shareholders are invited to contact the Company if they have any queries or concerns.

13.2 Summary of material proposed changes

Restricted Securities (clauses 59 and 60)

The Proposed Constitution complies with the proposed changes to Listing Rule 15.12 which was released on 1 December 2019.

Under this change, ASX will require certain significant holders of restricted securities and their controllers (such as related parties, promoters, substantial holders, service providers and their associates) to execute a formal escrow agreement in the form provided in Appendix 9A of the Listing Rules, as is currently the case.

However, for less significant holdings (such as parties who are not related to the Company and are not promoters), ASX will instead permit the Company to issue restriction notices to holders of restricted securities in the form of a new Appendix 9C to the Listing Rules, advising them of the restrictions placed on their securities, rather than requiring signed restriction agreements from these holders.

13.3 Interests and Recommendations of Directors

None of the current Board members have a material personal interest in the outcome of Resolution 13. Based on the information available, including that contained in this Explanatory Memorandum, all of the Directors recommend that the Shareholders vote in favour of Resolution 13.

Glossary

\$ means Australian dollars.

Acquisition means the proposed acquisitions of relevant interests in voting shares of the Company by James Baillieu and JCKB Pty Ltd if Resolutions 4, 7 and 8 are passed, which is the subject of Resolution 6.

Annexure means an annexure to this Notice.

ASIC means the Australian Securities & Investments Commission.

ASX means ASX Limited (ACN 008 624 691) or the financial market operated by ASX Limited, as the context requires.

Listing Rules means the Listing Rules of ASX.

Board means the current board of directors of the Company.

Business Day means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

Chair means the chair of the Meeting.

Class A Options means a listed Class A option in the Company, the key terms of which are contained in Annexure A.

Company means Candy Club Holdings Limited ACN 629 598 778.

Conversion Options means the Options to be issued upon conversion of the Debts Payable.

Conversion Right means the right of the Company to convert moneys owing under the Loan into the Loan Shares, which the Company seeks to exercise subject to the passing of Resolution 8.

Conversion Shares means the Shares to be issued upon conversion of the Debts Payable.

Conversion Securities means the Equity Securities to be issued by the Company pursuant to the Debt Raising, comprised of the Debt Raising Options, the Conversion Shares and the Conversion Options, which is the subject of Resolutions 1, 3, 4 and 5 (as the context requires).

Constitution means the Company's constitution.

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

Debts Payable means the amounts payable by the Company to the relevant investor (as the context requires) pursuant to the Debt Raising.

Debt Raising means the debt raising undertaken by the Company with the relevant investor (as the context requires), the key terms of which are summarised in section 1 of the Explanatory Statement.

Debt Raising Options means the Options to be issued upon commencement of the Debt Raising.

Director Options means the Options proposed to be issued to Andrew Clark, which is the subject of Resolution 9 and the key terms of which are contained in Annexure B.

Directors means the current directors of the Company.

Equity Securities includes a Share, a right to a Share or Option, an Option, a convertible security and any security that ASX decides to classify as an Equity Security.

Explanatory Statement means the explanatory statement accompanying the Notice.

Extraordinary General Meeting or Meeting means the meeting convened by the Notice.

Independent Expert means Nexia Perth Corporate Finance Pty Ltd (AFSL 289 358).

Independent Expert's Report means the report prepared by the Independent Expert which is annexed to this Notice.

Lead Manager means Copeak Pty Ltd ACN 607 161 900 (trading as Peak Asset Management ABN 81 891 265 739).

Lead Manager Options means the 6,000,000 Class A Options issued to the Lead Manager (or its nominees), which is the subject of Resolution 2.

Lead Manager Performance Options means the 825,000 Class A Options issued to the Lead Manager (or its nominees), which is the subject of Resolution 2.

Lead Manager Shares means the 825,000 Shares issued to the Lead Manager (or its nominees), which is the subject of Resolution 2.

Loan means the loan of A\$1,500,000 advanced by James Baillieu, the key terms of which are summarised in Section 8 of the Explanatory Statement.

Loan Conversion Amount means the principal and interest accumulated under the Loan up to the Loan Conversion Date, being the subject of the Conversion Right under Resolution 8.

Loan Conversion Date means the date being three (3) months from the date of the Loan.

Loan Shares means the proposed issue of Shares upon exercise of the Conversion Right, which is the subject of Resolution 8.

Management Fee Reduction means a 100% premium on the difference between the Original Fee and the Revised Fee payable to Keith Cohn and the other non-related employees of the Company (as the context requires) which the Company seeks to convert into the Management Shares pursuant to Resolutions 10 and 11 respectively.

Management Options means the Options proposed to be issued to Sabone Internet Investments LLC, which is the subject of Resolution 12 and the key terms of which are contained in Annexure C.

Management Shares means the Shares to be issued upon the exercise of the Management Conversion Right, being the subject of Resolutions 10 and 11 (as the context requires).

Notice or Notice of Meeting means this notice of meeting including the Explanatory Statement and the Proxy Form.

Option means an option to acquire a Share.

Optionholder means a holder of an Option.

Original Fee means the management fees payable to Keith Cohn or the other non-related employees of the Company (as the context requires), prior to the Management Fee Reduction.

Placement means the proposed advancement of A\$1,500,000 by James Baillieu as consideration for the issue of the Placement Options and Placement Shares, which is the subject of Resolution 7.

Placement Options means the Options to be issued pursuant to the Placement.

Placement Shares means the Shares to be issued pursuant to the Placement.

Placement Securities means the Placement Shares and Placement Options.

Proposed Constitution means the constitution which is proposed to replace the Constitution pursuant to Resolution 9, and the key changes to which are summarised in Section 13 of the Explanatory Statement.

Proxy Form means the proxy form accompanying the Notice.

Resolutions means the resolutions set out in the Notice, or any one of them, as the context requires.

Revised Fee means the management fees payable to Keith Cohn or the other non-related employees of the Company (as the context requires), following the Management Fee Reduction.

Section means a section of the Explanatory Statement.

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

Shareholder means a registered holder of a Share.

Annexure A – Class A Option Terms

Rights and liabilities attaching to Class A Options

(a) **Entitlement**

Subject to paragraph (n), each Class A Option entitles the holder to subscribe for one (1) Share upon exercise of the Class A Option.

(b) **Exercise Price**

Subject to paragraph (j), the amount payable upon exercise of each Class A Option will be A\$0.10 (**Exercise Price**).

(c) **Expiry Date**

Each Class A Option will expire at 5.00 pm AEST on 31 May 2023 (**Expiry Date**). Class A Options not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Exercise Period**

The Class A Options are exercisable at any time on or prior to the Expiry Date (**Exercise Period**).

(e) **Notice of Exercise**

The Class A Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the Class A Option Certificate (**Notice of Exercise**) and payment of the Exercise Price for each Class A Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.

(f) **Exercise Date**

A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment of the Exercise Price for each Class A Option being exercised in cleared funds (**Exercise Date**).

(g) **Timing of issue of Shares on exercise**

Within 15 Business Days after the Exercise Date, the Company will:

- (i) allot and issue the number of Shares required under these terms and conditions in respect of the number of Class A Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
- (ii) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
- (iii) if admitted to the Official List of the ASX at the time, apply for Official Quotation of Shares issued pursuant to the exercise of the Class A Options.

If a notice delivered under paragraph (g)(ii) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of

the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

(h) **Shares issued on exercise**

Shares issued in exercise of the Class A Options rank equally with the then issued Shares of the Company.

(i) **Quotation of Shares issued on exercise**

If the Company is admitted to the Official List at the relevant time, application will be made by the Company to ASX for Official Quotation of the Shares issued upon the exercise of the Class A Options.

(j) **Reconstruction of capital**

If at any time, the issued capital of the Company is reconstructed, all rights of a Class A Option holder are to be changed in a manner consistent with the Corporations Act and the Listing Rules at the time of the reconstruction.

(k) **Participation in new issues**

There are no participation rights or entitlements inherent in the Class A Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Class A Options without exercising the Class A Options.

(l) **Change in Exercise Price**

The Class A Options do not confer the right to a change in the Exercise Price or a change in the number of underlying securities over which the Class A Options can be exercised.

(m) **Transferability**

The Class A Options are transferable subject to any restriction or escrow arrangements imposed by the ASX or under applicable Australian securities laws.

(n) **Bonus Issues**

If prior to the Expiry Date, the Company makes a bonus issue of Shares to Shareholders, then the holders of Class A Options, upon the exercise of such Options, would be entitled to have issued to them, in addition to Shares which would otherwise be issued to them upon the exercise of the Class A Options, the Shares which would have been issued under that bonus issue (**Bonus Shares**) if, on the record date applicable to the Bonus Shares, they had been registered as the holder of the Shares to be issued to them upon exercise of the Options. Such Bonus Shares will be paid by the Company out of profits or reserves in the same manner as was applied in relation to the bonus issue and upon issue will rank equally in all respects with the Bonus Share.

Annexure B – Director Option Terms

Rights and liabilities attaching to Director Options

(a) **Entitlement**

Subject to paragraph (n), each Director Option entitles the holder to subscribe for one (1) Share upon exercise of the Director Option.

(b) **Exercise Price**

Subject to paragraph (j), the amount payable upon exercise of each Director Option will be the price being 150% of the Company's 10 day VWAP immediately prior to the Exercise Date (**Exercise Price**).

(c) **Expiry Date**

Each Director Option will expire on the date being four (4) years from the date of issue (**Expiry Date**). Director Options not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Exercise Period**

The Director Options are exercisable at any time on or prior to the Expiry Date (**Exercise Period**).

(e) **Notice of Exercise**

The Director Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the Director Option Certificate (**Notice of Exercise**) and payment of the Exercise Price for each Director Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.

(f) **Exercise Date**

A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment of the Exercise Price for each Director Option being exercised in cleared funds (**Exercise Date**).

(g) **Timing of issue of Shares on exercise**

Within 15 Business Days after the Exercise Date, the Company will:

- (i) allot and issue the number of Shares required under these terms and conditions in respect of the number of Director Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
- (ii) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
- (iii) if admitted to the Official List of the ASX at the time, apply for Official Quotation of Shares issued pursuant to the exercise of the Director Options.

If a notice delivered under paragraph (g)(ii) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

(h) **Shares issued on exercise**

Shares issued in exercise of the Director Options rank equally with the then issued Shares of the Company.

(i) **Quotation of Shares issued on exercise**

If the Company is admitted to the Official List at the relevant time, application will be made by the Company to ASX for Official Quotation of the Shares issued upon the exercise of the Director Options.

(j) **Reconstruction of capital**

If at any time, the issued capital of the Company is reconstructed, all rights of a Director Option holder are to be changed in a manner consistent with the Corporations Act and the Listing Rules at the time of the reconstruction.

(k) **Participation in new issues**

There are no participation rights or entitlements inherent in the Director Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Director Options without exercising the Director Options.

(l) **Change in Exercise Price**

The Director Options do not confer the right to a change in the Exercise Price or a change in the number of underlying securities over which the Director Options can be exercised.

(m) **Transferability**

The Director Options are transferable subject to any restriction or escrow arrangements imposed by the ASX or under applicable Australian securities laws.

(n) **Bonus Issues**

If prior to the Expiry Date, the Company makes a bonus issue of Shares to Shareholders, then the holders of Director Options, upon the exercise of such Options, would be entitled to have issued to them, in addition to Shares which would otherwise be issued to them upon the exercise of the Director Options, the Shares which would have been issued under that bonus issue (**Bonus Shares**) if, on the record date applicable to the Bonus Shares, they had been registered as the holder of the Shares to be issued to them upon exercise of the Options. Such Bonus Shares will be paid by the Company out of profits or reserves in the same manner as was applied in relation to the bonus issue and upon issue will rank equally in all respects with the Bonus Share.

Annexure C – Management Option Terms

Rights and liabilities attaching to Management Options

(a) **Entitlement**

Subject to paragraph (n), each Management Option entitles the holder to subscribe for one (1) Share upon exercise of the Management Option.

(b) **Exercise Price**

Subject to paragraph (j), the amount payable upon exercise of each Management Option will be the price be as follows:

Management Option Class	Number of Management Options	Exercise Price
Class A	5,200,000	\$0.20
Class B	5,200,000	\$0.25
Class C	5,200,000	\$0.30
Total	15,600,000	

(c) **Expiry Date**

Each Management Option will expire on the date being four (4) years from the date of issue (**Expiry Date**). Management Options not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Exercise Period**

The Management Options are exercisable at any time on or prior to the Expiry Date (**Exercise Period**).

(e) **Notice of Exercise**

The Management Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the Management Option Certificate (**Notice of Exercise**) and payment of the Exercise Price for each Management Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.

(f) **Exercise Date**

A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment of the Exercise Price for each Management Option being exercised in cleared funds (**Exercise Date**).

(g) **Timing of issue of Shares on exercise**

Within 15 Business Days after the Exercise Date, the Company will:

- (iv) allot and issue the number of Shares required under these terms and conditions in respect of the number of Management Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
- (v) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
- (vi) if admitted to the Official List of the ASX at the time, apply for Official Quotation of Shares issued pursuant to the exercise of the Management Options.

If a notice delivered under paragraph (g)(ii) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

(h) **Shares issued on exercise**

Shares issued in exercise of the Management Options rank equally with the then issued Shares of the Company.

(i) **Quotation of Shares issued on exercise**

If the Company is admitted to the Official List at the relevant time, application will be made by the Company to ASX for Official Quotation of the Shares issued upon the exercise of the Management Options.

(j) **Reconstruction of capital**

If at any time, the issued capital of the Company is reconstructed, all rights of a Management Option holder are to be changed in a manner consistent with the Corporations Act and the Listing Rules at the time of the reconstruction.

(k) **Participation in new issues**

There are no participation rights or entitlements inherent in the Management Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Management Options without exercising the Management Options.

(l) **Change in Exercise Price**

The Management Options do not confer the right to a change in the Exercise Price or a change in the number of underlying securities over which the Management Options can be exercised.

(m) **Transferability**

The Management Options are transferable subject to any restriction or escrow arrangements imposed by the ASX or under applicable Australian securities laws.

(n) **Bonus Issues**

If prior to the Expiry Date, the Company makes a bonus issue of Shares to Shareholders, then the holders of Management Options, upon the exercise of such Options, would be entitled to have issued to them, in addition to Shares which would otherwise be issued to them upon the exercise of the Management Options, the Shares which would have been issued under that bonus issue (**Bonus**

Shares) if, on the record date applicable to the Bonus Shares, they had been registered as the holder of the Shares to be issued to them upon exercise of the Options. Such Bonus Shares will be paid by the Company out of profits or reserves in the same manner as was applied in relation to the bonus issue and upon issue will rank equally in all respects with the Bonus Share.

Annexure D – Independent Expert’s Report



Independent Experts Report

Candy Club Holdings Ltd

November 2019



1 November 2019

The Directors
Candy Club Holdings Ltd
Level 6, 505 Little Collins Street
MELBOURNE VIC 3000

Dear Sirs

INDEPENDENT EXPERT'S REPORT

1. INTRODUCTION

Nexia Perth Corporate Finance Pty Ltd ("NPCF") has been requested by Candy Club Holdings Ltd ("CLB" or "the Company") to prepare an Independent Expert Report in relation to the potential increase in the relevant interest of James Baillieu (a director of the Company) and JCKB Pty Ltd (being an entity controlled by James Baillieu) from less than 20% to in excess of 20% of the voting shares of CLB ("the Proposed Transaction") following the proposed issue of 46,734,736 Shares to JCKB Pty Ltd and James Baillieu.

Resolution 6 of the attached Notice of Meeting therefore seeks Shareholder approval for the Proposed Transaction, which if passed in conjunction with Resolutions 4, 7 and 8, will result in James Baillieu, JCKB Pty Ltd and their associates having a relevant interest in up to 25.27% of the voting power of the Company. Shareholder approval is required in accordance with the Corporations Act 2001 for the Proposed Transaction including without limitation pursuant to Item 7 of Section 611 of the Corporations Act.

While the Company seeks to issue 2,565,778 Shares to JCKB Pty Ltd pursuant to Resolution 4, following such issue (and prior to the issue of Shares pursuant to Resolutions 7 and 8), James Baillieu, JCKB Pty Ltd and their associates will have a collective relevant interest in 6.17% of the voting power of the Company. Therefore Shareholder approval is not being sought for the purposes of item 7 of section 611 of the Corporations Act, for the increase in relevant interests in the Company's voting Shares pursuant to Resolution 4.

Resolutions 7 and 8 of the Notice of Meeting seek approval for the issue of up to 46,734,736 Shares to JCKB Pty Ltd which if approved in conjunction with Resolution 4, will collectively result in James Baillieu, JCKB Pty Ltd and their associates having a relevant interest in up to 25.27% of the voting power of the Company.

The Proposed Transaction as well as the underlying transactions giving rise to the Proposed Transaction will be the subject of Resolutions 6,7 and 8 respectively of the Notice of Meeting to be considered at the Company's forthcoming Extraordinary General Meeting ("EGM") set down to be held on 24 December 2019.

The directors of the Company have engaged NPCF to prepare an Independent Expert's report to assist shareholders to decide on whether to approve the Proposed Transaction. Our report must state whether, in the opinion of the independent expert, the Proposed Transaction is fair and reasonable to the non-associated shareholders of CLB.

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Nexia Perth Corporate Finance Pty Ltd (ABN 84 009 342 661) and all its associated entities is an independent firm of Chartered Accountants. It is affiliated with, but independent from Nexia Australia Pty Ltd, which is a member of Nexia International, a worldwide network of independent accounting and consulting firms. Neither Nexia International nor Nexia Australia Pty Ltd, deliver services in its own name or otherwise. Nexia International Limited and the member firms of the Nexia International network (including those members which trade under a name which includes NEXIA) are not part of a worldwide partnership.

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2.2 Assessment of Reasonableness

2. SUMMARY OF OPINION

This section is a summary of our opinion and cannot substitute for a complete reading of this Report. Our opinion is based solely on information available as at the date of this Report.

The principal factors that we have considered in forming our opinion are summarised below.

We have considered the terms of the Proposed Transaction as outlined in the body of this report and, based upon the information set out in this report, we are of the opinion that the Proposed Transaction is **fair and reasonable**.

2.1 Assessment of fairness

In considering whether or not the transaction is fair to CLB's non-associated shareholders, we have considered the fair value of CLB's ordinary shares prior to the Proposed Transaction and after the Proposed Transaction per share.

The comparative positions are summarised below:

	Cents
NPCF valuation of CLB shares prior to the Proposed Transaction (section 6.5)	1.290
NPCF valuation of CLB shares after to the Proposed Transaction (section 6.5)	2.162

Based upon the information set out in this report, we are of the opinion that the **Proposed Transaction is fair and reasonable** having regard to the interests of the non-associated shareholders of CLB.

NPCF has formed the opinion that the Proposed Transaction is fair because the value of CLB's shares *post* the Proposed Transaction is more than the value of the Company's shares prior to the Proposed Transaction.

NPCF has also has regard to other relevant considerations in assessing the reasonableness of the Proposed Transaction. Further details are set out in Section 8 of this Report. Our opinion is based solely on the information available at the date of the report as detailed in Section 11.

2.2 Assessment of Reasonableness

As referred to in more detail in Section 5 of this report, in accordance with RG 111:

- an offer is considered 'fair' if the value of the offer price or consideration is equal to, or greater than, the value of the securities that are the subject of the offer.
- an offer is considered '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 before the close of the offer.

In forming our opinion we have considered the advantages and disadvantages of the Proposed Transaction to shareholders (see Section 8).

2.2 Assessment of Reasonableness (continued)

Advantages

- The conversion of the loan to shares will provide the Company with additional working capital flexibility;
- The Proposed Transaction will permit the Company to satisfy amounts payable under the Loan, which otherwise may result in an event of default under the Loan if the Company does not have access to sufficient funds to repay the Loan;
- The Proposed Transaction will permit the Company to satisfy amounts payable under the Loan, thereby preserving the Company's cash reserves;
- The funding raised enables the Company to increase the inventory of confectionary sold and employ additional sales personnel;
- It may provide an opportunity for enhanced liquidity in CLB shares; and
- It may give rise to a market re-pricing of CLB shares, having regard to the foregoing.

Disadvantages

- the Proposed Transaction will increase the voting power of James Baillieu and JCKB Pty Ltd (and their associates) in the Company up to a maximum of approximately 25.27%, reducing the voting power of non-associated Shareholders in the Company in aggregate to a maximum of approximately 74.73%;
- with a shareholding of 25.27% James Baillieu and JCKB Pty Ltd would have voting power to block the passing of special resolutions; and
- there is no guarantee that the Company's Shares will not fall in value as a result of the issue of Securities to JCKB Pty Ltd associated with the Proposed Transaction.

The principal factors that we have taken into account in forming our opinion are set out in the supporting detail to this report.

2.3 Opinion

The decision of each shareholder as to whether to approve the Proposed Transaction is a matter for individual shareholders. These decisions should be based on each shareholder's views as to matters including value and future market conditions, risk profile, liquidity preferences, investment strategy, portfolio structure and tax positions. In particular, taxation consequences may vary from shareholder to shareholder. If shareholders are in any doubt, they should consult an independent professional adviser.

The opinion should be read in conjunction with the full text of this report which follows after our Financial Services Guide, which sets out our scope and findings.

The supporting detail of our Report (set out in the sections that follow after our Financial Services Guide and Qualifications Declarations and Consents), comprises the following sections:

3. Summary of the Proposed Transaction
4. Purpose of the Report
5. Basis of the Assessment
6. Valuation of Candy Club Holdings Ltd. shares Pre and Post Proposed Transaction. Economic overview
7. Assessment as to Fairness and Reasonableness of the Proposed Transaction
8. Limitations and Reliance on Information
9. Sources of Information

Appendix 1 – Overview of valuation methodologies

This assignment is a valuation engagement as defined by APES 225 Valuation Services as issued by the Accounting Professional & Ethical Standards Board Limited. Valuation engagement means an engagement or assignment to perform a valuation and provide a valuation report where the independent expert 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 independent expert at that time.

Yours faithfully

NEXIA PERTH CORPORATE FINANCE PTY LTD

A handwritten signature in black ink, appearing to read 'M. Janse van Nieuwenhuizen', is positioned above the printed name.

M. JANSE VAN NIEUWENHUIZEN CA, RCA
DIRECTOR

Nexia Perth Corporate Finance Pty Ltd ("NPCF")

FINANCIAL SERVICES GUIDE

1. NPCF (ABN 84 009 342 661) provides valuation advice, valuation reports, Independent Expert's Reports and Investigating Accountant's Reports in relation to takeovers and mergers, prospectuses and disclosure documents, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes. NPCF holds Australian Financial Services Licence No. 289358.
2. NPCF has been engaged to provide general financial product advice in the form of the attached report to be provided to you.

Financial Services Guide

3. The Corporations Act 2001 authorises NPCF to provide this Financial Services Guide (FSG) in connection with its provision of an Independent Expert's Report (IER) to accompany the Notice of Meeting to be sent to CLB shareholders.
4. This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about NPCF generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

5. Our Australian financial services licence allows us to carry on a financial services business to provide financial product advice for securities and deal in a financial product by arranging for another person to issue, apply for, acquire, vary or dispose of a financial product in respect of securities to retail and wholesale clients.

General Financial Product advice

6. The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs. It is not intended to take the place of professional advice and you should not make specific investment decisions in reliance upon the information contained in this report.
7. 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. You may wish to obtain personal financial product advice from the holder of an Australian Financial Service Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

8. NPCF charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity which engages NPCF to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us.
9. Neither NPCF nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.
10. All of our employees receive a salary and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
11. We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

12. If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
13. If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Industry Complaints Services (FICS), an external complaints resolution service. You will not be charged for using the FICS service.

Contact details

14. NPCF contact details are contained on the first page of our Independent Expert's Report.

QUALIFICATIONS, DECLARATIONS AND CONSENTS

Qualifications

1. NPCF is licensed under the Corporations Act to carry on a financial services business to provide the financial services referred to in section 5 of our Financial Services Guide (refer above). NPCF's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have undertaken a significant number of valuations, IER's, IAR's and similar assignments.
2. This report was prepared by Mrs Muranda Janse van Nieuwenhuizen, who is an authorised representative of NPCF. Mrs Janse van Nieuwenhuizen has substantial experience in the provision of valuation and similar advice and has been a qualified Chartered Accountant (South Africa and Australia) for over 12 years.

Declarations

3. This report has been prepared at the request of the Directors of CLB to accompany the Notice of Meeting to be sent to CLB shareholders. It is not intended that this report should serve any purpose other than as stated therein.

Interest

4. NPCF is not the auditor of CLB. At the date of the attached report, neither NPCF, nor Mrs Janse van Nieuwenhuizen or any other director, executive or employee of NPCF or NPCF has any material interest in CLB either directly or indirectly, or in the outcome of the offer, other than in the preparation of this Report for which normal professional fees of approximately \$15,000 (excluding GST) will be received. Such fee will be payable regardless of whether or not shareholders approve the Proposed Transaction.

Indemnification

5. As a condition of NPCF's agreement to prepare this report, CLB agrees to indemnify NPCF in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of CLB which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

6. NPCF was not involved in the preparation of any other part of the Explanatory Statement to accompany the Notice of Meeting (Explanatory Statement), and accordingly makes no representations or warranties as to the completeness and accuracy of any information contained in any other part of the Explanatory Statement. NPCF consents to the inclusion of this report in the Explanatory Statement in the form and context in which it is included. At the date of this report, this consent has not been withdrawn.

3. SUMMARY OF THE PROPOSED TRANSACTION

3.1 Background

Section 606(1) of the Corporations Act, prohibits a person from acquiring a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's voting power in the Company increases from 20% or below to more than 20%. However, there is an exception available in item 7 of section 611 of the Corporations Act where shareholder approval is obtained.

While the Company seeks to issue 2,565,778 Shares to JCKB Pty Ltd pursuant to Resolution 4, following such issue (and prior to the issue of Shares pursuant to Resolutions 7 and 8), James Baillieu, JCKB Pty Ltd and their associates will have a relevant interest in 6.17% of the voting power of the Company. Therefore Shareholder approval is not being sought for the purposes of item 7 of section 611 of the Corporations Act, for the increase in relevant interests in the Company's voting Shares pursuant to Resolution 4.

However, Resolutions 7 and 8 of the Notice of Meeting, which seek approval for the issue of up to 46,734,736 Shares which if approved in conjunction with Resolution 4, will collectively result in James Baillieu, JCKB Pty Ltd and their associates having a relevant interest in up to 25.27% of the voting power of the Company.

Resolution 7

On 16 September 2019, CLB announced that James Baillieu, sought to increase his shareholding in the Company by way of a private placement raising \$1,500,000 in consideration for the issue of 18,750,000 Shares at deemed issue price of A\$0.08 per Share and 18,750,000 Class A Options for nil consideration.

Resolution 8

On 16 September 2019, CLB announced that pursuant to a loan agreement between the Company and James Baillieu dated 13 September 2019, James Baillieu provided a loan to the Company in the amount of A\$1,500,000 ("Loan").

Subject to the passing of Resolution 8, on the date being three (3) months from the date of the Loan ("Loan Conversion Date") the Company seeks to convert the Loan and interest accumulated thereunder up to the Loan Conversion Date, being a total of A\$1,590,000, into 27,984,736 Shares at the conversion price of A\$0.057 (5.7 cents).

Resolution 6

As noted above, if Resolutions 7 and 8 are approved, then in conjunction with Resolution 4, James Baillieu, JCKB Pty Ltd and their associates will have a relevant interest in up to 25.27% of the voting power of the Company.

Thus shareholders' approval is required for the acquisition of relevant interest in excess of 20% of the voting shares in the Company by James Baillieu and JCKB Pty Ltd (being an entity controlled by James Baillieu).

The Company is therefore seeking shareholder approval pursuant to Resolution 6 of the Notice of Meeting to approve the acquisition of relevant interests in CLB voting shares by James Baillieu and JCKB Pty Ltd under the Proposed Transaction as outlined below.

4. PURPOSE OF THE REPORT

ASIC Regulatory Guide 74: Acquisitions approved by members ('RG 74') sets out the information to be disclosed to shareholders by companies seeking shareholder approval for a transaction covered by Item 7 of section 611 of the Corporations Act, paragraph 27 states that a company should consider providing an Independent Expert's Report.

Given the Company is proposing to issue shares which would result in James Baillieu and JCKB Pty Ltd (being an entity controlled by James Baillieu) having a relevant interest in up to 25.27% of the voting power of the Company, the Directors of the company have commissioned this Independent Expert's Report ("the Report") in respect of the Proposed Transaction, so that shareholders may assess the merits of the transaction when voting on the Resolutions at a Shareholders' Meeting to be held on or about [24 December 2019] Unless otherwise specified, the terms and references in this Report have the same meaning as those used in the Explanatory Statement ("ES") accompanying the Notice of Meeting, to which this Report is attached as Annexure C.

To assist shareholders in making a decision on the Proposed Transaction, the Directors have requested NPCF to prepare an independent expert's report regarding the value of CLB as well as the impact of the Proposed Transaction on existing and continuing shareholders. To best satisfy the requirements of RG 111 we consider our Report should assess whether, in our opinion, the Proposed Transaction is fair and reasonable to Shareholders.

5. BASIS OF THE ASSESSMENT

Set out in the Notice of Meeting and Explanatory Statement accompanying this Report are the relevant Corporations Act provisions relevant to the Proposed Transaction and information in relation thereto. In preparing our Report, we have had regard to ASIC Regulatory Guide 111 and 112 relating to Independent Experts' Reports.

The term 'fair and reasonable' has no legal definition although over time a commonly accepted interpretation has evolved. However, fair and reasonable has different meanings for different regulatory purposes.

ASIC Regulatory Guide 111 provides that the assessment of whether a proposal is fair and reasonable should involve a comparison of the likely advantages and disadvantages for non-associated shareholders if the Proposed Transaction is implemented and if it is not.

In essence, the proposal will be "fair and reasonable" if the non-associated shareholders are better off if the proposal is implemented. They will be better off if the expected benefits outweigh the disadvantages to the non-associated shareholders.

ASIC regulatory Guide 111, states, inter alia:

- an offer is considered 'fair' if the value of the offer price or consideration is equal to, or greater than, the value of the securities that are the subject of the offer.
- an offer is considered '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 before the close of the offer.

ASIC Regulatory Guide 111 requires the assessment of 'fair' to be made assuming 100% ownership of the company. It considers it to be inappropriate to apply a discount to the value of the securities under the offer that would normally be considered in the valuation of a minority interest to reflect such factors as a lack of control. Therefore, any valuation will be assessed based on a minority basis to determine if the Proposed Transaction is fair and reasonable. Accordingly, we have not included a premium for control when considering the value of CLB's shares.

ASIC Regulatory Guide 111 also provides examples of factors that are relevant in an assessment of reasonableness. The form of analysis the expert uses to evaluate a transaction should address the issues faced by security holders.

In our opinion, for the purposes of this report 'fairness' is taken to mean a reference to quantification of respective values of consideration being paid compared to the value of assets being transferred. This has been calculated in the context of the impact on CLB shares prior to the Proposed Transaction. 'Reasonableness' is taken to include consideration of other qualitative factors which can be assessed on objective grounds.

The assessment as to the fairness and reasonableness of the Proposed Transaction is set out in Section 10 of this Report.

6. VALUATION OF CANDY CLUB HOLDINGS LTD SHARES PRE PROPOSED TRANSACTION

6.1. VALUATION OVERVIEW

The usual approach to the valuation of an asset is to seek to determine what a willing but not anxious buyer, acting at arm's length, with adequate information, would be prepared to pay and a willing, but not anxious seller would be prepared to accept in an open market.

RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, acquisitions requiring approval by security holders, takeovers and prospectuses. -these include:

- Discounted cash flow (DCF) approach;
- Capitalisation of future maintainable earnings (earnings based) approach;
- Orderly realisation of assets (asset based) approach;
- Quoted price of listed securities (market value) approach; and
- Comparable Market Transactions.

We have outlined these methodologies in Appendix 1 to this report. Each of these methodologies is appropriate in certain circumstances. The decision as to which methodology to use generally depends on the methodology most commonly adopted in valuing the asset in question and the availability of appropriate information. This is addressed further in Section 6.2 below.

6.2 VALUATION APPROACH

As referred to earlier in this report, we have outlined the valuation methodologies included within RG111 and these are covered in more detail in Appendix 1 to this report. Each of these methodologies is appropriate in certain circumstances. The decision as to which methodology to use generally depends on the methodology most commonly adopted in valuing the asset in question and the availability of appropriate information. This is addressed further below.

To determine a fair value of CLB we consider that the discounted cash flow methodology ("DCF") or capitalisation of forecast earnings to be the most appropriate approaches. These are the most appropriate approaches as CLB has yet to trade profitably.

In order to apply either a DCF or capitalisation of forecast earnings approach to determine the fair value of CLB, prospective financial information must be used. We have therefore considered the requirements of RG170: Prospective financial information. RG170 requires that to use prospective financial information there must be reasonable grounds for the inclusion of the information.

To demonstrate reasonable grounds, there must be some facts or circumstances that exist at the time of publication; are objectively reasonable; and support the information. Examples of what may constitute reasonable grounds are information that:

- Relates to forward-sales contracts or leases;
- Is underpinned by independent industry experts' reports; and
- Includes short-term estimates.

However, what constitutes reasonable grounds must be judged according to the facts and circumstances of each case. We have reviewed this financial model and the assumptions in respect of their compliance with RG170 in consideration of the fair value of CLB.

Many of the assumptions underpinning the prospective information reflect estimates of future market penetration which, due to the start-up nature of some of the service lines, have no historical basis or trend of generating consistent and reliable levels of sales to support the projected operating performance. Therefore any assumption around expected market penetration alone is misleading and any resulting prospective financial information is likely to be misleading.

Because of the foregoing, we have been unable to determine a fair value for CLB under the preferred methodologies of a DCF or capitalisation of forecast earnings. In the absence of being able to apply other methodologies, NPCF believes that the most appropriate method for valuing the issued shares in CLB is an asset-based approach. The most appropriate form of asset-based approach to be used in this situation is the replacement cost method. The resultant net assets of the Company can then be expressed in terms of a value per share.

6.2.1 CANDY CLUB LIMITED BACKGROUND

Candy Club Holdings Limited ACN 629 598 778 (the Company) is a listed Australian company incorporated in 2018. The Company acquired the Candy Club Business pursuant to a share purchase agreement (Share Purchase Agreement) whereby the Company acquired all the issued share capital in Candy Club Holdings, Inc., being a corporation incorporated in Delaware, USA (CC H).

The Candy Club Business was established in 2015, is headquartered in Los Angeles, California, USA and currently employs 23 employees.

The Candy Club Business is comprised of the following components:

- the B2C Business, under which the Company sells subscriptions plans for the Candy Boxes in the USA, which are delivered to subscribers monthly and contain up to six varieties of Candy Club Branded Confectionery; and
- the B2B Business, which commenced in July 2018 whereby the Company sells the Candy Club Branded Confectionery to specialty market resellers in the USA in bulk.

6.2.2 CANDY CLUB LIMITED HISTORICAL STATEMENT OF PROFIT OR LOSS OR OTHER COMPREHENSIVE INCOME

	Half Year ending 30 June 2019
Revenue	3,884,604
Interest revenue calculated using the effective interest method	175
Expenses	
Raw materials and consumables used	(2,920,611)
Corporate and administration expenses	(433,215)
Marketing and promotional expenses	(993,982)
Employee benefits expense	(2,003,863)
Development expenses	(131,934)
Depreciation and amortisation expense	(23,516)
Technology expense	(137,589)
Property expenses	(66,153)
Depreciation on right of use assets	(108,680)
Interest on leases	(37,028)
Other expenses	(378,018)
Finance costs	(98,264)
	<hr/>
Loss before income tax expense	(3,448,074)
Income tax expense	-
Loss after income tax expense for the half year	<hr/> (3,448,074)
Other comprehensive income	
Foreign currency translation	48,652
Total comprehensive income for the half year	<hr/> <hr/> (3,399,422)

6.3 VALUE OF CANDY CLUB HOLDINGS LTD'S SHARES PRE PROPOSED TRANSACTION

In establishing the value of CLB prior to the Proposed Transaction, the net asset backing per share has been determined based upon the position as at 30 June 2019, adjusted for certain significant subsequent events and on the assumption that all resolutions in the Notice of Meeting other than the Proposed Transaction are approved.

CANDY CLUB HOLDINGS LTD

	Pre- Proposed Transaction 30-Jun-19 Reviewed A\$	Adjustments for Subsequent Events A\$	<i>Notes</i>	Pro Forma Pre-Proposed Transaction A\$
ASSETS				
Current Assets				
Cash and cash equivalents	18,540	4,554,913	1	4,573,453
Trade and other receivables	229,730			229,730
Inventories	3,530,418			3,530,418
Other	245,549			245,549
Total Current Assets	<u>4,024,237</u>			<u>8,579,150</u>
Non-Current Assets				
Property, plant & equipment	51,809			51,809
Right of Use Assets	893,644			893,644
Intangible assets	4,105	68,320	2	72,425
Other	147,466			147,466
Total Non-Current Assets	<u>1,097,024</u>			<u>1,165,344</u>
Total Assets	<u>5,121,261</u>			<u>9,744,494</u>
LIABILITIES				
Current Liabilities				
Trade and other payables	3,271,007			3,271,007
Contract liabilities	-			-
Borrowings	1,194,832	1,361,307	3	2,556,139
Lease Liabilities	206,960			206,960
Total Current Liabilities	<u>4,672,799</u>			<u>6,034,106</u>
Non-current Liabilities				
Lease Liabilities	803,113			803,113
Total liabilities	<u>5,475,912</u>			<u>6,837,219</u>
Total Net Assets	<u>(354,651)</u>			<u>2,907,275</u>
Equity				
Issued capital	19,976,352	3,296,127	4	23,272,479
Reserves	(15,565,516)	2,111,220	5	(13,454,296)
Accumulated losses	(4,765,487)	(2,145,421)	6	(6,910,908)
Total Equity	<u>(354,651)</u>			<u>2,907,275</u>

Notes

- 1) This reflects material movements in cash subsequent to 30 June 2019.
 - 2) This reflects an adjustment to include fair value of trademarks and domain name held by the Company.
 - 3) This includes the movement in liabilities for loan received from James Baillieu since 30 June 2019 and reduction in loans converted to shares since 30 June 2019.
 - 4) This reflects the value of shares issued since 30 June 2019 and proposed in the Notice of Meeting, excluding the Proposed Transactions
 - 5) This reflects the increase in share options reserve for options issued post year end and under the Notice of Meeting, excluding the Proposed Transactions
 - 6) This reflects the impact of the above movements through the Statement of Profit and Loss.
- 

6.4 VALUE OF CANDY CLUB HOLDINGS LTD'S SHARES POST PROPOSED TRANSACTION

	Pro Forma Pre- Proposed Transaction Reviewed A\$	Adjustments for Proposed Transaction A\$	Notes	Pro Forma Post- Proposed Transaction A\$
ASSETS				
Current Assets				
Cash and cash equivalents	4,573,453	1,500,000	1	6,073,453
Trade and other receivables	229,730			229,730
Inventories	3,530,418			3,530,418
Other	245,549			245,549
Total Current Assets	<u>8,579,150</u>			<u>10,079,150</u>
Non-Current Assets				
Property, plant & equipment	51,809			51,809
Right of Use Assets	893,644			893,644
Intangible assets	72,425			72,425
Other	147,466			147,466
Total Non-Current Assets	<u>1,165,344</u>			<u>1,165,344</u>
Total Assets	<u>9,744,494</u>			<u>11,244,494</u>
LIABILITIES				
Current Liabilities				
Trade and other payables	3,271,007			3,271,007
Contract liabilities	-			-
Borrowings	2,556,139	(1,795,262)	2	760,877
Lease Liabilities	206,960			206,960
Total Current Liabilities	<u>6,034,106</u>			<u>4,238,844</u>
Non-current Liabilities				
Lease Liabilities	803,113			803,113
Total non-current Liabilities	<u>803,113</u>			<u>803,113</u>
Total liabilities	<u>6,837,219</u>			<u>5,041,957</u>
Total Net Assets	<u>2,907,275</u>			<u>6,202,537</u>
Equity				
Issued capital	23,272,479	3,295,262		26,567,741
Reserves	(13,454,296)	118,029	3	(13,336,267)
Accumulated losses	(6,910,908)	(118,029)	4	(7,028,937)
Total Equity	<u>2,907,275</u>			<u>6,202,537</u>
Minority Discount	20%		5	20%
Fair Value on a minority basis	<u>2,325,820</u>			<u>4,962,030</u>
Number of shares	180,266,087			229,476,602
Net asset backing per share	0.013			0.022

Notes

- 1) Cash received from JKCB Pty Ltd for Placement Shares under resolution 7.
- 2) Reduction in liabilities for loans converted to shares under resolution 4 and 8.
- 3) Movement in reserves for Options issued under resolution 4.
- 4) Movement in Profit and Loss for Options issued under resolution 4.
- 5) Following the Proposed Transaction, current shareholders will hold a minority interest in the entity. An adjustment is made to determine the fair value on a minority basis by reducing the fair value with 20%.

6.5 ISSUED CAPITAL AND SHARE TRANSACTIONS

6.5.1 ISSUED CAPITAL

The movements in CLB's issued capital since 30 June 2019, the balance date of its half year financial report, up to the date of this report, are provided in the table below. The values below are net of share issue costs.

	Number of Shares	Note	A\$
Balance as at 1 July 2019	139,090,731	Per 30 June 2019 Half Year Report	19,976,352
Subsequent movement	35,820,347	Price per share of [\$0.08] ⁽¹⁾	2,865,628
As at the date of this report ^{(1) (8)}	174,911,078	As at the date of this report ⁽¹⁾	22,841,980
Issue of shares under Resolution [3]	1,250,531	Price per share of [\$0.08] ⁽²⁾	100,042
Issue of shares under Resolution [4]	2,565,778	Price per share of [\$0.08] ⁽²⁾	205,262
Issue of shares under Resolution [7]	18,750,000	Price per share of [\$0.08] ⁽³⁾	1,500,000
Issue of shares under Resolution [8]	27,894,737	Price per share of [\$0.057] ⁽⁴⁾	1,590,000
Issue of shares under Resolution [10]	1,865,672	Price per share of [\$0.08] ⁽⁵⁾	149,254
Issue of shares under Resolution [11]	2,238,806	Price per share of [\$0.08] ⁽¹⁾	179,104
Total if all resolutions passed ^{(2) (3) (4)}	229,476,602		26,565,643

- (1) The amounts credited to equity have been calculated based on the price per share in the non-renounceable rights issue announced to the ASX at 4 July 2019.
- (2) The shares are issued are on terms identical to the non-renounceable rights issue announced to the ASX at 4 July 2019.
- (3) Placement shares to be issued at \$0.08 per share as per announcement made to the ASX at 16 September 2019.
- (4) Loan to be converted to shares at the conversion price of \$0.057 as per announcement made to the ASX at 16 September 2019.
- (5) Management shares to be issued as \$0.08 per share, representing the offer price under the non-renounceable rights issue announced to the ASX at 4 July 2019.
- (6) Shares held in escrow
Included in share capital are 40,696,540 shares held in escrow.
- (7) [The above summary does not include the potential dilutionary impact of the prevailing unlisted and listed options together with the further Options proposed to be issued pursuant to the Notice of Meeting which are currently out of the money (i.e. the underlying shares are currently trading at below the exercise price of the Options).
- (8) The number of shares on issue as per Section 6.4 includes all shares issued under resolutions announced in the Notice of Meeting, other than the Proposed Transactions (Resolution 4, 7 and 8)]

6.5.1.1 Substantial shareholders

Ordinary Shareholder	Fully paid Ordinary Shares No.	%
Chi Kan Tang	28,250,819	16.15
Instanz Nominees Pty Ltd ATF Hearts Trust and associates	19,716,770	11.27
Keith Cohn and associates	9,091,947	5.20
James Baillieu	8,712,910	4.98
CVC Limited	8,666,948	4.96

6.5.2 OPTIONS

The movements in CLB's options since 30 June 2019 up to the date of this report, are provided in the table below:

	Listed Options	Unlisted Options	Total
Balance as at 1 July 2019	8,111,658	-	8,111,658
Subsequent movement	42,253,897	2,578,165	44,832,062
As at the date of this report	50,365,555	2,578,165	52,943,720
Issue of options under Resolution [3]	4,151,981	-	4,151,981
Issue of options under Resolution [4]	2,565,778	1,667,500	4,233,278
Issue of options under Resolution [5]	-	227,180	227,180
Issue of options under Resolution [7]	18,750,000	-	18,750,000
Issue of options under Resolution [9]	3,100,000	-	3,100,000
Issue of options under Resolution [12]	15,600,000	-	15,600,000
Issue of ESOP Options	-	160,000	160,000
After EGM date	94,533,314	4,632,845	83,566,159

6.5.3 SHARE TRADING

The following summary provides details of the monthly values and average daily volumes of CLB shares being transacted on ASX from 1 July 2019 to 29 October 2019:

	Open	High	Low	Close	Total Volume	Volume weighted average price
Oct-19	0.09	0.09	0.07	0.07	3,764,637	0.08
Sep-19	0.06	0.12	0.06	0.09	8,594,664	0.10
Aug-19	0.07	0.07	0.06	0.06	870,257	0.06
Jul-19	0.08	0.09	0.07	0.07	1,396,137	0.07

Source: Yahoo Finance

¹ Based on trading history for the period 1 July 2019 to 29 October 2019.

Based on the above table, CLB's share price has fluctuated over the period since 1 July 2019 between a high of 12 cents and a low of 6 cents. The highest single day trading volume was recorded on 16 September 2019 (being the day of announcement of the Proposed Transaction) when 3,906,543 shares were traded.

The average daily volume of shares traded over the period 1 July 2019 to 29 October 2019 was 170,066 shares, with 31 days (out of 86 day period) where no trades were recorded. Of the 31 days with no trades, 24 of these days occurred in the 55 days prior to the announcement of the Proposed Transaction (there were two non-trading days due to a trading halt in the company's securities prior to the announcement).

CLB Recent Share Price History:

The chart below represents the movement in the share price of CLB listed shares in the past 4 months (to 29 October 2019):



Source: asx.com.au

6.5.4 SCHEDULE OF RECENT ASX ANNOUNCEMENTS

Company announcements released on the ASX platform since its 30 June 2019 half year report to the date of this report are summarised below:

31/10/2019	Quarterly Activities Report & Appendix 4C
31/10/2019	Investor Presentation
25/10/2019	Release of Shares from Escrow
08/10/2019	Initial Director's Interest Notice
04/10/2019	Change in substantial holding
04/10/2019	Change in substantial holding
03/10/2019	Change in substantial holding
03/10/2019	Final Director's Interest Notice
03/10/2019	Candy Club Appoints Andrew Clark as Non-Executive Director
02/10/2019	Appendix 3B - Rights Issue Shortfall
02/10/2019	Rights Issue Shortfall Placement
01/10/2019	Release of Shares from Escrow
19/09/2019	Initial Director's Interest Notice
18/09/2019	Final Director's Interest Notice
18/09/2019	Response to ASX query

6.5.4 SCHEDULE OF RECENT ASX ANNOUNCEMENTS (CONTINUED)

16/09/2019	Appointment of Chairman, Private Placement and Bridging Loan
12/09/2019	Trading Halt
30/08/2019	Half Yearly Report and Accounts
12/08/2019	Appointment of Director of Sales
12/08/2019	Change of Directors' Interest Notices
07/08/2019	Becoming a substantial holder
07/08/2019	Change in substantial holding
05/08/2019	Rights Issue Shares and Options Allotment Confirmation
01/08/2019	Rights Issue Results & Shortfall Notification
30/07/2019	Change of Director's Interest Notice
25/07/2019	Change of Director's Interest Notice
23/07/2019	Quarterly Activities Report & Appendix 4C
16/07/2019	Change of Director's Interest Notice
16/07/2019	Posting of Prospectus - Non-Renounceable Rights Issue
08/07/2019	Letters to Securityholders - Rights Issue
04/07/2019	B2B Segment Update
04/07/2019	Prospectus - Non-Renounceable Rights Issue
04/07/2019	Appendix 3B - Rights Issue
04/07/2019	Non-Renounceable Rights Issue
03/07/2019	Appendix 3B - ESOP

Source: asx.com.au

6.5.5 MARKET VALUE CROSS CHECK

As can be seen from the low trading volumes prior to the announcement of the Proposed Transaction reflected in Section 6.4.3 above, together with only a very small percentage of the company's free float being traded prior to the announcement and which has not significantly increased thereafter - we consider that the share price methodology does not provide sufficient information to be the most appropriate methodology to use in this instance.

We therefore consider the Net Asset Value method to be the most appropriate method to adopt in this instance.

7 ECONOMIC OVERVIEW

While the outlook for the global economy remains reasonable, the risks are tilted to the downside. The US–China trade and technology disputes are affecting international trade flows and investment as businesses scale back spending plans because of the increased uncertainty. At the same time, in most advanced economies, unemployment rates are low and wages growth has picked up, although inflation remains low. In China, the authorities have taken further steps to support the economy, while continuing to address risks in the financial system.

Interest rates are very low around the world and further monetary easing is widely expected, as central banks respond to the persistent downside risks to the global economy and subdued inflation. Long-term government bond yields are around record lows in many countries, including Australia. Borrowing rates for both businesses and households are also at historically low levels. The Australian dollar is at its lowest level of recent times.

The Australian economy expanded by 1.4 per cent over the year to the June quarter, which was a weaker-than-expected outcome. A gentle turning point, however, appears to have been reached with economic growth a little higher over the first half of this year than over the second half of 2018. The low level of interest rates, recent tax cuts, ongoing spending on infrastructure, signs of stabilisation in some established housing markets and a brighter outlook for the resources sector should all support growth. The main domestic uncertainty continues to be the outlook for consumption, with the sustained period of only modest increases in household disposable income continuing to weigh on consumer spending.

Employment has continued to grow strongly and labour force participation is at a record high. The unemployment rate has, however, remained steady at around 5¼ per cent over recent months. Forward-looking indicators of labour demand indicate that employment growth is likely to slow from its recent fast rate. Wages growth remains subdued and there is little upward pressure at present, with increased labour demand being met by more supply. Caps on wages growth are also affecting public-sector pay outcomes across the country. A further gradual lift in wages growth would be a welcome development. Taken together, recent outcomes suggest that the Australian economy can sustain lower rates of unemployment and underemployment.

Inflation pressures remain subdued and this is likely to be the case for some time yet. In both headline and underlying terms, inflation is expected to be a little under 2 per cent over 2020 and a little above 2 per cent over 2021.

There are further signs of a turnaround in established housing markets, especially in Sydney and Melbourne. In contrast, new dwelling activity has weakened and growth in housing credit remains low. Demand for credit by investors is subdued and credit conditions, especially for small and medium-sized businesses, remain tight. Mortgage rates are at record lows and there is strong competition for borrowers of high credit quality.

The Board took the decision to lower interest rates further today to support employment and income growth and to provide greater confidence that inflation will be consistent with the medium-term target. The economy still has spare capacity and lower interest rates will help make inroads into that. The Board also took account of the forces leading to the trend to lower interest rates globally and the effects this trend is having on the Australian economy and inflation outcomes.

It is reasonable to expect that an extended period of low interest rates will be required in Australia to reach full employment and achieve the inflation target. The Board will continue to monitor developments, including in the labour market, and is prepared to ease monetary policy further if needed to support sustainable growth in the economy, full employment and the achievement of the inflation target over time.

8. ASSESSMENT AS TO FAIRNESS AND REASONABLENESS OF THE PROPOSED TRANSACTION

8.1 Assessment as to Fairness

- an offer is considered 'fair' if the value of the offer price or consideration is equal to, or greater than, the value of the securities that are the subject of the offer.
- an offer is considered '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 before the close of the offer.

As noted in Section 5 of this Report, an offer is considered "fair" if the value of the consideration being offered is equal to, or greater than, the value of the securities that are the subject of the offer. NPCF's assessment as to the fairness of the Proposed Transaction is set out below:

8.1.1 Assessment of fairness

	Cents
NPCF valuation of CLB shares prior to the Proposed Transaction	1.290
NPCF valuation of CLB shares after to the Proposed Transaction	2.162

After consideration of the above, the Proposed Transaction is considered to be **fair** for CBL shareholders because the value of the CLB shares after the Proposed Transaction exceeds the value of the CBL shares prior to the Proposed Transaction.

NPCF has also had regard to other relevant considerations in assessing the reasonableness of the Proposed Transaction. Further details are set out in Section 10 of this Report.

Our opinion is based solely on the information available at the date of the report as detailed in Section 11.

8.2 Assessment as to Reasonableness

ASIC Regulatory Guide 111 states that an offer is reasonable if it is fair. Under this criterion as the value of the valuation of the shares is greater after the Proposed Transactions the transaction is considered reasonable.

There are a number of other relevant factors to be considered in assessing the reasonableness of the Proposed Transaction to the shareholders. These factors are set out below as advantages and disadvantages.

8.2.1 Shareholders who participate in the Proposed Transaction

Advantages

- The conversion of the loan to shares will provide the Company with additional working capital flexibility;
- The Proposed transaction will permit the Company to satisfy amounts payable under the Loan, which otherwise may result in an event of default under the Loan if the Company does not have access to sufficient funds to repay the Loan;
- The Proposed transaction will permit the Company to satisfy amounts payable under the Loan, thereby preserving the Company's cash reserves;
- The funding raised enables the Company to increase the inventory of confectionary sold and employ additional sales personnel;
- It may provide an opportunity for enhanced liquidity in CLB shares; and
- It may give rise to a market re-pricing of CLB shares, having regard to the foregoing.

Disadvantages

- the Proposed Transaction will increase the voting power of James Baillieu and JCKB Pty Ltd (and their associates) in the Company up to a maximum of approximately 25.27%, reducing the voting power of non-associated Shareholders in the Company in aggregate to a maximum of approximately 74.73%;
- with a shareholding of 25.27% James Baillieu and JCKB Pty Ltd would have voting power to block the passing of special resolutions; and
- there is no guarantee that the Company's Shares will not fall in value as a result of the issue of Securities to JCKB Pty Ltd associated with the Proposed Transaction.

8.2.2 Conclusion of Reasonableness

In our opinion, on balance, the advantages of approving the Proposed Transaction are greater than the disadvantages. These advantages arise both as a result of implementing the Proposed Transaction and of avoiding the disadvantages that may arise as a result of not implementing the Proposed Transaction. Accordingly, in our opinion, the Proposed Transaction is **reasonable** to the non-associated shareholders.

8.3 Overall conclusion

Based on the valuation of a CLB share and on the above assessment, NPCF is of the opinion that the Proposed Transaction is fair and reasonable to the non-associated shareholders of Candy Club Holdings Ltd.

9. LIMITATIONS AND RELIANCE ON INFORMATION

Our opinion is based on the economic, stock market, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Our report is also based upon financial and other information provided by CLB and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS). We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.

The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Proposed Transaction from the perspective of CLB security holders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. Whilst NPCF has made what it considers to be appropriate enquiries for the purpose of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.

Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the Proposed Transaction, rather than a comprehensive audit or investigation of detailed matters.

The opinions and judgement of management of the relevant companies comprise an important part of the information base used in forming an opinion of the kind expressed in this report. This information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

In forming our opinion, we have also assumed that:

- (a) the information set out in the Notice of Meeting and Offer Document is complete, accurate and fairly presented in all material respects
- (b) if the Proposed Transaction is approved it will be implemented in accordance with the terms set out in the Notice of Meeting and Offer Document.

10. Sources of Information

In making our assessment as to whether the Proposed Transaction is fair and reasonable to the non-associated shareholders of CLB, we have reviewed relevant published available information and other unpublished information of the Company which is relevant in the circumstances. In addition, we have held discussions with representatives of the Company's Board. Information we have received includes, but is not limited to the following:

- CLB's half year financial report for the period ended 30 June 2019;
- Draft Notice of Meeting, and Explanatory Statement that this Report will accompany;
- Discussions with management of the company.

10. Glossary

\$ means Australian dollars.

ASIC means the Australian Securities & Investments Commission.

ASX means ASX Limited (ACN 008 624 691) or the financial market operated by ASX Limited, as the context requires.

Class A Options means a listed Class A option in the Company, the key terms of which are contained in Annexure A of the Notice of Meeting.

CLB means Candy Club Holdings Limited ACN 629 598 778

Company means Candy Club Holdings Limited ACN 629 598 778.

Corporations Act means the *Corporations Act 2001*.

Directors means the current directors of the Company.

Explanatory Statement means the explanatory statement accompanying the Notice of Meeting.

Loan means the loan of A\$1,500,000 advanced by James Baillieu, the key terms of which are summarised in Section 8 of the Explanatory Statement.

Loan Conversion Date means the date being three (3) months from the date of the Loan.

Option means an option to acquire a Share.

Notice of Meeting means this notice of meeting accompanying this report.

Proposed Transaction means the transactions outlined in section 3 of this report.

Resolutions means the resolutions set out in the Notice of Meeting

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

Shareholder means a registered holder of a Share.

APPENDICES

APPENDIX 1 Overview of valuation methodologies

APPENDIX 1 OVERVIEW OF VALUATION METHODOLOGIES

Discounted cash flow ("DCF") approach

- DCF involve projected cash flows being discounted by a discount rate which reflects the time value of money and the risk inherent in the cash flows. DCF valuations are arguably the most technically accurate method of valuing an asset or business, however, they suffer from the practical impediment that few companies have prepared cash flow forecasts of sufficient reliability over the necessary long time frame.
- The DCF methodology is typically the most appropriate valuation methodology where there is adequate information about likely future cash flows and usually over a finite term.

Capitalisation of future maintainable earnings (earnings based) approach

- The capitalisation of earnings methodology involves capitalising the earnings of the business at a multiple which reflects the risks of the business and the stream of income it generates. This methodology requires the estimation of future maintainable earnings having regard to historical and forecast operating results, including sensitivity to key industry risk factors, future growth prospects and the general economic outlook. The estimated realisable value of any surplus assets is then added to the capitalised earnings.
- The determination of an appropriate capitalisation rate will typically reflect a potential purchaser's required rate of return, risks inherent in the business, future growth prospects and alternative investment opportunities. This methodology is the most commonly used method for the valuation of industrial companies, which have a proven operating history and a consistent earnings trend.

Asset based approach

- Asset based valuation methods estimate the value of a company based on the realisable value of its net assets less liabilities. There are a number of asset-based methods including orderly realisation; liquidation value; net assets on a going concern basis; replacement cost; and reproduction cost. Since wind-up or liquidation of the company may not be contemplated, these methods in their strictest forms may not necessarily be appropriate. The net assets on a going concern basis estimates the market values of the net assets without taking into account realisation costs. Asset-based valuation methods are considered most appropriate where a business or company is not making an adequate return on its assets, where there are surplus non-operating assets or where investments are the primary asset.

Quoted price for listed securities (market value) approach

- This approach reflects the quoted price for the listed securities of the company being valued and is most suited when there is a liquid and active market in those securities (and allowing for the fact that the quoted price may not reflect their value where 100% of the securities are available for sale).

Comparable market transactions approach

- This methodology entails obtaining information on any comparable transactions in the same industry for a similar entity to that being valued. If such transactions exist and the entity being valued is directly comparable to that being acquired, then the assets, revenue or earnings multiples, or other relevant measures employed in the actual transaction, can be utilised in the valuation.
- This methodology suffers from the difficulty in sourcing detailed information on the transaction to determine the basis of the consideration and the comparability of the two businesses or entities.

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**CANDY CLUB HOLDINGS LIMITED ACN 629 598 778
PROXY FORM FOR EXTRAORDINARY GENERAL MEETING**

I/We _____

of _____

am/are a member **Candy Club Holdings Limited ACN 629 598 778** and I/we appoint as my/our proxy:

of _____

Or failing him or her, or if no person is named, the Chairman of the Extraordinary General Meeting of the Company, to be held on 9 January 2020 at Seasons Botanic Gardens Melbourne, 348 St Kilda Road Melbourne VIC 3004 at 11:00 am AEDT to vote for me/us at the meeting and at any adjournment of it. If 2 proxies are being appointed the proportion of voting rights this proxy is authorised to exercise is%. (The Company will supply an additional form on request).

Voting directions to your proxy – please tick box to indicate your directions

		For	Against	Abstain
Resolution 1	Ratification of Issue of Conversion Securities to Non-Related Parties	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Ratification of Issue of Lead Manager Shares and Lead Manager Options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Approval of Issue of Remaining Conversion Securities to Related Party – Chi Kan Tang	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Approval of Issue of Remaining Conversion Securities to Related Party – JCKB Pty Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Approval of Issue of Remaining Conversion Securities to Related Party – RJIR Pty Ltd <ZDR Family Trust>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Approval of Acquisition of Relevant Interest by Related Parties – James Baillieu and JCKB Pty Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	Approval of Issue of Placement Securities to Related Party – JCKB Pty Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8	Approval of Issue of Loan Shares to Related Party – JCKB Pty Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9	Issue of Director Options to Related Party – Andrew Clark	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 10	Approval of Issue of Management Shares to Related Party – Sabone Internet Investments LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 11	Approval of Issue of Management Shares to Non-Related Parties	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 12	Approval of issue of Management Options to Related Party – Sabone Internet Investments LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 13	Replacement of Constitution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.*

**CANDY CLUB HOLDINGS LIMITED ACN 629 598 778
PROXY FORM FOR EXTRAORDINARY GENERAL MEETING**

The Chairman will not vote any undirected proxies in relation to Resolutions 9, 10, 11 and 12 unless you specifically authorise the Chairman to vote in accordance with the Chairman's stated voting intentions. The Chairman intends to vote all undirected proxies in favour of all resolutions, including Resolutions 9, 10, 11 and 12. If you do not wish to direct your proxy on how to vote, please tick the box:

By ticking this box, I/we direct and specifically authorize, the Chairman of the Meeting to vote in accordance with the Chairman's voting intentions on the Resolutions (including Resolutions 9, 10, 11 and 12) (except where I/we have indicated a different voting intention above).

If you do not mark this box, and you have not directed your proxy how to vote, the Chairman will not cast your votes on the Resolutions and your votes will not be counted in calculating the required majority if a poll is called on the resolution.

Signature of Member(s)

Date:.....

Individual or Member 1

Member 2

Member 3

**Sole Director/Company
Secretary**

Director

**Director/Company
Secretary**

Contact Name: **Contact Ph (daytime):**

PROXY INSTRUCTIONS

A member entitled to attend and vote at a meeting is entitled to appoint not more than 2 proxies.

Where more than 1 proxy is appointed, each proxy may be appointed to represent a specific portion of the member's voting rights.

A proxy need not be a member of the Company.

A proxy form must be signed by the member or his or her attorney. Proxies given by corporations must either be signed in accordance with its constitution or the Corporations Act.

To be valid, the form appointing the proxy and the Power of Attorney or other authority (if any) under which it is signed (or a certified copy) must be lodged with the Company by mail at PO Box 305 Fitzroy VIC 3065 or in person at 1B 205-207 Johnston Street Fitzroy VIC 3065 or by facsimile on + 61 (0) 3 8678 1747 by no later than 11:00 am AEDT on 7 January 2020. Proxy forms received after this time will be invalid.