14 April 2021

Further information on Debt facility and proposed Warrant to be granted to Venture Lending & Leasing IX Inc (part of WTI)

Candy Club Holdings Limited (ASX: CLB) ("**Candy Club**" or "**the Company**") refers to the US$7.5 million (A$9.84* million) in debt funding that it has secured for its US based subsidiary, Candy Club Holdings Inc, from Venture Lending & Leasing IX Inc, which is a part of a leading Silicon Valley equity/debt venture firm, Western Technology Investment **(WTI) ('WTI Debt Facility')**.

The Company advises of the following matters in relation to the Debt Facility:

1. The Company has entered into the loan and security documents that form part of the WTI Debt Facility which includes a proposed Warrant (referred to in paragraph 2). The Company and the Lender have not executed the Warrant as the Warrant is subject to CLB shareholder approval. However, if the Warrant is not approved by CLB shareholders and issued by 31 August 2021, a break fee of approximately US$2.1m will be payable to WTI (based on current AUD-USD foreign exchange rates).

2. As part of the WTI Debt Facility, it is proposed that WTI be granted a Warrant to purchase up to AUD$1,959,990 worth of either (i) CLB ordinary shares or (ii) CLB ordinary shares in a subsequent financing round undertaken by CLB **('Warrant')**. The Warrant can be converted into shares at a price of A$0.237 per share or at a lower price if a subsequent capital raising round is priced lower.

3. The Company entered into the WTI Debt Facility prior to obtaining ASX's advice on the potential application of the ASX listing rules, including listing rule 6.1, to the Warrant terms.

4. ASX has advised the Company that, in light of the significant break fee payable in the event that the Company does not issue the Warrant, it will not consider the application of Listing Rule 6.1 to the terms of the Loan Agreement. ASX considers that it is now a matter for shareholders to determine whether to approve the issue of the Warrants under the Warrant terms at the relevant CLB general meeting of shareholders that will be called to consider and vote on this matter.

5. In deciding to pursue the WTI Debt Facility and the Warrant, the Company has considered the relevant factors referred to in the ASIC guidance on capital raisings and funding arrangements (*ASIC Market Integrity Update Covid 19 – Special Issue – 31 March 2020)*.

   The Company balanced a range of considerations including the cost of existing debt, the cost of the WTI Debt Facility and Warrant, and the potential dilution for CLB shareholders from raising further equity capital as compared to securing needed capital via debt through the WTI Debt Facility. Having regard to all relevant circumstances (which included the Company's current growth rate and cash flow requirements, alternative external debt funding options that were available, and the preference to limit shareholder dilution through further equity raising), the Company considers that the WTI Debt Facility and Warrant is in the best interests of the Company.

6. In evaluating the proposed WTI Debt Facility, the Company and its directors considered multiple term sheets from other potential third party lenders. The Company concluded that the WTI Debt Facility

proposal was on better terms for the Company than the alternative third party lender offers and the Company's existing debt facility with Crossroads Financial LLC, having regard to key factors such as the applicable interest rate and the line size for the facility.

Further, the structure of the Company's existing debt facility with Crossroads Financial LLC enables the Company to borrow against inventory, based on certain percentages for candy and finished products (not packaging), amounting to approximately 45% of inventory value and does not allow for funding against inventory in transit. The WTI facility does not have such restrictions and limitations which is a further reason it was considered preferable to the existing Crossroads facility.

A further important consideration of the Company was being able to structure its capital raising undertaken in April 2021 by a combination of the WTI Debt Facility for US$7.5m with an equity placement to raise A$10.7m before costs. Combining a debt and equity raise reduced the amount of shareholder dilution to reach the Company's new capital target. In addition, the Company was also able to secure funding from institutional investors in the equity raising at only a small discount to the last trading price prior to undertaking the equity raising.

For the abovementioned reasons, the Company considered the WTI Debt Facility and Warrant to be preferable to the other funding options presently available to the Company.

7. As part of the commercial negotiations with WTI in relation to the Debt Facility and proposed Warrant, the Company has agreed to:

   (a). grant security over all of its assets to Venture Lending & Leasing IX, Inc and, in addition, issue the Warrant to it subject to shareholder approval;
   (b). a break fee of approximately US$2.1m if the Warrant is not approved and issued by 31 August 2021;
   (c). a "success bonus" fee of US$2m in the event that the Warrant is not exercised by 30 June 2026 or there is a change in control to CLB; and
   (d). grant the right to purchase securities in future financings to Venture Lending & Leasing IX, Inc.

   The Company and WTI negotiated the Debt Facility and Warrant terms through arms' length commercial negotiations. In addition, the Company notes the following in relation to the commercial basis for the terms of the Debt Facility and Warrant:

   (e). it is standard market practice for borrowers to be required as a condition of funding to grant security over its assets in favour of a debt financier to secure the debt that is owing;

   (f). similar to an exercise of options, the Warrant can provide the Company with further investment capital in the event that the Warrant is exercised which will be beneficial for the Company;

   (g). the Company has agreed to an exercise price of A$0.237 per share which represents an 8% premium to the equity placement offer price of A$0.22 per share. Whilst not a significant premium to the placement price and recent trading price for the Company's shares, the Company considered this exercise price fair having regard also to the quantum of the Warrant value available for exercise into Company shares. The Warrant also provides for WTI to exercise the Warrant at a future financing round price per share (which may be lower than $A0.237 per share), which the Company considered reasonable so that WTI can exercise the Warrant at the prevailing market price at the relevant time. Please see item 9 of this announcement for further information.

(h). the commercial rationale for the break fee is that it provides compensation to WTI in the event the Company's shareholders do not approve the Warrant. The amount of the break fee is higher than the current valuation of the Warrant (as based on a Black Scholes valuation), however the Company considered that to be fair and reasonable in order to give WTI coverage against the risk of shareholders not approving the Warrant. The approval for the grant of the Warrant to WTI (or not) is in the hands of the Company's shareholders. The break fee provides WTI protection in the event that the Company's share price materially appreciates between April 2021 and the date the Company holds the shareholder meeting to consider the approval of the Warrant. In such circumstances, if shareholders do not approve the Warrant then WTI loses its rights to exercise the Warrant and purchase shares at the A$0.237 exercise price which may be materially lower to the then current trading price. It is considered fair and reasonable to provide WTI coverage in such circumstances.

(i). The Company considers the Success Bonus acceptable and appropriate in the circumstances, having regard to WTI being a leading US Venture Capital firm that provides working capital loans for borrowers that do not qualify for traditional debt facilities. The Company understands that a success fee bonus payment structured in this manner is standard for WTI's debt funding deals for other early stage and emerging companies.

(j). WTI sought the ability to invest in future raisings; the Company has agreed to this and considers that this right will strengthen WTI and the Company's alignment of interests in the ongoing success of the Company. Accordingly, under the terms of the Warrant, in connection with a future equity or convertible debt securities offer by the Company, WTI shall have the right to invest up to a greater of (a) A$1,306,660 and (b) such amount of cash as required to enable WTI to acquire such equity or convertible debt securities to hold the same percentage of securities of the Company as WTI held prior to the commencement of such new offer.

8. The Company confirms that Venture Lending & Leasing IX, Inc and its associates are ***not*** a party to which Listing Rules 10.11.1 to 10.11.5 would apply thereby requiring approval under Chapter 10 for the issue of the Warrant to them.

9. The Warrant is exercisable into CLB shares at a price of A$0.237 or at a subsequent financing round price if a subsequent financing round occurs at a lower issue price than A$0.237 per share. Given the potential for the Warrant to be converted at a subsequent financing round price, there is not a floor on the conversion price which may result in the conversion being dilutive to existing CLB shareholders if a subsequent round financing price is materially lower than current trading price for CLB shares. It has been agreed with WTI that if future subsequent capital raising rounds are undertaken at a lower price than A$0.237 per share then WTI could exercise the Warrant at such lower price so that they can exercise at prevailing market pricing at the relevant time. These terms were reached by commercial arms' length negotiation between the Company and WTI.

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About Candy Club

Candy Club Holdings Limited (Candy Club) is a leading specialty market confectionery company which operates a business-to-business (B2B) and business-to-customer (B2C) segment in the United States of America. Broadly, confectionery encompasses sugar confectionery, chocolates and gum.

Founded in 2015 by serial entrepreneur Keith Cohn, Candy Club executes an omnichannel strategy with a vision to become the world's leading specialty market confectionery company.

Candy Club is headquartered in Los Angeles, California, United States.