

CannPal Animal Therapeutics Limited

ACN 612 791 518

Scheme Booklet

for a scheme of arrangement in relation to the proposed acquisition of all your fully paid ordinary shares in CannPal Animal Therapeutics Limited by AusCann Group Holdings Ltd

Your CannPal Directors unanimously recommend¹ that, in the absence of a Superior Proposal, you

VOTE IN FAVOUR

of the Proposed Transaction with

AusCann Group Holdings Ltd

ACN 008 095 207

The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of CannPal Shareholders, in the absence of a Superior Proposal.

This is an important document and requires your prompt attention. You should read it in its entirety before you decide how to vote on the Scheme. If you are in doubt as to what you should do, you should consult your legal, financial or other professional adviser.

Corporate Adviser to AusCann

Kidder
Williams Limited

Legal Adviser to CannPal

STEINPREIS PAGANIN
Lawyers & Consultants 

Legal Adviser to AusCann

MinterEllison

¹ In respect of the recommendations of Mr Mills, CannPal Shareholders should have regard to the fact that, if the Scheme is implemented, Mr Mills will receive various personal benefits as further detailed in the Section titled "Important Information Regarding Directors' Recommendation" on page iii of this Scheme Booklet.

Important Information

This Scheme Booklet contains important information

The purpose of this Scheme Booklet is to explain the terms of the Scheme, the manner in which the Scheme will be considered and implemented (if the Scheme Conditions are satisfied), and to provide such information as is prescribed or otherwise material for CannPal Shareholders when deciding whether or not to vote in favour of the Scheme. This Scheme Booklet includes the explanatory statement required by section 412(1) of the Corporations Act in relation to the Scheme. You should read this Scheme Booklet in its entirety before making a decision on whether or not to vote in favour of the Scheme.

Investment decisions

This Scheme Booklet is for CannPal Shareholders collectively and does not take into account an individual's investment objectives, financial situation, taxation position or other particular needs.

This Scheme Booklet should not be relied upon as the sole basis for any investment decision in relation to the Scheme, CannPal Shares or New AusCann Shares. If you are in any doubt about what you should do, you should seek independent legal, financial or other professional advice before making any investment decision in relation to the Scheme.

Responsibility for information

The information concerning the CannPal Group contained in this Scheme Booklet, including financial information and information as to the views and recommendations of the CannPal Directors, has been provided by CannPal and is the responsibility of CannPal. Neither AusCann, nor any AusCann officers, nor its advisers, nor the advisers of CannPal assume any responsibility for the accuracy or completeness of that information.

The AusCann Information has been provided by AusCann and is the responsibility of AusCann. Neither CannPal, nor any CannPal officers, nor its advisers, nor the advisers of AusCann assume any responsibility for the accuracy or completeness of that information.

KPMG Financial Advisory Services (Australia) Pty Ltd has prepared the Independent Expert's Report set out in Annexure A of this Scheme Booklet and takes responsibility for that report. AusCann, CannPal and their respective advisers (except for KPMG Financial Advisory Services (Australia) Pty Ltd) do not assume any responsibility for the accuracy or completeness of the Independent Expert's Report.

BDO Corporate Tax (WA) Pty Ltd has prepared, and is responsible for, the information on the

Australian taxation implications of the Schemes contained in Section 11 of this Scheme Booklet. AusCann, AusCann Directors, CannPal, CannPal Directors and their respective advisers (except for BDO Corporate Tax (WA) Pty Ltd) do not assume any responsibility for the accuracy or completeness of the information set out in Section 11 of this Scheme Booklet.

Role of ASIC, ASX, and the Court

A copy of this Scheme Booklet has been examined by ASIC pursuant to section 411(2)(b) of the Corporations Act and lodged with, and registered by, ASIC under section 412(6) of the Corporations Act. CannPal has requested ASIC provides statements, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides those statements, they will be produced to the Court on the Second Court Date.

A copy of this Scheme Booklet has been lodged with ASX.

Neither ASIC, ASX nor any of their officers takes any responsibility for the contents of this Scheme Booklet.

Notice of Scheme Meeting

The Notice of Scheme Meeting is set out in Annexure D.

Notice of Second Court Hearing

At the Second Court Hearing, the Court will consider whether to approve the Scheme following the vote at the Scheme Meeting.

Any CannPal Shareholder may appear at the Second Court Hearing, expected to be held at 11:00 am (WST) on 10 March 2021.

Any CannPal Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court and serving on CannPal a notice of appearance in the prescribed form together with any affidavit that the CannPal Shareholder proposes to rely on.

The notice of appearance and affidavit must be served on CannPal at its address for service at least one day before the Second Court Hearing. The address for service is c/- Steinepreis Paganin, Level 4, The Read Buildings, 16 Milligan Street, Perth Western Australia 6000.

Important notice associated with Court order under section 411(1) of the Corporations Act

The Court is not responsible for the contents of this Scheme Booklet and the fact that under section 411(1) of the Corporations Act the Court ordered on 1 February 2021 that a meeting of CannPal Shareholders be convened by CannPal to consider and vote on the Scheme and has

approved the Scheme Booklet does not mean that the Court:

- (a) has formed any view as to the merits of the proposed Scheme or as to how CannPal Shareholders should vote (on this matter, CannPal Shareholders must reach their own decision); and
- (b) has prepared, or is responsible for, the content of this Scheme Booklet.

Forward-looking statements

This Scheme Booklet contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. The statements contained in this Scheme Booklet about the advantages and disadvantages expected to result from the Scheme are forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of CannPal, AusCann and/or the Combined Group to be materially different from future results, performance or achievements expressed or implied by such statements. The operations and financial performance of CannPal, AusCann and/or the Combined Group and the change of a Scheme Shareholder's ownership of CannPal Shares and New AusCann Shares are subject to various risks that are summarised in Section 10 of this Scheme Booklet and that may be beyond the control of CannPal, AusCann and/or the Combined Group.

As a result, CannPal's actual results of operations and earnings and those of AusCann and the Combined Group following implementation of the Scheme, as well as the actual advantages and disadvantages of the Scheme, may differ significantly from those that are anticipated in respect of timing, amount or nature and may never be achieved.

The forward-looking statements included in this Scheme Booklet reflect views only as of the date of this Scheme Booklet. None of CannPal, AusCann, the CannPal Directors or the AusCann Directors or any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Scheme Booklet will actually occur and you are cautioned not to place undue reliance on such forward-looking statements.

All written and oral forward-looking statements attributable to CannPal or AusCann or any person acting on their behalf are qualified by this cautionary statement. Subject to any continuing obligations under the ASX Listing Rules or the Corporations Act, neither CannPal nor AusCann

give any undertaking to update or revise any such statements after the date of this Scheme Booklet to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

New Zealand Shareholders

This Scheme Booklet is not a New Zealand disclosure document and has not been registered, filed with or approved by any New Zealand Regulatory Authority under or in accordance with the Financial Markets Conduct Act 2013 (or any other relevant New Zealand law). In offering New AusCann Shares under the Scheme in New Zealand, AusCann is relying on an exemption contained in the Financial Markets Conduct (Incidental Offers) Exemption Notice 2016 and accordingly, this Scheme Booklet may not contain all the information that a disclosure document is required to contain under New Zealand law. New Zealand investors should seek their own advice and satisfy themselves as to the Australian and New Zealand tax implications of participating in the Scheme.

Ineligible Foreign Shareholders

This Scheme Booklet and the Scheme are subject to Australian disclosure requirements that may be different to those applicable in other jurisdictions. Neither this Scheme Booklet nor the Scheme constitute or are intended to constitute an offer of securities in any place in which, or to any person to whom, it would not be lawful to make such an offer.

The distribution of this Scheme Booklet outside of Australia may be restricted by law and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may contravene applicable securities law. AusCann and CannPal disclaim all liabilities to such persons.

No action has been taken to register or qualify the New AusCann Shares or otherwise permit a public offering of such securities in any jurisdiction outside Australia.

Restrictions in certain jurisdictions outside Australia may make it impractical or unlawful for New AusCann Shares to be issued under the Schemes to, or received under the Scheme by, CannPal Shareholders in those jurisdictions.

Any CannPal Shareholder whose address as shown in the CannPal Register on the Record Date is outside of Australia or its external territories or New Zealand will be an Ineligible Foreign Shareholder for the purposes of the Scheme, unless AusCann is satisfied, acting reasonably, that it is permitted to allot and issue New AusCann Shares to that Scheme Shareholder under the Scheme by the laws of that holder's country of

residence, either unconditionally or after compliance with conditions which AusCann in its sole discretion regards as acceptable and not unduly onerous or impracticable.

Ineligible Foreign Shareholders will not receive New AusCann Shares. Instead, all Ineligible Foreign Shareholders will have the New AusCann Shares that would otherwise have been issued to them under the Scheme issued to the Sale Agent, as nominee in trust for the Scheme Shareholders, for sale on market following implementation of the Scheme.

Nominees, custodians and other Scheme Shareholders who hold CannPal Shares on behalf of a beneficial owner resident in Australia or its external territories or New Zealand may forward this Scheme Booklet (or accompanying documents) to such beneficial shareholder but may not forward this Scheme Booklet to any person in any other country without the consent of AusCann.

Privacy and entitlement to inspect CannPal Registers

Personal information may be collected by CannPal and AusCann in the process of implementing the Scheme. This information may include the name, contact details, security holding details of CannPal Shareholders, and the names of individuals appointed to act as proxy, attorney or corporate representative by a CannPal Shareholder at the Scheme Meeting. The primary purpose for collecting this personal information is to assist CannPal and AusCann to conduct the Scheme Meeting and implement the Scheme.

Any personal information collected may be disclosed to CannPal's and AusCann's respective share registries, advisers, print and mail service providers and related bodies to the extent necessary to effect the Scheme. CannPal Shareholders are entitled under section 173 of the Corporations Act to inspect and obtain copies of personal information collected. CannPal Shareholders should contact Computershare in the first instance if they wish to access their personal information.

Defined terms

Capitalised terms and certain other terms used in this Scheme Booklet are defined in the Glossary of defined terms in Section 16.

The Independent Expert's Report set out in Annexure A has its own defined terms and those

terms are sometimes different to the defined terms in the Glossary.

Currency

All references in this Scheme Booklet to "\$", "AUD" or "dollar" are references to Australian currency unless otherwise indicated.

Effect of rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Scheme Booklet are subject to the effect of rounding. Accordingly, their actual calculation may differ from the calculations set out in this Scheme Booklet.

Data in charts, graphs and tables

Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the Last Practicable Date. Any discrepancies in any chart, graph or table between totals and sums of amounts presented or listed therein or to previously published financial figures are due to rounding.

Implied Value

Any reference to the implied value of the Scheme Consideration should not be taken as an indication that CannPal Shareholders will receive cash. CannPal Shareholders should note that the implied value of the Scheme Consideration is not fixed and will change from time to time based on movements in the market price of AusCann Shares. This also applies to Ineligible Foreign Shareholders whose Scheme Consideration will be remitted to the Sale Agent to sell. The amount of Cash Proceeds received by Ineligible Foreign Shareholders will depend on the market price of AusCann Shares at the time of sale by the Sale Agent.

External websites

Unless expressly stated otherwise, the content of the websites of AusCann and CannPal do not form part of this Scheme Booklet and CannPal Shareholders should not rely on any such content.

Reference to time

All references in this document to time relate to Australian Eastern Daylight Time in Sydney, New South Wales, unless otherwise specified.

Date of this document

This document is dated 2 February 2021.

IMPORTANT INFORMATION REGARDING DIRECTOR'S RECOMMENDATIONS

CannPal Shareholders should have regard to the fact that, that Mr Mills (CannPal's Managing Director) holds or controls 7,765,179 CannPal Shares and 1,875,000 CannPal Performance Rights. These CannPal Performance Rights were issued to Mr Mills when CannPal listed on ASX in 2017 in connection with his appointment as the Managing Director of CannPal. If the Scheme is approved by the Court on the Second Court Date, in addition to his entitlement as a CannPal Shareholder, Mr Mills'

1,875,000 CannPal Performance Rights will vest and convert into 1,875,000 CannPal Shares in accordance with the terms and conditions upon which they were granted. Accordingly, in such circumstances, Mr Mills will hold a total of 9,640,179 CannPal Shares, all of which would be entitled to participate in the Scheme.

With effect from implementation of the Scheme, AusCann intends to appoint Mr Mills as its new Chief Executive Officer. Please refer to Section 15.4 for details of the terms of this appointment.

Mr Mills considers that it is appropriate for him to make a recommendation on the Scheme in light of the importance of the Scheme and his role as Managing Director.

The CannPal Board (in the absence of Mr Mills) and, separately, Mr Mills, have determined that Mr Mills can, and should, if he wishes to do so, make a recommendation on the Scheme notwithstanding the nature of the benefits (being the Scheme Consideration of 12,532,232 New AusCann Shares (valued at approximately \$2,130,479², of which only approximately \$414,375³ is as a result of his interests outside of being a current CannPal Shareholder) plus the benefits he will receive under his new employment arrangements with AusCann).

In addition, if the Scheme is implemented, Layton Mills will be appointed as the Chief Executive Officer of the Combined Group and each of the other CannPal Directors will be appointed as Non-Executive Directors of the Combined Group. Further information in respect of this appointment is set out in Section 15.4.

² Calculated based on the closing price of AusCann Shares of \$0.17 as at the Last Practicable Date.

³ Being the value of the AusCann Shares he will receive for the CannPal Shares to be issued to him on vesting and conversion of his Performance Rights, calculated based on the closing price of AusCann Shares of \$0.17 as at the Last Practicable Date.

Contents

1.	Important dates and times	2
2.	Scheme Highlights	3
3.	Letter from CannPal	6
4.	Details of the Scheme Meeting and How to Vote	8
5.	Frequently asked questions	11
6.	Key Considerations Relevant to Your Vote	16
7.	Profile of CannPal.....	24
8.	Profile of AusCann	34
9.	Financial overview of the Combined Group	50
10.	Potential risk factors	55
11.	Australian tax implications	74
12.	Overview of the Scheme	77
13.	Scheme Consideration.....	83
14.	Key terms of the Scheme Implementation Deed	86
15.	Additional information	90
16.	Glossary of defined terms	97
	Annexure A – Independent Expert’s Report.....	102
	Annexure B – Scheme of Arrangement	200
	Annexure C – Deed Poll	219
	Annexure D – Notice of Scheme Meeting	227

1. Important dates and times

Key events and the expected timing in relation to the approval and implementation of the Scheme are set out in the table below.

Event	Date
First Court Date – this is the date the Court made orders convening the Scheme Meeting	2:15 pm (WST) on 1 February 2021
Latest time and date for lodgement of completed proxy forms for the Scheme Meeting	12:00 pm (AEDT) on 6 March 2021
Time and date for determining eligibility to attend and vote at the Scheme Meeting	12:00 pm (AEDT) on 6 March 2021
Scheme Meeting to be held at BDO, Level 11, 1 Margaret Street, Sydney NSW 2000 <i>CannPal Shareholders will also be able to participate in the Scheme Meeting, vote and ask questions, from smartphones, tablets or desktop devices through an online platform, details of which are set out in Section 4.2.</i>	12:00 pm (AEDT) on 8 March 2021
If the Scheme is approved by the Requisite Majorities of CannPal Shareholders, the expected timetable for implementing the Scheme is:	
Second Court Date for approval of the Scheme	10 March 2021
Effective Date of the Scheme and last day of trading of CannPal Shares on ASX	11 March 2021
Suspension of trading of CannPal Shares on ASX	Close of trading on 11 March 2021
Record Date for determining entitlements to the Scheme Consideration ⁴	15 March 2021
Implementation Date for the issue of Scheme Consideration to Scheme Shareholders	18 March 2021
Termination of official quotation of CannPal Shares on ASX	18 March 2021 (or as otherwise determined by ASX)

The above dates and times are indicative only and, amongst other things, are subject to the time at which each Scheme Condition is satisfied and the dates on which all necessary Court and regulatory approvals are obtained. CannPal has the right to vary any or all of these dates and times, subject to the approval of such variation by ASX, the Court and AusCann, where required.

Any variation to the above dates and times will be announced to ASX (and accordingly, details of any variations will be available on ASX's website (www.asx.com.au)) and will be published on CannPal's website (www.cannpal.com).

The exact number of New AusCann Shares to be issued to you will not be confirmed until you receive your holding statement following the Implementation Date. It is your responsibility to confirm your holding of New AusCann Shares before you trade them to avoid the risk of committing to sell more than will be issued to you.

⁴ The Scheme Consideration is subject to rounding for fractional entitlements. Ineligible Foreign Shareholders will not be entitled to receive any New AusCann Shares and will instead receive Cash Proceeds from the sale by the Sale Agent of the New AusCann Shares which an Ineligible Foreign Shareholder would otherwise have been entitled to receive.

2. Scheme Highlights

2.1 What is the proposal?

AusCann Group Holdings Ltd (**AusCann**) has made a proposal to acquire all of the Shares in CannPal Animal Therapeutics Limited (**CannPal**) by way of the Scheme.

AusCann and CannPal have agreed to implement the Scheme proposal under a procedure set out in the Corporations Act called a scheme of arrangement. This is a Court-supervised process under which CannPal Shareholders have the opportunity to vote for or against the proposed Scheme (or abstain from voting) and if the Scheme is approved by the Court then the Scheme will be binding on CannPal and CannPal Shareholders (including CannPal Shareholders who vote against the Scheme, abstain from voting at or do not attend the Scheme Meeting).

The Scheme Meeting to consider the Scheme will be held at **BDO, Level 11, 1 Margaret Street, Sydney NSW 2000 at 12:00 pm (AEDT) on 8 March 2021.**

CannPal Shareholders will also be able to participate in the Scheme Meeting, vote and ask questions, from smartphones, tablets or desktop devices through an online platform, details of which are set out in Section 4.2.

If the Scheme is approved by the requisite majorities of CannPal Shareholders and by the Court, subject to satisfaction or waiver of the Scheme Conditions:

- (a) AusCann will acquire all of the CannPal Shares in exchange for the Scheme Consideration (being 1.3 New AusCann Shares for every CannPal Share held) to be provided to the Scheme Shareholder, and CannPal will become a wholly-owned subsidiary of AusCann;
- (b) all existing CannPal Options will be cancelled pursuant to the Option Cancellation Deeds in exchange for the grant of AusCann Options at a ratio of 1.3 AusCann Options for every CannPal Option held; and
- (c) all existing CannPal Performance Rights will convert into CannPal Shares prior to the Record Date in accordance with the terms and conditions upon which they were issued so that the CannPal Shares issued on exercise will participate in the Scheme.

If the Scheme is not approved by the requisite majorities of CannPal Shareholders at the Scheme Meeting or by the Court at the Second Court Hearing, the Proposed Transaction will not proceed and CannPal will continue to operate as a stand-alone entity, listed on ASX.

2.2 Reasons to vote in favour of or against the Scheme

1.	The CannPal Directors have unanimously recommended that CannPal Shareholders vote in favour of the Scheme in the absence of a Superior Proposal and, subject to the same qualification, intend on voting all CannPal Shares held or controlled by or for them in favour of the Scheme
2.	Merchant Funds Management Pty Ltd, a substantial holder of CannPal, has advised CannPal that it intends to vote in favour of the Scheme in the absence of a Superior Proposal
3.	The implied value of the Scheme Consideration represents an attractive premium over the trading prices of CannPal Shares prior to the Announcement Date
4.	All-scrip consideration available under the Scheme allows existing CannPal Shareholders to participate in and benefit from the combination of the companies
5.	The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of CannPal Shareholders, in the absence of a Superior Proposal.

6.	The Combined Group will have an increased market presence, greater liquidity and enhanced financial strength enabling it to better develop the existing business of CannPal and AusCann
7.	The Combined Group will have an expanded and complementary product portfolio and pipeline across both human and animal health, comprising two products in market, two products expected to be launched within the next 12 months and a medium term product pipeline
8.	The Combined Group is expected to benefit from corporate and operating synergies with cost reductions across legal and accounting services, investor relations and compliance
9.	The trading price of CannPal Shares may fall in the near future should the Scheme not be implemented and in the absence of a Superior Proposal
10.	No Superior Proposal has emerged as at the Date of this Scheme Booklet
11.	Scheme Shareholders may be eligible for CGT rollover relief

These reasons are discussed in more detail in Section 6.1.

2.3 Reasons why you may choose to vote against the Scheme

1.	You may disagree with the opinion of the Independent Expert and the recommendation of the CannPal Directors.
2.	Your percentage interest in the Combined Group will be less than your current interest in CannPal.
3.	The risk profile of the Combined Group will be different to that of CannPal's, which you may consider to be disadvantageous to you relative to the risk profile of the current CannPal business.
4.	You may consider that there is the potential for a Superior Proposal to emerge for CannPal in the foreseeable future.
5.	The exact value of the Scheme Consideration upon implementation of the Scheme is not certain.
6.	The tax consequences of the Scheme may not suit your current financial position.

These reasons are discussed in more detail in Section 6.2.

2.4 Independent Expert's Conclusion

The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of CannPal Shareholders, in the absence of a Superior Proposal.

The CannPal Directors unanimously recommend⁵ that, in the absence of a Superior Proposal and on the basis that the Independent Expert maintains its opinion that the Scheme is in the best interests of CannPal Shareholders, CannPal Shareholders vote in favour of the Scheme.

Before making a decision about the Scheme, CannPal Shareholders should read this Scheme Booklet in its entirety and if you are in doubt about what action you should take, contact your financial, legal, taxation or other professional adviser. For further details regarding the recommendation of the CannPal Directors, please refer to page iii of this Scheme Booklet.

⁵ In respect of the recommendations of Mr Mills, CannPal Shareholders should have regard to the fact that, if the Scheme is implemented, Mr Mills will receive personal benefits as further detailed in the Section titled "Important Information Regarding Directors' Recommendation" on page iii of this Scheme Booklet.

2.5 What you should do next:**(a) Step 1: Read this document in full**

You should read and carefully consider the information included in this Scheme Booklet in full to help you make an informed decision as to how to vote in relation to the Scheme. If you have any doubt as to what action you should take, please contact your financial, legal, taxation or other professional adviser immediately.

(b) Step 2: Vote on the Scheme

As a CannPal Shareholder, it is your right to vote on whether the Scheme should be approved, and therefore, whether the Scheme should proceed. You should note that the Scheme is subject to the Scheme Conditions. Even if CannPal Shareholders approve the Scheme, it is possible that the Scheme will not be implemented if the other Scheme Conditions have not been satisfied or waived.

You can vote in person at the Scheme Meeting scheduled for **12:00 pm (AEDT) on 8 March 2021**, or by returning a validly completed proxy voting form by not later than **12:00 pm (AEDT) on 6 March 2021**. Full details of how to vote are set out in Section 4.

For further information

If you have any questions after reading this document, please call the Company Secretary of CannPal, Mr Baden Bowen on +61 402 339 443.

3. Letter from CannPal

2 February 2021

Dear CannPal Shareholders

On behalf of the board of CannPal, I am pleased to present this Scheme Booklet to you.

On 16 November 2020, CannPal Animal Therapeutics Ltd (ASX:CP1) and AusCann Group Holdings Ltd (ASX:AC8) announced that they had entered into a scheme implementation deed in relation to AusCann's proposed acquisition of CannPal (**Proposed Transaction**).

The Proposed Transaction will be conducted through a scheme of arrangement between CannPal and the CannPal Shareholders. Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive 1.3 New AusCann Shares for each Scheme Share held under the Scheme.

AusCann is an Australian based pharmaceutical company focused on the development, production and distribution of cannabinoid-based medicines within Australia and internationally.

The Proposed Transaction is expected to harness the synergies between CannPal and AusCann, creating a combined company that is expected to have the financial resources and technical expertise to accelerate the growth, commercialisation and market penetration of its pipeline products in Australia and offshore.

Recommendation of CannPal Directors

The CannPal Directors have considered the advantages and disadvantages of the Scheme and concluded that the Scheme is in the best interest of CannPal Shareholders.

In accordance with the Scheme Implementation Deed with AusCann, the CannPal Directors recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal. Subject to that same qualification, each CannPal Director intends to vote all of the CannPal Shares held or controlled by them in favour of the Scheme.

In respect of the recommendations of Mr Mills, CannPal Shareholders should have regard to the fact that, if the Scheme is implemented, Mr Mills will receive personal benefits as further detailed in the Section titled "Important Information Regarding Directors' Recommendation" on page iii of this Scheme Booklet.

In reaching their recommendation, the CannPal Directors considered a number of factors, including that:

- the CannPal Directors have unanimously recommended that CannPal Shareholders vote in favour of the Scheme in the absence of a Superior Proposal and, subject to the same qualification, intend on voting all CannPal Shares held or controlled by or for them in favour of the Scheme;
- Merchant Funds Management Pty Ltd, a substantial holder of CannPal, has advised CannPal that it intends to vote in favour of the Scheme in the absence of a Superior Proposal;
- the implied value of the Scheme Consideration represents an attractive premium over the trading prices of CannPal Shares prior to the Announcement Date;
- all-scrip consideration available under the Scheme allows existing CannPal Shareholders to participate in and benefit from the combined synergies of the companies;
- the Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of CannPal Shareholders, in the absence of a Superior Proposal;
- the Combined Group will have an increased market presence, greater liquidity and enhanced financial strength enabling it to better develop the existing business of CannPal and AusCann;
- the Combined Group will have an expanded and complementary product portfolio and pipeline across both human and animal health, comprising two products in

market, two products expected to be launched within the next 12 months and a medium term product pipeline;

- the Combined Group is expected to benefit from corporate and operating synergies with cost reductions across legal and accounting services, investor relations and compliance;
- the trading price of CannPal Shares may fall in the near future should the Scheme not be implemented and in the absence of a Superior Proposal;
- no Superior Proposal has emerged as at the date of this Scheme Booklet; and
- Scheme Shareholders may be eligible for CGT rollover relief.

These key reasons to vote in favour of the Scheme are set out in further detail in Section 6.1 of this Scheme Booklet.

There are also reasons why you may choose to vote against the Scheme, including that:

- you may disagree with the opinion of the Independent Expert and the recommendation of the CannPal Directors;
- your percentage interest in the Combined Group will be less than your current interest in CannPal;
- the risk profile of the Combined Group will be different to that of CannPal's, which you may consider to be disadvantageous to you relative to the risk profile of the current CannPal business;
- you may consider that there is the potential for a Superior Proposal to emerge for CannPal in the foreseeable future;
- the exact value of the Scheme Consideration upon implementation of the Scheme is not certain; and
- the tax consequences of the Scheme may not suit your current financial position.

These reasons why you may choose to vote against the Scheme are set out in further detail in Section 6.2 of this Scheme Booklet.

Your vote is important

The Scheme requires the agreement by the Requisite Majorities of CannPal Shareholders and the approval of the Court in order to proceed. The Scheme Meeting will be held at 12:00 pm (AEDT) on 8 March 2021 at BDO, Level 11, 1 Margaret Street, Sydney NSW 2000.

CannPal Shareholders will also be able to participate in the Scheme Meeting, vote and ask questions, from smartphones, tablets or desktop devices through an online platform, details of which are set out in Section 4.2.

Your vote is important regardless of how many CannPal Shares you own. If you are unable to attend the Scheme Meeting in person, we encourage you to vote by completing and returning your personalised proxy form enclosed with this Scheme Booklet in accordance with the directions on that form. Further information regarding the Scheme Meetings and details of how to vote are set out in Section 4 of this Scheme Booklet and in the notice convening the Scheme Meeting in Annexure D.

Before making a decision about the Scheme, you should read this Scheme Booklet in its entirety (including the Independent Expert's Report) and if you are in doubt about what action you should take, contact your legal, financial and other professional adviser.

Yours sincerely



Geoff Starr

Chairman

4. Details of the Scheme Meeting and How to Vote

4.1 Next Steps

You should read and carefully consider the information included in this Scheme Booklet in full to help you make an informed decision as to how to vote in relation to the Scheme.

For further information in relation to the Scheme, please contact the Company Secretary of CannPal, Mr Baden Bowen, on +61 402 339 443 between 9.00 am and 5.00 pm (WST), Monday to Friday.

If you have any doubt as to what action you should take, please contact your financial, legal, taxation or other professional adviser immediately.

4.2 Voting at the Scheme Meeting

As a CannPal Shareholder, it is your right to vote on whether the Scheme should be approved, and therefore, whether the Scheme should proceed.

You should note that the Scheme is subject to the Scheme Conditions. Even if CannPal Shareholders approve the Scheme, it is possible that the Scheme will not be implemented if the Scheme Conditions have not been satisfied or (if applicable) waived.

The Scheme Meeting will be held at 12:00 pm (AEDT) on 8 March 2021 at BDO, Level 11, 1 Margaret Street, Sydney NSW 2000.

CannPal Shareholders will also be able to participate in the Scheme Meeting, vote and ask questions, from smartphones, tablets or desktop devices through an online platform, details of which are set out below.

For the Scheme to be implemented, it is necessary that the Requisite Majorities of CannPal Shareholders vote in favour of the resolution to approve the Scheme at the Scheme Meeting.

CannPal Shareholders may vote at the Scheme Meeting either in person, or by proxy, attorney or, in the case of a corporation, by corporate representative.

Voting at the Scheme Meeting will be by poll rather than by show of hands.

Details on how to vote are set out briefly in the table below. Further details are set out in the Notice of Scheme Meeting (attached at Annexure D).

Means	Voting instructions
In Person	<p>If you wish to vote in person, you may attend the Scheme Meeting commencing at 12:00 pm (AEDT) on 8 March 2021 at BDO, Level 11, 1 Margaret Street, Sydney NSW 2000.</p> <p>CannPal Shareholders will also be able to participate in the Scheme Meeting, vote and ask questions, from smartphones, tablets or desktop devices through an online platform, details of which are set out below.</p> <p>All persons entitled to vote must register their attendance by disclosing their name at the point of entry to the Scheme Meeting.</p>
By Proxy	<p>To appoint a proxy to vote on your behalf in respect of the Scheme, you can complete the enclosed personalised Proxy Form in accordance with the instructions and return it to Computershare in the envelope enclosed. Alternatively, you can lodge your proxy online in accordance with the instructions on the Proxy Form.</p> <p>If your proxy is signed by an attorney, please also enclose the authority under which the proxy is signed (or a certified copy of the authority).</p> <p>A proxy may be an individual or a body corporate.</p> <p>Proxy Forms and powers of attorney must be received by the CannPal Registry by no later than 12:00 pm (AEDT) on 6 March 2021 (or if the Scheme Meeting is adjourned, at least 48 hours before the resumption of the Scheme Meeting). Proxy</p>

Means	Voting instructions
	<p>Forms and powers of attorney received after this time will not be valid. Accordingly, you should ensure that it is posted, delivered or lodged online in sufficient time for it to be received by Computershare by that time.</p> <p>If you are entitled to cast two or more votes, you may appoint two proxies. You may specify the proportion or the number of votes that each proxy is appointed to exercise. If numbers or proportions of votes are not specified, each proxy may exercise half of the votes you are entitled to cast. Fractions of votes will be disregarded.</p> <p>If you hold CannPal Shares jointly with one or more other persons, in order for your proxy appointment to be valid, each of you must sign the Proxy Form.</p> <p>Appointing a proxy will not preclude you from attending the Scheme Meeting in person and voting at the Scheme Meeting instead of your proxy. In this scenario the appointment of your proxy is not revoked but your proxy must not speak or vote at the meeting while you are so present.</p>
By Power of Attorney	<p>Your vote may be cast by a duly authorised attorney. An attorney need not be a CannPal Shareholder.</p> <p>If you intend to appoint an attorney to attend the Scheme Meeting and vote on your behalf, you may do so by providing a power of attorney duly executed by you in the presence of at least one witness, and specifying your name, the company (that is, CannPal), and the attorney, and also specify the meeting at which the appointment may be used. The appointment may be a standing one.</p> <p>The original or a certified copy of the power of attorney or other authority (if any) under which the instrument is signed must be received by Computershare by no later than 12:00 pm (AEDT) on 6 March 2021.</p> <p>The power of attorney must be delivered by posting it in the envelope provided (for use in Australia) in accordance with the instructions set out the proxy form.</p> <p>Alternatively, the attorney may bring a certified copy of the power of attorney to the Scheme Meeting.</p> <p>Your appointment of an attorney does not preclude you from attending in person and voting at the Scheme Meeting. The appointment of your attorney is not revoked merely by your attendance and taking part in the Scheme Meeting, but if you vote on a resolution, the attorney is not entitled to vote, and must not vote, as your attorney on that resolution.</p>
By Corporate Representative	<p>A CannPal Shareholder or proxy that is a body corporate may appoint an individual to act as its representative at the Scheme Meeting.</p> <p>To vote by corporate representative at the Scheme Meeting, a corporate CannPal Shareholder or proxy should obtain an "Appointment of Corporate Representative" form from Computershare and complete that form in accordance with its instructions. Corporate representative appointment forms should be provided to Computershare by no later than 12:00 pm (AEDT) on 6 March 2021, or alternatively brought to the Scheme Meeting.</p>
Online Meeting Facility	<p>You (or your proxy, corporate representative or attorney) may also watch and participate in the Scheme Meeting virtually via the online platform by using:</p> <p>(a) a web-browser at www.web.lumiagm.com/. on your smartphone, tablet or computer. You will need the latest versions of Chrome, Safari, Internet Explorer 11, Edge or Firefox. Please ensure your browser is compatible.; and</p> <p>(b) the Lumi AGM App by downloading the Lumi AGM App through Play Store (Android) or Apple Store (Apple users).</p> <p>The Meeting ID for the Scheme Meeting is 311-665-098</p> <p>Your Username is your SRN/HIN</p> <p>Your Password which is your postcode registered on your holding if you are an Australian shareholder. Overseas shareholders should refer to the user guide for their password details.</p> <p>Please refer to the user guide by logging into www.investorvote.com.au for further details.</p> <p>Participation at the Scheme Meeting online enables Scheme Shareholders to view the Scheme Meeting live, ask questions and cast votes at the appropriate times during the Scheme Meeting</p>

Means	Voting instructions
Further Information	For further information, please contact the Company Secretary of CannPal, Mr Baden Bowen, on +61 402 339 443 between 9.00 am and 5.00 pm (WST), Monday to Friday.

5. Frequently asked questions

This Section provides summary answers to some basic questions that CannPal Shareholders may have in relation to the Scheme. This Section should be read in conjunction with the whole Scheme Booklet.

<p>What is the Scheme?</p>	<p>A scheme of arrangement is a statutory procedure that is commonly used to enable one company to acquire or merge with another.</p> <p>The Scheme is a scheme of arrangement under the Corporations Act between CannPal and CannPal Shareholders, pursuant to which CannPal is asking CannPal Shareholders to consider and vote on a proposal that AusCann will acquire all the CannPal Shares held by CannPal Shareholders as at the Record Date (7:00 pm (AEDT) on 15 March 2021) in exchange for the Scheme Consideration.</p> <p>The Scheme Consideration comprises New AusCann Shares which will trade on the ASX. Ineligible Foreign Shareholders will receive Cash Proceeds instead of New AusCann Shares as set out in Sections 13.2 and 13.3.</p> <p>The ratio of 1.3 New AusCann Shares for each CannPal Share to be issued as Scheme Consideration has been contractually agreed between AusCann and CannPal under the Scheme Implementation Deed. See further the answers to the questions below, “<i>What will I receive if the Scheme is implemented?</i>”, and “<i>What if I am an Ineligible Foreign Shareholder?</i>”.</p> <p><i>Refer to Section 13 for further information.</i></p>
<p>What is the effect of the Scheme?</p>	<p>If the Scheme is approved and implemented:</p> <ul style="list-style-type: none"> • all CannPal Shares will be transferred to AusCann; • CannPal will become a wholly owned subsidiary of AusCann and will be delisted from the ASX; • all Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive the Scheme Consideration irrespective of whether they voted for or against the Scheme, abstained from voting or attended the Scheme Meeting at all; and • Ineligible Foreign Shareholders will receive Cash Proceeds instead of New AusCann Shares as their Scheme Consideration irrespective of whether they voted for or against the Scheme. <p><i>Refer to Sections 12.12, 12.13 and 13 for further information.</i></p>
<p>Who is AusCann?</p>	<p>AusCann Group Holdings Ltd (ASX:AC8) is an ASX listed pharmaceutical company focused on the development, production and distribution of cannabinoid-based medicines within Australia and internationally.</p> <p><i>Refer to Section 8 for further information.</i></p>
<p>Who is entitled to participate in the Scheme?</p>	<p>CannPal Shareholders on the CannPal Share Register as at 7.00 pm (AEDT) on the Record Date are entitled to participate in the Scheme. If the Scheme is approved and implemented, Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive New AusCann Shares as their Scheme Consideration.</p> <p>Ineligible Foreign Shareholders will not receive New AusCann Shares but will instead receive Cash Proceeds as their Scheme Consideration after their proportional share of brokerage and other costs are deducted from the Cash Proceeds.</p> <p>AusCann is excluded from voting on the Scheme by reason of the fact that it is the proponent of the Scheme. As at the date of the Scheme Booklet, neither AusCann nor any of its Associates (other than the AusCann Directors disclosed in Section 8.17) hold any CannPal Shares. The AusCann Directors who hold CannPal Shares will not vote on the Scheme Resolution.</p> <p><i>Refer to Sections 12.2 and 13 for further information.</i></p>
<p>What does the Independent Expert say about the Scheme?</p>	<p>The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of CannPal Shareholders, in the absence of a Superior Proposal.</p>

	<i>The Independent Expert's Report set out in Annexure A to this Scheme Booklet and you are encouraged to read it in full.</i>
What do the CannPal Directors recommend?	<p>The CannPal Directors unanimously recommend that, in the absence of a Superior Proposal, CannPal Shareholders vote in favour of the Scheme. Each CannPal Director who holds or controls CannPal Shares intends to vote in favour of the Scheme, in the absence of a Superior Proposal.</p> <p><i>Refer to Sections 2.2 and 6.1 for further information on the reasons for the CannPal Directors' recommendation.</i></p>
What happens to CannPal Options?	<p>Pursuant to the Option Cancellation Deeds, all existing CannPal Options will be cancelled in exchange for the grant of new AusCann Options at a ratio of 1.3 new AusCann Options for every CannPal Option held.</p> <p><i>Refer to Section 12.14 for further information.</i></p>
What happens to CannPal Performance Rights?	<p>CannPal has a total of 1,875,000 CannPal Performance Rights on issue, all held by Managing Director Mr Layton Mills.</p> <p>In accordance with their terms, the existing CannPal Performance Rights will vest and convert into CannPal Shares on a one for one basis on the Scheme being approved by the Court at the Second Court Hearing. The CannPal Shares issued on conversion will be eligible to participate in the Scheme.</p> <p><i>Refer to Section 12.15 for further information.</i></p>
What are the Scheme Conditions?	<p>The Scheme Conditions are described in Section 12.5.</p> <p>The Scheme will only be implemented if, amongst other things:</p> <ul style="list-style-type: none"> • the Requisite Majorities of CannPal Shareholders approve the Scheme; • the Court approves the Scheme; and • the remainder of the Scheme Conditions are satisfied or waived. <p>At the date of this Scheme Booklet the CannPal Directors are not aware of any Scheme Condition that is likely to prevent the Scheme becoming Effective and the Proposed Transaction progressing.</p> <p><i>Refer to Sections 12.5 and 12.6 for further information.</i></p>
What happens if one or more of the Scheme Conditions are not satisfied or waived?	<p>The Scheme will not be implemented, and CannPal and AusCann will continue as separate entities, with each company bearing its own costs incurred as a result of the Proposed Transaction.</p> <p>AusCann or CannPal may be liable to pay a break fee of \$150,000 (inclusive of GST) to the other party in certain circumstances. Further information in relation to the break fee is set out in Sections 14.3 and 14.4.</p>
What happens if the Scheme does not proceed?	<p>If the Scheme does not proceed:</p> <ul style="list-style-type: none"> • you will not receive the Scheme Consideration; • CannPal will remain listed on the ASX; • you will keep your CannPal Securities and continue to participate in the potential benefits of, and continue to be exposed to the risks associated with, an investment in CannPal; • the trading price of CannPal Shares may fall in the absence of a Superior Proposal; and • depending on the reasons why the Scheme does not proceed, either AusCann or CannPal may be liable to pay a break fee of \$150,000 (inclusive of GST) to the other party.
Under what scenarios can CannPal or AusCann terminate the transaction?	<p>The Scheme Implementation Deed provides for situations where either CannPal or AusCann have the right to terminate it and the Proposed Transaction.</p> <p>These include the Scheme not being approved by the Requisite Majorities of CannPal Shareholders, the Court refusing to approve the Scheme and if the remainder of the Scheme Conditions are not satisfied or waived by the relevant time.</p> <p><i>Refer to Section 14.5 for further information.</i></p>

What will I receive if the Scheme is implemented?	<p>Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive 1.3 New AusCann Shares per Scheme Share held under the Scheme.</p> <p>If the Scheme becomes Effective, New AusCann Shares will be issued on the Implementation Date, which is expected to be 18 March 2021.</p>
What if I am an Ineligible Foreign Shareholder?	<p>New AusCann Shares will not be issued to Ineligible Foreign Shareholders under the Scheme. New AusCann Shares that would otherwise have been issued to Ineligible Foreign Shareholders will instead be issued to the Sale Agent who will then sell these shares on ASX, and CannPal will pay the Ineligible Foreign Shareholders their proportion of the Cash Proceeds received from that sale (net of costs including brokerage).</p> <p><i>Refer to Section 13.2 for further information.</i></p>
Will I have to pay brokerage fees or stamp duty?	<p>Scheme Shareholders will not be required to pay brokerage or stamp duty on the transfer of their CannPal Shares.</p> <p>Brokerage fees will however be incurred by Ineligible Foreign Shareholders whose attributable New AusCann Shares will be issued to and sold by the Sale Agent, and the Cash Proceeds of the sale remitted to them (net of costs including brokerage).</p> <p><i>Refer to Section 13.3 for further information.</i></p>
Can I sell my CannPal Shares now?	<p>CannPal Shareholders may sell their CannPal Shares at the prevailing market price, on market at any time before the close of trading on ASX on the Effective Date, which is expected to be 7:00 pm (AEDT) on 11 March 2021.</p> <p>If CannPal Shareholders sell their CannPal Shares before the Effective Date of the Scheme (the last day of trading in CannPal Shares before suspension) they will not receive New AusCann Shares.</p> <p><i>Refer to the Scheme of Arrangement set out in Annexure B of this Scheme Booklet for further information.</i></p>
When can I start trading my New AusCann Shares on ASX?	<p>Trading on ASX of New AusCann Shares is expected to commence on a normal settlement basis on market open on 22 March 2021.</p>
When and where will the Scheme Meeting be held?	<p>The Scheme Meeting will be held at 12:00 pm (AEDT) on 8 March 2021, at BDO, Level 11, 1 Margaret Street, Sydney NSW 2000.</p> <p>CannPal Shareholders will also be able to participate in the Scheme Meeting, vote and ask questions, from smartphones, tablets or desktop devices through an online platform, details of which are set out in Section 4.2.</p> <p><i>Refer to the Notice of Scheme Meeting set out in Annexure D of this Scheme Booklet for further information.</i></p>
Who is entitled to vote at the Scheme Meeting?	<p>CannPal Shareholders who are recorded as members on the CannPal Share Register as at 12:00 pm (AEDT) on 6 March 2021, are entitled to vote at the Scheme Meeting.</p> <p><i>Refer to Section 4 for further information.</i></p>
Is voting compulsory?	<p>Voting is not compulsory. However, your vote is important in deciding whether the Scheme is approved. CannPal Shareholders are strongly encouraged to vote.</p> <p>CannPal Shareholders who cannot attend the Scheme Meeting may complete and return the personalised proxy form (enclosed with this Scheme Booklet) or alternatively appoint a representative with a power of attorney.</p> <p>CannPal Shareholders will also be able to participate in the Scheme Meeting, vote and ask questions, from smartphones, tablets or desktop devices through an online platform, details of which are set out in Section 4.2.</p> <p><i>Refer to Section 4 for further information.</i></p>

<p>What voting majorities are required to approve the Scheme?</p>	<p>For the Scheme to be approved by CannPal Shareholders, votes in favour of the Scheme must be received from:</p> <ul style="list-style-type: none"> • a majority in number (more than 50%) of CannPal Shareholders present and voting at the Scheme Meeting (in person, by proxy, by attorney or, in the case of corporate CannPal Shareholders, by corporate representative); and • CannPal Shareholders who together hold at least 75% of the total number of votes cast on the Scheme Resolution. <p><i>Refer to Section 4 for further information.</i></p>
<p>How do CannPal's substantial shareholders intend to vote?</p>	<p>Merchant Funds Management Pty Ltd (ACN 154 493 277) as manager of the Merchant Opportunity Fund and Merchant Group Pty Ltd (Merchant), a substantial holder of CannPal (holding 19.88% of CannPal Shares), supports the Scheme and has provided an intention statement to CannPal to vote all Shares it controls in favour of the Scheme in the absence of a Superior Proposal.</p> <p>Additionally, Merchant has agreed to the voluntarily escrow of all New AusCann Shares it receives on implementation of the Scheme for a period of 12 months, subject to customary carve outs for a control transaction.</p>
<p>Will the Scheme be a taxable transaction for Australian tax purposes?</p>	<p>Section 11 provides a description of the general Australian tax consequences of the Scheme for certain Scheme Shareholders.</p> <p>You should consult with your own tax adviser regarding the consequences of disposing of CannPal Shares under the Scheme, in light of current tax laws and your particular personal circumstances.</p> <p><i>Refer to Section 11 for further information.</i></p>
<p>What will be the strategy of the Combined Group?</p>	<p>CannPal and AusCann are both focused on the development of high-quality, evidence-based therapeutic health products derived from cannabinoids, that address unmet needs for pets and humans respectively. Pets are being treated more like humans and it's evident that pet owners are placing growing importance on the wellbeing of themselves and of their pets who are considered to be cherished members of the family. The Combined Group will seek to be a leader in the development of human and animal health products via registered and unregistered pathways, to better address the health needs of humans, pets and their owners.</p> <p>The Combined Group's strategy to achieve this objective is to develop novel health products and brands targeted towards specific unmet needs, supported by high quality manufacturing and robust safety/efficacy studies to ensure clinician and consumer uptake. These products, wherever possible, will be protected by intellectual property and have market or data exclusivity.</p> <p><i>Refer to Section 8.9 for further information.</i></p>
<p>What are the benefits of AusCann acquiring CannPal to form the Combined Group?</p>	<p>The Combined Group will have the financial resources, significant know-how and market knowledge to accelerate the development and commercialisation of multiple high-quality, evidence-based, therapeutic health products derived from cannabinoids, to address clear unmet needs for humans and pets.</p> <p>CannPal's portfolio of products will benefit from being part of a well-resourced company with the capital required to effectively commercialise them, giving the new company a pathway to greater revenue quickly as well as a broader available market for some formulations in both animal and human applications.</p> <p>AusCann may also be able to leverage technical data that CannPal has generated to accelerate the commercialisation of CannPal's products as human therapeutics.</p> <p>The Proposed Transaction is also expected to provide operational efficiencies by way of shared staff and administration, a strengthened leadership team, and reduced costs across legal, accounting, investor relations, and compliance.</p> <p><i>Refer to Section 2 for the reasons why CannPal Directors recommend that you vote in favour of the Scheme and Section 8.9 for a profile of the Combined Group.</i></p>

What will the Combined Group be called?	The Combined Group will operate under the name of AusCann Group Holdings Ltd and CannPal will be a wholly owned subsidiary of AusCann. <i>Refer to Section 8.9 for further information.</i>
What will the dividend policy of the Combined Group be?	Neither CannPal nor AusCann currently pay a dividend to shareholders. AusCann has no present intention to pay dividends. <i>Refer to Section 8.9 for further information.</i>
What other information is available?	For further information, contact the Company Secretary of CannPal, Mr Baden Bowen, on +61 402 339 443 between 9.00 am and 5.00 pm (WST), Monday to Friday. If you are in doubt as to what you should do, you should consult your legal, financial or other professional adviser.

6. Key Considerations Relevant to Your Vote

6.1 Key reasons to vote in favour of the Scheme

This Section summarises the key reasons why the CannPal Directors recommend that CannPal Shareholders vote in favour of the Scheme.

This Section should be read in conjunction with Sections 6.2, 6.3 and 10, which describe the disadvantages and risks associated with the Scheme; implications if the Scheme does not proceed; and risk factors associated with an investment in New AusCann Shares.

(a) **The CannPal Directors unanimously recommend that CannPal Shareholders vote in favour of the Scheme in the absence of a Superior Proposal**

Before agreeing to implement the Scheme in accordance with the Scheme Implementation Deed between AusCann and CannPal, the CannPal Directors considered:

- (i) the advantages and disadvantages of the Scheme, as summarised in this Section;
- (ii) the implications of the Scheme not being approved, as summarised in Section 6.3;
- (iii) the opinion of the Independent Expert that the Scheme is fair and reasonable and in the best interests of CannPal Shareholders, in the absence of a Superior Proposal; and
- (iv) the potential for alternative Superior Proposals to arise after the announcement of the Proposed Transaction between CannPal and AusCann. No Superior Proposal has emerged as at the Date of this Scheme Booklet.

The decision of the CannPal Directors to recommend the Proposed Transaction follows an assessment of strategic options for the Company over the past five months in regard to various corporate, asset and financial options available to CannPal to enhance value for CannPal Shareholders. The CannPal Directors consider that the Scheme will deliver greater benefits to CannPal Shareholders than any other alternative currently available, including CannPal continuing as a standalone entity.

The CannPal Directors consider that the reasons to vote in favour of the Scheme outweigh the potential disadvantages and reasons to vote against the Scheme. Therefore, the CannPal Directors unanimously recommend that, in the absence of a Superior Proposal, CannPal Shareholders vote in favour of the Scheme. Subject to the same qualification, the CannPal Director intend to vote to approve the Scheme in respect of any CannPal Shares they own or control.

(b) **Merchant Funds Management Pty Ltd, a substantial holder of CannPal supports the Scheme**

Merchant Funds Management Pty Ltd (ACN 154 493 277) as manager of the Merchant Opportunity Fund and Merchant Group Pty Ltd (**Merchant**), a substantial holder of CannPal (holding 19.88% of CannPal Shares) supports the Scheme and has provided an intention statement to vote all Shares it controls in favour of the Scheme in the absence of a Superior Proposal.

Additionally, Merchant has agreed to the voluntarily escrow of all New AusCann Shares it receives on implementation of the Scheme for a period of 12 months, subject to customary carve outs for a control transaction.

(c) **The implied value of the Scheme Consideration represents an attractive premium over the trading prices of CannPal Shares prior to the Announcement Date**

The Scheme Consideration represents an attractive premium for CannPal Shareholders above trading levels before the Announcement Date. In receiving 1.3 New AusCann Shares per Scheme Share held, Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive an implied value of \$0.184 per CannPal Share⁶. The implied value of Scheme Consideration as at that date represents approximately a:

- (i) 47.2% premium to the Closing Price of CannPal Shares on the day prior to the Announcement Date (\$0.125 per CannPal Share);
- (ii) 54.0% premium to the one-week VWAP of CannPal Shares up to and including the date prior to the Announcement Date; and
- (iii) 54.6% premium to the one-month VWAP of CannPal Shares up to and including the date prior to the Announcement Date.

CannPal Shareholders should note that the implied value of the Scheme Consideration will change from time to time based on movements in AusCann's Share price. The table below sets out the implied value of CannPal's Shares based on potential movements in AusCann's Share price.

AusCann Share Price	Implied Value of Scheme Consideration (per CannPal Share)
\$0.2830	\$0.3679
\$0.2123	\$0.2760
\$0.1415 ⁷	\$0.1840
\$0.0943	\$0.1226

(d) **All-scrip consideration available under the Scheme allows existing CannPal Shareholders to participate in and benefit from the combination of the companies**

If the Scheme is implemented, Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive 1.3 New AusCann Shares per Scheme Share held, equal to approximately 28.03% of the Combined Group. Retaining an equity stake in the Combined Group will enable CannPal Shareholders to retain an interest in a well-capitalised, publicly traded company with a strong growth profile and significant strategic advantages.

The CannPal Directors consider that the combination of the two companies will result in a range of benefits to CannPal Shareholders including those set out below.

- (i) **Complementary Health Company with an expanded product portfolio:** CannPal and AusCann are both focused on the development of high-quality, evidence-based therapeutic health products derived from cannabinoids, that address unmet needs for animals and humans respectively. Further information in relation to the expanded product portfolio is set out at Section 6.1(g) below;

⁶ Based on 1-week volume-weighted average prices for AusCann and CannPal Shares up to and including 12 November 2020, being \$0.1415 and \$0.1195 respectively. The offer value reflects 1,875,000 CannPal Performance Rights which will vest and convert to CannPal Shares on change of control.

⁷ Being the 1-week volume-weighted average price for AusCann Shares up to and including 12 November 2020.

- (ii) **Experienced board and management team:** A strengthened leadership team with significant know-how, market knowledge and the complementary skills required to accelerate the development and commercialisation of human and animal health products;
 - (iii) **Reduction in operating costs:** The Combined Group is expected to benefit from corporate and operating synergies with cost reductions across legal, accounting, investor relations, and compliance;
 - (iv) **Well capitalised company:** The Combined Group will be a larger and more capitalised ASX listed company, with enhanced liquidity, better placed to attract strategic and institutional investors (refer to Section 9 for information regarding the Combined Group's pro forma merged cash position); and
 - (v) **Exposure to adjacent market upside:** An exposure to the potential upside associated with the development and commercialisation of products through regulated human markets which may be developed through leveraging CannPal formulations and data.
- (e) **The Independent Expert has concluded that the Scheme is fair and reasonable and in the best interests of CannPal Shareholders, in the absence of a Superior Proposal**

KPMG Financial Advisory Services (Australia) Pty Ltd, as Independent Expert, has considered the terms of the Scheme and has concluded that the Scheme is fair and reasonable and in the best interests of CannPal Shareholders, in the absence of a Superior Proposal.

The Scheme is considered fair because the Independent Expert's assessed value of a CannPal Share (being a low of \$0.143 and a high of \$0.176) and the merger ratio (1.3:1) imply a value of an AusCann Share to be received by CannPal Shareholders as part of the Scheme Consideration (being a low of \$0.110 and a high of \$0.136 per AusCann Share) which is supported by the traded price of an AusCann Share. The Independent Expert notes (at page 7 of the Independent Expert's Report) that the recent trading performance of AusCann Shares is at the upper end or above the value range of an AusCann Share implied by the Independent Expert's assessment of the control value of CannPal and the merger ratio.

The Scheme is considered reasonable by the Independent Expert because, in accordance with the relevant ASIC guidance, an offer is reasonable if it is fair. In addition, the Independent Expert also considered a range of other factors CannPal Shareholders may wish to take into account in considering whether to approve the Scheme:

- (i) the Scheme Consideration represents a strong premium to the trading price of CannPal Shares prior to the announcement of the Scheme;
- (ii) by receiving AusCann Shares as the Scheme Consideration, CannPal Shareholders will participate in the potential longer term benefits from any future development of the business;
- (iii) the Combined Group has an opportunity to achieve significant product and cost synergies over and above those likely to be available to other potential acquirers;
- (iv) implementation of the Scheme will result in CannPal Shareholders holding shares in a larger business, which should result in increased liquidity; and
- (v) no alternative proposal has been presented to the market and the likelihood of an alternative proposal emerging at this time is considered low.

The Independent Expert's Report is set out in Annexure A to this Scheme Booklet. The CannPal Directors recommend that CannPal Shareholders read the Independent Expert's Report in full.

(f) **The Combined Group will have an increased market presence, greater liquidity and enhanced financial strength enabling it to better develop the existing business of CannPal and AusCann**

If the Proposed Transaction proceeds, you will benefit by receiving shares in the Combined Group that are expected to be substantially more liquid than CannPal Shares on a stand-alone basis.

Based on the closing price of CannPal Shares and AusCann Shares on the last trading day prior to the Announcement Date, the Combined Group will have a pro forma market capitalisation of approximately \$56,027,255.

The exact market capitalisation of the Combined Group following implementation of the Scheme may be higher or lower than this number, dependent on the price at which AusCann Shares trade on ASX after the Implementation Date.

The Combined Group's strengthened balance sheet, increased asset suite and increased market capitalisation is expected to raise the profile of the Combined Group in capital markets and widen the range of potential investors for the Combined Group. This in turn is expected to result in increased coverage of the Combined Group's operations by analysts and enhance the liquidity of shares in the Combined Group and may be expected to lead to a positive re-rating of the Combined Group.

(g) **The Combined Group will have an expanded and complementary product portfolio and pipeline across both human and animal health, comprising two products in market, two products expected to be launched within the next 12 months and a medium-term product pipeline**

CannPal and AusCann are both focused on the development of high-quality, evidence-based therapeutic health products derived from cannabinoids, that address unmet needs for animals and humans respectively. The combined entity is expected to have an expanded and complementary product portfolio and pipeline across both human and animal health to improve the quality of life of people and their pets. This comprises two products in market, two products expected to be launched within the next 12 months, and a medium-term product pipeline, including;

- (i) **Neuvis®:** Neuvis® is AusCann's controlled-dose technology platform for delivering cannabinoids to human patients, with the first product in the range being a THC:CBD hard-shell capsule in a 1:1 ratio, in both a 2.5mg and 10mg strength. Neuvis is commercially available for prescription in Australia to patients through the TGA special access scheme and authorised prescriber scheme. The unique properties of the capsules include dose reliability, delivery format familiarity (hard-shell capsules), and consistent performance through the shelf life of the product. AusCann has recently completed a randomised, open-label, cross-over Phase I study evaluating the pharmacokinetics and safety, which recruited 28 fed healthy volunteers, and plans to conduct an investigator-led Phase IIA of its hard-shell capsules for the treatment of chronic neuropathic pain, an inadequately met medical need;
- (ii) **CPAT-01:** CPAT-01 is a liquid, oral veterinary medicine containing standardized THC and CBD whole plant extracts in a proprietary ratio to target pain and inflammation in dogs. Presently CannPal is researching the benefits of CPAT-01 in dogs with osteoarthritis, with the aim of developing an FDA-CVM (Food and Drug Administration, Centre for Veterinary Medicine) regulatory approved veterinary medicine for commercialisation in the US. CPAT-01 is in Phase II, with CannPal having completed Phase I research in over 100 dogs, including a randomised,

double-blind, placebo controlled clinical trial in 46 client owned dogs with osteoarthritis. This was complemented by the establishment of CannPal's first Investigational New Animal Drug file (INAD) with the Food and Drug Administration, Centre for Veterinary Medicine (FDA-CVM) for this key drug candidate;

- (iii) **DermaCann®:** is CannPal's lead CBD-derived nutraceutical in development for healthy skin and immune function in dogs. The product is a liquid oral oil formulation containing CBD in a patented formulation with a proprietary blend of other phytonutrients designed to target inflammation and immune modulation pathways. CannPal has recently completed a clinical study for DermaCann in a cohort of dogs with Atopic Dermatitis. The results of this study will be used to support the registration of DermaCann as a veterinary medicine in a number of key markets, with the commercialisation expected to commence in the US and South Africa in 2021;
- (iv) **MicroMAX®:** In June 2018, CannPal entered into an agreement with the Commonwealth Scientific and Industrial Research Organisation (**CSIRO**) under the CSIRO's Kick-Start initiative, to research the use of patented microencapsulation technologies for enhancing the delivery of cannabis-based animal health products. During the financial year ended 30 June 2020, CannPal was granted the global exclusive rights to commercialise patented MicroMAX® encapsulation technology by CSIRO for use in the field of Animal Therapeutics. Since finalising the licencing agreement CannPal has commenced a pilot launch for CannPal's first non-veterinary nutraceutical product for dogs in the US to validate the technology in a dietary supplement format for Hip & Joint health in dogs.

- (h) **The Combined Group is expected to benefit from corporate and operating synergies with cost reductions across legal and accounting services, investor relations and compliance**

The Combined Group is expected to benefit from corporate and operating synergies with cost reductions across legal, accounting, investor relations, and compliance.

- (i) **The trading price of CannPal Shares may fall in the near future should the Scheme not be implemented and in the absence of a Superior Proposal**

If the Scheme is not implemented, CannPal Shares will remain quoted on the ASX and will continue to be subject to the risk factors in Section 10.3, including market volatility as a result of general stock market movements and the impact of general economic conditions in the markets in which CannPal operates. As such, if the Scheme is not implemented, it is possible that the price at which CannPal Shares trade will fall.

- (j) **No Superior Proposal has emerged as at the Date of this Scheme Booklet**

In deciding to recommend the Proposed Transaction, the CannPal Directors were cognisant of other potential alternatives to the Proposed Transaction which remain open for CannPal to consider if the Proposed Transaction does not proceed. However, in exploring alternatives, no Superior Proposals have emerged. It therefore remains the view of the CannPal Directors that it is unlikely that a Superior Proposal will transpire. However, any offer capable of acceptance will be considered and put to CannPal Shareholders should it emerge, subject to the terms of the Scheme Implementation Deed.

- (k) **Scheme Shareholders may be eligible for CGT rollover relief**

If the Scheme is implemented, Scheme Shareholders may benefit from Australian CGT rollover relief, provided they qualify. Notwithstanding, you are urged to seek professional taxation advice in relation to your own personal circumstances.

For further detail regarding the general Australian tax consequences of the Scheme, please refer to Section 11 of this Scheme Booklet. Taxation laws in Australia are complex and you are encouraged to read Section 11 carefully and seek independent professional advice about your individual circumstances.

6.2 Reasons why you may choose to vote against the Scheme

This Section summarises the potential disadvantages and risks to CannPal Shareholders if the Scheme becomes Effective and the Proposed Transaction occurs.

The CannPal Directors consider that these disadvantages and risks are out-weighed by the advantages of the Scheme (as set out in Section 6.1), and that the Scheme is in the best interest of CannPal Shareholders.

Further details of the following potential disadvantages and risks, and other potential risks, are set out in Section 10.

(a) **You may disagree with the recommendation by the Independent Expert and the CannPal Directors⁸**

Notwithstanding the unanimous recommendation by the CannPal Directors, and the conclusion reached by the Independent Expert that the Scheme is fair and reasonable and in the best interests of CannPal Shareholders, in the absence of a Superior Proposal, you may believe that the Scheme is not in your best interest or believe that the Scheme Consideration is inadequate.

(b) **Your percentage interest in the Combined Group will be less than your current interest in CannPal**

Although the Proposed Transaction is expected to provide additional value through the combination of the two businesses, given the proportional shareholding of CannPal Shareholders in the Combined Group (approximately 28.03%)⁹, the larger portion of this value will flow to current AusCann Shareholders. However, while a larger share of the benefits will flow to AusCann's existing shareholders, in the absence of the Proposed Transaction, no value from synergies will arise for CannPal Shareholders.

(c) **The risk profile of the Combined Group will be different to CannPal's which you may consider to be disadvantageous to you relative to the risk profile of the current CannPal business**

The risk profile and risk of investment for CannPal Shareholders will change and you may consider the risk profile and risk of investment of the Combined Group, which includes risks relating to both the AusCann business and the CannPal business, to be a disadvantage relative to that of CannPal as a standalone entity.

The operations and financial performance of CannPal, AusCann and/or the Combined Group and the change of a Scheme Shareholder's ownership of CannPal Shares and New AusCann Shares are subject to various risks that are summarised in Section 10 of this Scheme Booklet and that may be beyond the control of CannPal, AusCann and/or the Combined Group.

⁸ In respect of the recommendations of Mr Mills, CannPal Shareholders should have regard to the fact that, if the Scheme is implemented, Mr Mills will receive personal benefits as further detailed in the Section titled "Important Information Regarding Directors' Recommendation" on page iii of this Scheme Booklet.

⁹ The 28.03% figure assumes the Combined Group has a total of 440,547,357 AusCann Shares on issue following implementation of the Scheme, that there are no Ineligible Foreign Shareholders and that AusCann does not acquire any CannPal Shares outside of the Scheme.

(d) **You may consider that there is the potential for a Superior Proposal to emerge for CannPal in the foreseeable future**

You may believe that there is a possibility that a Superior Proposal could emerge in the foreseeable future. The implementation of the Proposed Transaction would mean that CannPal Shareholders would not be able to obtain the benefit of any such Superior Proposal. However, since the Announcement Date and up to the date of this Scheme Booklet, no Superior Proposal has been received, nor are the CannPal Directors aware of any such intention of a party to make such a proposal.

It is important to note that shareholders in the Combined Group will still have an opportunity to realise a control premium in the event of any future change of control transaction for the Combined Group.

(e) **The exact value of the Scheme Consideration upon implementation of the Scheme is not certain**

The exact value of the Scheme Consideration that would be realised by individual CannPal Shareholders upon implementation of the Scheme is not certain, as it will depend on the price at which the New AusCann Shares trade on ASX.

The Scheme Consideration is fixed at a ratio of 1.3 New AusCann Shares for every CannPal Share held. This exposes CannPal Shareholders to the risk that the effective value they receive for their CannPal Shares may move adversely from the market value of the Scheme Consideration on the date of the Scheme Meeting. Alternatively, if there is an increase in the relative price of AusCann Shares then the effective value they receive for their CannPal Shares may move favourably from the market value of the Scheme Consideration on the date of the Scheme Meeting.

In addition, the Sale Agent will be issued the New AusCann Shares that would otherwise be issued to Ineligible Foreign Shareholders and will sell them on market as soon as reasonably practicable after the Implementation Date (refer to Sections 13.2 to 13.3). Although the quantum of these sales is expected to be limited, it is possible that such sales may exert downward pressure on the Combined Group's share price during the applicable period.

(f) **The tax consequences of the Scheme may not suit your current financial position**

If the Scheme is implemented, you may incur a tax liability on the transfer of your CannPal Shares. Please refer to Section 11 for further information on the tax implications.

All CannPal Shareholders are strongly advised to seek independent professional tax advice about their particular circumstances including, for foreign tax resident CannPal Shareholders, the foreign tax consequences.

6.3 Implications if the Scheme is not implemented

This Section outlines potential implications for CannPal and CannPal Shareholders if the Scheme is not implemented.

(a) **You will not receive the Scheme Consideration**

Each CannPal Shareholder will retain their CannPal Shares and will not receive any New AusCann Shares.

(b) **Future capital requirements to fund development of CannPal's projects**

If the Scheme is not implemented, then in order for CannPal to develop or enhance its project portfolio, it would need to raise additional funds, which may include an

equity issue. There can be no assurance that such funding will be available on satisfactory terms, or at all.

(c) **CannPal will remain listed on ASX and continue to operate as a stand alone entity**

If the Scheme is not implemented, CannPal will remain listed on ASX and will continue to run its business in the same manner in which it is currently operating. CannPal Shareholders will therefore continue to be exposed to the risks and benefits of owning CannPal Shares, including many of the risks set out in Section 10.

(d) **Transaction costs will be incurred**

If the Scheme is not implemented, CannPal's transaction costs of approximately \$360,000 will be borne by CannPal.

(e) **Uncertainty regarding the Proposed Transaction may lead to the loss of key personnel**

The Proposed Transaction may introduce additional uncertainties that may lead to the loss of key staff. This will affect CannPal's operations, even if the Scheme does not proceed.

The CannPal Directors are not aware of any key employee who may wish to terminate their contractual arrangements with CannPal at this time.

6.4 Other considerations

(a) **The Scheme may be implemented even if you vote against the Scheme or do not vote at all**

You should be aware that even if you do not vote, or vote against the Scheme, the Scheme may still be implemented if it is approved by the Requisite Majorities of CannPal Shareholders and the Court. If this occurs, your CannPal Shares will be transferred to AusCann and you will receive the Scheme Consideration (unless you are an Ineligible Foreign Shareholder, in which case you will receive the Cash Proceeds from that sale of your New AusCann Shares that you would otherwise be entitled to receive) even though you did not vote on, or voted against, the Scheme.

(b) **Warranties by CannPal Shareholders under the Scheme**

The effect of the Scheme is that all Scheme Shareholders, including those who vote against the Scheme and those who do not vote, will be deemed to have warranted to CannPal, both in their own right and for the benefit of AusCann, that, as at the Implementation Date, their Scheme Shares are fully paid and not subject to any of the encumbrances specified in the Scheme. The terms of the warranty are set out in clause 10.4 of the Scheme. The Scheme is set out in Annexure C.

You should ensure that these warranties can be given by you prior to, and remain correct as at, the Implementation Date.

7. Profile of CannPal

This Section of the Scheme Booklet contains information in relation to CannPal as at the date of the Scheme Booklet. Additional information is included in the Independent Expert's Report set out in Annexure A to this Scheme Booklet.

7.1 Introduction

CannPal Animal Therapeutics Limited (ASX:CP1) is an ASX listed animal health company with a core focus on developing innovative and naturally derived plant-based therapeutic products for pets targeting the endocannabinoid system.

Presently, CannPal is focused on the development of pharmaceutical and nutraceutical products for dogs, for commercialisation in various markets around the world, using compounds derived from the hemp and cannabis plant.

Further information can be found at www.cannpal.com and in the Independent Expert's Report.

7.2 Overview of CannPal's operations

Since the admission of CannPal to the Official List of the ASX on 23 October 2017, CannPal has focused the majority of its resources on three core research programs, including the development and commercialisation of the Company's lead nutraceutical product, DermaCann®, the development of CPAT-01, the Company's lead pain and inflammation drug for the large and growing veterinary pain market and its research into novel drug/food delivery technology. Further details in respect of these research programs are set out below.

(a) CPAT-01

CPAT-01 is a liquid, oral veterinary medicine containing standardised THC and CBD whole plant extracts in a proprietary ratio to target pain and inflammation in dogs. Presently CannPal is researching the benefits of CPAT-01 in dogs with osteoarthritis, with the aim of developing an FDA-CVM (Food and Drug Administration, Centre for Veterinary Medicine) regulatory approved veterinary medicine for commercialisation in the United States.

CPAT-01 is in Phase 2, with CannPal having completed Phase 1 research in over 100 dogs, including a randomised, double-blind, placebo controlled clinical trial in 46 client owned dogs with osteoarthritis. This was complemented by the establishment of CannPal's first Investigational New Animal Drug file (INAD) with the Food and Drug Administration, Centre for Veterinary Medicine (FDA-CVM) for this key drug candidate.

(b) DermaCann®

DermaCann® is CannPal's lead CBD-derived nutraceutical in development for healthy skin and immune function in dogs. The product is a liquid oral oil formulation containing CBD in a formulation for which there is a patent application filed with a proprietary blend of other phytonutrients designed to target inflammation and immune modulation pathways.

CannPal has recently completed a clinical study for DermaCann® in a cohort of dogs with Atopic Dermatitis. The results of this study will be used to support the registration of DermaCann® as a veterinary medicine in a number of key markets, with commercialisation expected to commence in the US and South Africa in 2021.

(c) MicroMAX® Technology / Global Licence

In June 2018, CannPal entered into an agreement with the Commonwealth Scientific and Industrial Research Organisation (**CSIRO**) under the CSIRO's Kick-Start

initiative, to research the use of patented microencapsulation technologies for enhancing the delivery of cannabis-based animal health products.

During the financial year ended 30 June 2020, CannPal was granted the global exclusive rights to commercialise patented MicroMAX® encapsulation technology by CSIRO for use in the field of Animal Therapeutics. Since finalising the licencing agreement CannPal has commenced a pilot launch for CannPal's first non-veterinary nutraceutical product for dogs in the US to validate the technology, which we believe could be a long-term opportunity for CannPal to generate additional revenues to complement the Company's prescription veterinary medicines.

Intellectual Property

A summary of the intellectual property including granted patents and patent applications which are owned by CannPal or exclusively licenced from CSIRO is provided in the table below.

	CPAT-01	DermaCann®	MicroMAX®
Patent Family	PCT/AU2019/050615	PCT/AU2020/050666	AU 2001243950
Title	Composition and method of administration in companion animals	CBD composition	Encapsulation of Food Ingredients
Ownership (Licensee)	CannPal	CannPal	CSIRO (CannPal)
Priority Date	15 June 2018 (AU2018902143) 3 May 2019 (AU2019901525)	26 June 2019 (AU2019902236)	18 July 2000 (PQ 8823) 04 April 2000 (PQ 6663)
Filing Date	14 June 2019	26 June 2020	3 April 2001
Expiry Date (Expected Expiry Date)	(14 June 2039)	(26 June 2040)	3 April 2021
Status	Application filed	Application filed	Granted

In addition, CannPal holds or has applied for trade marks in various countries as noted in the table below.

Trade Mark	Jurisdiction	Reg/App No.	Class(es)	Status	Filing Date	Renewal Date
	Australia	1819496 <i>(basis for International Registration 1361974)</i>	5,31	Registered	20/01/2017	20/01/2027
	International Registration <i>Protected in China, Germany, Spain, France, Great Britain, Italy Japan and New Zealand. Pending in the United States (published on 20/10/2020)</i>	1361974	5, 31	Registered	30/05/2017	30/05/2027
GastroCann	Australia	1847814	5, 31	Registered	26/05/2017	26/05/2027
OsteoCann	Australia	1847815	5, 31	Registered	26/05/2017	26/05/2027

Trade Mark	Jurisdiction	Reg/App No.	Class(es)	Status	Filing Date	Renewal Date
DermaCann	Australia	1847816 <i>(basis for International Registration 1551268)</i>	5, 31	Registered	26/05/2017	26/05/2027
	International Registration <i>Protected in Great Britain Pending in Germany, France, Italy, Japan and New Zealand.</i>	1551268	5, 31	Registered	21/08/2020	21/08/2030
DERMACANN	South Africa	2020/08613	5	Pending	04/05/2020	-
PerioCann	Australia	1847817	5, 31	Registered	26/05/2017	26/05/2027
CANNPAL	Australia	1957798 <i>(basis for International Registration 1435811)</i>	5, 31	Registered	26/09/2018	26/09/2028
	International Registration <i>Protected in China and Japan</i>	1435811	5, 31	Registered	03/10/2018	03/10/2028
	South Africa	2020/08612	5	Pending	04/05/2020	-
Endomax	Australia	1966767	5, 31	Registered	02/11/2018	02/11/2028
	Australia	2021282 <i>(basis for International Registration 1551019)</i>	5, 31	Registered	05/08/2019	05/08/2029
	International Registration <i>Protected in Great Britain. Pending in Germany, France, Italy, Japan and New Zealand.</i>	1551019	5, 31	Registered	21/08/2020	21/08/2030
	United States	88/932889	5, 31	Pending <i>(Response filed 1/12/2020)</i>	26/05/2020	-

7.3 Directors of CannPal

The directors of CannPal as at the date of this Scheme Booklet are as follows:

Geoff Starr (Non-Executive Chairman) <i>BA (hons), GAICD</i>	<p>Mr Starr brings over 35 years of executive experience to the company, 15 years of which were at Managing Director or CEO level, gained all around the world, but especially in Asia, Europe and Australia/NZ. These positions included high level corporate companies such as Unilever and Mars Group, where Mr Starr had a very distinguished career running their pet food business in both Asia and Europe with over 20 brands in their portfolio, including Royal Canin, Whiskas, Advance and Pedigree.</p> <p>Mr Starr is not currently a director of any other ASX listed companies.</p> <p>Mr Starr was appointed to the CannPal Board on 21 April 2017.</p>
Layton Mills (Chief Executive Officer and Managing Director)	<p>Mr Mills is the Co-founder and Managing Director of CannPal and holds a degree in business management and marketing. Mr Mills has spent nine years in the fast-moving consumer goods industry and has</p>

	<p>successfully launched a number of consumer goods into the Australian market, achieving national distribution.</p> <p>Mr Mills is not currently a director of any other ASX listed companies.</p> <p>Mr Mills was appointed to the CannPal Board on 3 June 2016.</p>
<p>Dr Kathryn Adams (Non-Executive Director) <i>BComms BSc DVMS PGDipMngt</i></p>	<p>Dr Adams is a veterinarian. Kate is the owner of Bondi Veterinary Hospital and is a TV host for Channel 9's Bondi Vet. Dr Adams has held senior leadership roles for the Federal Attorney General's Portfolio including as Analyst, Principal Adviser and Chief of Staff for a number of Royal Commissions, and holds a bachelor of science, bachelor of veterinary medicine and surgery, and a bachelor of communications, as well as post-graduate qualifications in management.</p> <p>Dr Adams is not currently a director of any other ASX listed companies.</p> <p>Dr Adams was appointed to the CannPal Board on 21 April 2017.</p>
<p>Robert Clifford (Non-Executive Director)</p>	<p>Mr Clifford has over 20 years of experience in brand implementation and business strategy and planning. His senior leadership roles have been in large multinational private and public corporations in Australia, China and Ireland. For over 25 years Mr Clifford has been at the forefront of Australia and New Zealand's hospitality industry, leading Australia's largest boutique catering brand Epicure.</p> <p>Mr Clifford is not currently a director of any other ASX listed companies.</p> <p>Mr Clifford was appointed to the CannPal Board on 1 February 2017.</p>

7.4 CannPal's issued securities

As at the date of this Scheme Booklet, CannPal has the following securities on issue:

- (a) 93,125,000 CannPal Shares;
- (b) 8,000,000 unquoted CannPal Options (refer to the table below for further details); and
- (c) 1,875,000 unquoted CannPal Performance Rights, with various vesting conditions and expiry dates.

The CannPal Options are comprised of the following:

Number	Exercise Price	Expiry Date
7,250,000	\$0.20	24 March 2022
250,000	\$0.20	9 November 2022
500,000	\$0.20	31 December 2024

If any existing CannPal Options and CannPal Performance Rights are exercised or vest (as applicable) after the date of this Scheme Booklet and prior to the Implementation Date, the number of CannPal Shares on issue will increase.

See Sections 12.13 and 12.15 for details of the treatment of the CannPal Options and the CannPal Performance Rights (respectively) under the Scheme.

7.5 CannPal's substantial shareholders

Based on information lodged with ASX or known to CannPal, CannPal had the following substantial shareholders as at the date of this Scheme Booklet:

CannPal Shareholder	Number of CannPal Shares held	Percentage of issued CannPal Shares
Merchant Funds Management Pty Ltd (ACN 154 493 277) (Merchant) ¹	18,511,707	19.88%
Layton Patrick Mills ATF DJS Family Trust	7,765,179	8.38%
Tania Maree Vidovic ATF Star V Family Trust	6,884,682	7.39%

Note:

- These CannPal Shares are held by Merchant as manager of the Merchant Opportunities Fund (ARSN 111 456 387) (the **Merchant Opportunities Fund**) and CIP Licensing Limited (ACN 603 558 658) as the responsible entity of the Merchant Opportunities Fund.

7.6 Interests of CannPal Directors in CannPal securities and AusCann Securities

The CannPal Directors have Relevant Interests in the following CannPal Securities.

Director	CannPal Shares	CannPal Options	CannPal Performance Rights
Geoff Starr	200,000	-	-
Layton Mills	7,765,179	-	1,875,000*
Dr. Kathryn Adams	-	-	-
Robert Clifford	480,293	-	-
Total	8,445,472	-	1,875,000

*See Section 12.15 for details of how these CannPal Performance Rights will be treated under the Scheme.

No CannPal Director has a Relevant Interest in any AusCann Securities.

7.7 CannPal Share trading history

The closing price for CannPal Shares on ASX on 12 November 2020 (being the last trading day prior to the Announcement Date) was \$0.125.

On the Last Practicable Date, the closing price of CannPal Shares on ASX was \$0.175.

During the three month period up to and including the Last Practicable Date, the highest and lowest recorded sale prices of CannPal Shares on ASX were, respectively, \$0.245 on 8 December 2020 and \$0.105 on 2, 5 and 6 November 2020.

Set out below is the volume weighted average price (**VWAP**) of CannPal Shares for various periods up to and including the Last Practicable Date:

	10 Days	20 days	30 days	90 days
VWAP	\$0.1787	\$0.1801	\$0.1778	\$0.1462

7.8 CannPal announcements and reports

As a disclosing entity, CannPal is subject to the periodic and continuous disclosure and reporting requirements of the Corporations Act and ASX Listing Rules. Specifically, as a listed

company, CannPal is subject to the ASX Listing Rules which require continuous disclosure of any information CannPal has concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.

CannPal announcements are available on its website (www.cannpal.com/investors/asx-announcements) as well as the ASX website (www.asx.com.au). Further announcements concerning developments at CannPal may be made and placed on these websites after the date of this Scheme Booklet.

In addition, CannPal is also required to lodge various documents with ASIC. Copies of documents lodged with ASIC in relation to CannPal may be obtained from, or inspected at, an ASIC office.

CannPal will provide a copy of each of the following documents, free of charge, to anyone who asks for them before the Scheme is approved by the Court. The following documents can also be obtained from the ASX website (www.asx.com.au) or from the CannPal website (www.cannpal.com):

- (a) the annual financial report of CannPal for the year ended 30 June 2020 (being the annual financial report most recently lodged with ASIC by CannPal before lodgement of a copy of this Scheme Booklet with ASIC for registration); and
- (b) any continuous disclosure announcements made by CannPal after the date of the lodgement of the annual report referred to above and before the lodgement of a copy of this Scheme Booklet with ASIC for registration.

There is no information which has been excluded from a continuous disclosure notice in accordance with the ASX Listing Rules, and which is required to be set out in this Scheme Booklet.

The following table summarises material announcements made by CannPal to ASX since 24 September 2020 (being the date of lodgement of the annual report referred to in paragraph (a)).

Date Lodged	Description of Document (ASX announcement header)
02/02/2021	Court Orders Scheme of Arrangement
29/01/2021	Appendix 4C - Quarterly
08/01/2021	AusCann Leadership Post CannPal Acquisition
20/11/2020	Results of Annual General Meeting
20/011/2020	Chairman and CEO Address AGM 2020
16/11/2020	AC8: AusCann and CannPal Enter into Scheme of Arrangement
16/11/2020	CannPal and AusCann Enter into Scheme of Arrangement
13/11/2020	Trading Halt
29/10/2020	Cash Flow Report and Market Update 30 Sep 2020
29/10/2020	Quarterly Cash Flow Report Market Update 30 Sep 2020
19/10/2020	Notice of Annual General Meeting/Proxy Form
13/10/2020	CannPal Animal Health Investment USA Presentation
12/10/2020	CannPal Commences Product Registration in South Africa
01/10/2020	Appendix 4G
24/09/2020	Annual Report to Shareholders

7.9 Risk factors

Risk factors relating to CannPal and its business are discussed in Section 10.

7.10 Litigation

As at the Last Practicable Date, CannPal is not involved in any legal proceedings. The CannPal Directors are not aware of any legal proceedings pending or threatened against CannPal.

7.11 Financial information

The following information has been extracted from the audited financial statements of CannPal for the financial years ended 30 June 2020, 2019 and 2018.

The financial information has been prepared in accordance with the recognition and measurement requirements of Australian Accounting Standards (including Australian Accounting Interpretations) adopted by the AASB and the Corporations Act. The financial information also complies with the recognition and measurement requirements of IFRSs and interpretations issued by the International Accounting Standards Board.

The financial information presented in the tables below does not represent complete financial statements and should therefore be read in conjunction with the financial statements for the respective periods, including the description of accounting policies contained in those financial statements and the notes to those financial statements. Where appropriate, adjustments have been made to headings and classifications of historical data to provide a consistent basis of presentation.

In the interval between 30 June 2020 and the date of this Scheme Booklet, there has not arisen any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of CannPal, to significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years, other than as otherwise disclosed in the 30 June 2020 financial statements and subsequent filings on ASX.

Copies of CannPal's audited financial statements for the financial years ended 30 June 2020, 2019 and 2018 are available on the CannPal website (www.cannpal.com). Copies will also be provided by CannPal, free of charge, to any CannPal Shareholder who requests it before the Scheme Meeting.

(a) Statement of financial position

Set out below is CannPal's statement of financial position as at 30 June 2020, 2019 and 2018.

	30 June 2020 \$	30 June 2019 \$	30 June 2018 \$
ASSETS			
Current Assets			
Cash and cash equivalents	1,915,662	3,304,878	5,114,239
Trade and other receivables	30,471	53,513	26,644
Total current assets	1,946,133	3,358,391	5,140,883
Total assets	1,946,133	3,358,391	5,140,883

	30 June 2020 \$	30 June 2019 \$	30 June 2018 \$
LIABILITIES			
Current liabilities			
Trade and other payables	291,550	110,304	102,693
Employee benefits provisions	42,674	34,315	28,701
Total current liabilities	334,224	144,619	131,394
Total liabilities	334,224	144,619	131,394
Net assets	1,611,909	3,213,772	5,009,489
EQUITY			
Issued capital	6,975,607	6,975,607	6,975,607
Reserves	1,729,727	1,628,019	1,416,448
Accumulated losses	(7,093,425)	(5,389,854)	(3,382,566)
Total equity	1,611,909	3,213,772	5,009,489

(b) **Statement of comprehensive income**

Set out below is CannPal's statement of comprehensive income for the financial years ended 30 June 2020, 2019 and 2018.

	30 June 2020 \$	30 June 2019 \$	30 June 2018 \$
Income			
Research & Development tax refund	654,421	297,300	129,113
ATO cash flow boost	50,000	-	-
Interest income	60,834	103,579	76,799
Total income	765,255	400,879	205,912
Expenses			
Employee expenses	110,933	107,769	110,240
Legal and ASX fees	58,484	52,378	232,347
Research & Development	1,774,996	1,558,298	661,317
Corporate and administration costs	422,705	478,151	570,623
Share based payments	101,708	211,571	325,754
Total expenses	(2,468,826)	(2,408,167)	(1,900,281)
Loss before income tax	(1,703,571)	(2,007,288)	(1,694,369)

	30 June 2020 \$	30 June 2019 \$	30 June 2018 \$
Income tax benefit/(expense)	-	-	-
Loss after income tax	(1,703,571)	(2,007,288)	(1,694,369)
Net loss for the year attributable to members of CannPal Animal Therapeutics Limited	(1,703,571)	(2,007,288)	(1,694,369)
Other comprehensive income, net of tax	-	-	-
Total comprehensive loss for the year attributable to the members of CannPal Animal Therapeutics Limited	(1,703,571)	(2,007,288)	(1,694,369)

(c) **Statement cash flows**

Set out below is CannPal's statement of cash flows for the financial years ended 30 June 2020, 2019 and 2018.

	30 June 2020 \$	30 June 2019 \$	30 June 2018 \$
Cash flows from operating activities			
Payments to suppliers and employees	(2,154,471)	(2,210,241)	(1,485,861)
Research & Development tax refund	654,421	297,300	129,113
ATO cash flow boost	50,000	-	-
Interest received	60,834	103,580	76,799
Net cash outflows from operating activities	(1,389,216)	(1,809,361)	(1,279,949)
Cash flows from financing activities			
Proceeds from the issue of shares	-	-	6,000,000
Share issue costs	-	-	(360,000)
Net cash inflows from financing activities	-	-	5,640,000
Net increase/(decrease) in cash and cash equivalents	(1,389,216)	(1,809,361)	4,360,051
Cash and cash equivalents at the beginning of the financial year	3,304,878	5,114,239	754,188
Cash and cash equivalents at end of year	1,915,662	3,304,878	5,114,239

7.12 Material events since 30 June 2020

Within the knowledge of the CannPal Directors and other than as disclosed in this Scheme Booklet, including the audited consolidated financial statements contained in Section 7.10,

there has not been any other material change in the financial position of CannPal since 30 June 2020.

7.13 Forecast Financial information

CannPal has given careful consideration as to whether a reasonable basis exists to produce further reliable and meaningful forecast financial information with respect to CannPal. It has been determined that, as the date of this Scheme Booklet, it would be misleading to provide forecast financial information, as a reasonable basis does not exist having regard to the requirements of applicable law, policy, and market practice.

8. Profile of AusCann

8.1 Introduction

The information contained in this Section has been prepared by AusCann Group Holdings Limited (AusCann). The information concerning AusCann and the intentions, views and opinions contained in this Section are the responsibility of AusCann. CannPal and its officers and advisers do not assume any responsibility for the accuracy or completeness of this information.

8.2 Overview of AusCann

AusCann (ASX: AC8) is an Australian-based pharmaceutical company focused on the development, production, and distribution of cannabinoid-based medicines within Australia and internationally. AusCann's mission is to transform the way medicinal cannabis is dispensed today by making standardised, reliable pharmaceutical products; providing educational support to healthcare professionals; and generating robust clinical evidence for its products that address unmet medical needs.

AusCann is currently focusing on growing the sales of its first cannabinoid-based medicine, progressing value-adding R&D, enhancing the protection of its intellectual property and leveraging its state-of-the-art medicinal cannabis facility in Western Australia.

The following is a brief timeline regarding AusCann:

- AusCann Shares commenced trading on the ASX on 3 February 2017 following a successful reverse takeover of TW Holdings Limited, and an associated \$5 million capital raising. One of AusCann's early investors was Canopy Growth Group (NYSE:CGC) (Canopy), North America's largest regulated cannabis producer to whom 15% of AusCann's shares were issued on listing in exchange for AusCann gaining access to Canopy's expertise and intellectual property in cultivation, manufacturing and supply of high quality medicinal cannabis;
- AusCann's ASX listing followed an amendment to the Narcotic Drug Act 1967 (Cth) in 2016 which was the impetus that led to a number of medicinal cannabis related companies listing on the ASX;
- prior to its listing, in 2016 AusCann entered into a 50:50 Joint Venture in Chile with Fundacion Daya (**DayaCann JV**) for the cultivation and supply of cannabis raw material. Following a decision by the Chilean government not to allow export of cannabis products, AusCann entered into a share sale agreement to divest its interest in the joint venture in November 2020;
- in May 2017, AusCann conducted a \$12 million institutional placement following a strategic partnership with Tasmanian Alkaloids to jointly explore international opportunities and was granted an Office of Drug Control (**ODC**) Medicinal Cannabis Licence (cultivation/production), followed by a Manufacturing License in August 2017;
- in July 2018, AusCann raised \$33.4 million through a placement of shares to institutional investors and \$1.9 million through a share purchase plan with the intention of advancing R&D, generating clinical evidence from robust studies, and establishing a state-of-the-art medicinal cannabis facility in Western Australia;
- in October 2019, following a strategic decision by Canopy to exit the medicinal cannabis industry, its 11.43% shareholding was sold to the Merchant Group Pty Ltd (Merchant Group), an Australian investment fund;
- AusCann's first product, a 1:1 ratio of THC:CBD, based on its proprietary Neuvis® technology platform, was successfully launched in Australia via Special Access Schemes (SAS) and Authorised Prescribers in 2020. In addition, the AusCann

completed a successful Phase I pharmacokinetic and safety clinical trial in which all endpoints were achieved; and

- AusCann's is expecting to launch its second product, based on an enhanced Neuvis® technology platform, in CY2021.

Further information regarding AusCann's in-market products and product pipeline is in Section 8.3 and can be found on AusCann's website (www.auscann.com.au).

8.3 AusCann's business

An overview of AusCann's business and product pipeline is provided below.

Neuvis® technology

Neuvis® is an AusCann developed technology, currently under patent examination, to administer cannabinoids in an oral solid dosage form utilising a self-emulsifying powder.

The majority of medicinal cannabis products on the market use oils as the delivery vehicle. AusCann has developed a proprietary self-emulsifying drug delivery system (SEDDS), trade marked as Neuvis®, which enables cannabinoids to be delivered in a powder which can be encapsulated within a hard-shell capsule. This oral solid dosage form enables the cannabinoids to be readily released and absorbed systemically via the gastro-intestinal tract after being ingested.

AusCann is developing enhanced generations of its SEDDS to address new clinical needs and respond to the developing body of knowledge associated with effectiveness of cannabinoid therapeutics. Key drivers of product development are stable and bioavailable products, at dosages that are clinically effective, in pharmaceutical form that enables patient compliance by addressing ease of patient use.

Neuvis® First Product Launch

AusCann's first product based on the Neuvis® technology platform, is a 1:1 ratio of THC CBD, was successfully launched in Australia in 2020.

The product is formulated into a standardised, hard shell capsule. Available in two doses being (2.5mg THC : 2.5mg CBD and 10mg THC : 10mg CBD), it enables prescribers to titrate patients from the lower dose to the higher dose if required.

The product is available for Australian patients under Special Access Schemes and via Authorised Prescribers for unregistered medicines in Australia. The product is differentiated in the market due to its familiar pharmaceutical (hard shell capsule) form, ease of use, and ability for prescribers to confidently monitor dose compliance. In addition to general practitioners (GPs), AusCann has had good traction with specialists in the fields of pain, palliative care and rehabilitation.

The product has been successfully evaluated in a Phase I pharmacokinetic and safety clinical trial, with all trial endpoints achieved. An investigator-initiated Phase II trial in patients with neuropathic pain is planned, pending ethics approval.

The Phase I clinical study of the Neuvis® 1:1 THC/CBD product evaluated the pharmacokinetics and safety of a single dose in fed healthy volunteers. The study enrolled 28 volunteers of which 25 subjects completed the study. The study results announced in September 2020 demonstrated that the Neuvis® SEDDS platform was able to administer cannabinoids as effectively as an oromucosal spray (in this case, TGA-registered Sativex®). Neuvis had the added advantage of lower peaks and troughs in the dose profile.

Additionally, the trial results demonstrated an enhanced safety profile for the Neuvis® platform over an oil-based formulation.

Following the successful Phase I study, AusCann is supporting an investigator-initiated Phase II efficacy study in patients suffering from neuropathic pain. Neuropathic pain (or nerve pain) is caused by damage to the brain, spinal cord or peripheral nervous system. It is a substantial market with an estimated 7-10% of Australians seeking treatment. There is no effective treatment to prevent or reverse neuropathic pain, thus chronic neuropathic pain remains an unmet clinical need. The open-label Phase II trial will enrol 60 patients from three sites in New South Wales and Queensland. Pending approval from the Human Research Ethics Committee (HREC), enrolment for the Phase II trial is expected to commence in early CY2021 or earlier.

Neuvis® Development

The current pipeline includes continuing development of the Neuvis® platform to enhance drug exposure and stability, while leveraging a platform that enables dose uniformity, ease of use, simplified dispensing and enhanced patient compliance.

Future pipeline & targeted indications

Expansion of the product pipeline beyond the current SEDD powder innovation is planned, with a focus on potential international markets and access to a large patient base who can benefit from our medicine and have similar regulatory and safety requirements. AusCann plans to continue its focus on addressing unmet medical needs, and regulatory approved therapeutics.

Intellectual Property

AusCann has filed patent applications relating to its self-emulsifying drug delivery system (**SEDDS**) covering the technology, processes and uses as shown in the table below. AusCann intends to pursue these patent applications through the national phase in key jurisdictions that are still being determined based on the cost of the filing versus expected benefit.

In addition, AusCann holds or has applied for trade marks in various countries including Australia, France, Germany, Italy, New Zealand, Chile, New Zealand, and Canada, for the AusCann brand and for Neuvis® additionally in the United Kingdom and the United States as noted in the table below.

Patents

Type	Jurisdiction	Title	Ownership	Status	Registered / Filing Date	Expiry
Patent	To be determined	Solid self-emulsifying pharmaceutical compositions	AusCann Group Holdings Ltd	Published	31-Jul-18	-
Patent	To be determined	Free flowing powder composition	AusCann Group Holdings Ltd	Published	31-Jul-18	-
Patent	Australia	Method of cannabinoid therapy	AusCann Group Holdings Ltd	Filed	31-Jan-20	-
Patent	Australia	Cannabinoid composition and manufacture method	AusCann Group Holdings Ltd	Filed	31-Jan-20	-

Trade marks

Type	Jurisdiction	Title	Ownership	Status	Registered / Filing Date	Expiry
Trade mark	Australia	AusCann word & image	AusCann Group Holdings Ltd	Registered	30-Aug-16	30-Aug-26
Trade mark	Germany	AusCann word & image	AusCann Group Holdings Ltd	Protected	29-May-18	29-May-28
Trade mark	France	AusCann word & image	AusCann Group Holdings Ltd	Protected	29-May-18	29-May-28
Trade mark	Italy	AusCann word & image	AusCann Group Holdings Ltd	Pending	29-May-18	-
Trade mark	Chile	AusCann word & image	AusCann Group Holdings Ltd	Registered	05-Jun-18	05-Jun-29
Trade mark	New Zealand	AusCann word & image	AusCann Group Holdings Ltd	Protected	29-May-18	29-May-28
Trade mark	Canada	AusCann word & image	AusCann Group Holdings Ltd	Pending	29-May-18	-
Trade mark	Australia	Neuvis (word)	AusCann Group Holdings Ltd	Registered	11-Mar-19	11-Mar-29
Trade mark	Canada	Neuvis (word)	AusCann Group Holdings Ltd	Pending	31-Jul-19	-
Trade mark	Europe (EUIPO)	Neuvis (word)	AusCann Group Holdings Ltd	Protected	31-Jul-19	31-Jul-29
Trade mark	United Kingdom	Neuvis (word)	AusCann Group Holdings Ltd	Protected	31-Jul-19	31-Jul-29
Trade mark	New Zealand	Neuvis (word)	AusCann Group Holdings Ltd	Protected	31-Jul-19	31-Jul-29
Trade mark	USA	Neuvis (word)	AusCann Group Holdings Ltd	Pending	31-Jul-19	-

8.4 AusCann's group structure

AusCann is a public company limited by shares, incorporated and domiciled in Australia and listed on the ASX. AusCann is the ultimate legal parent entity of the AusCann Group and owns 100% of subsidiary AusCann Operations.

AusCann's registered office is located at Level 4, 35 Havelock Street, West Perth WA 6005, Australia. Its principal place of business is in Wangara, WA 6065

8.5 AusCann's Board and key management

Robert (Max) Johnston
Independent Non-Executive Chairman
(appointed as Non-Executive Director on 20 December 2019 and appointed Chairman on 19 January 2020)

Max is a highly regarded health care industry director with a broad range of executive and pharmaceutical experience. He is also currently a Non-Executive Director on the Boards of Medical Developments International Ltd (ASX: MVP) and Bard1 Life Sciences Ltd (ASX:BD1). Max previously held the position of President and Chief Executive Officer of Johnson & Johnson Pacific, a division of the world's largest medical, pharmaceutical and consumer healthcare company for 11 years.

Max is a former Non-Executive Director of PolyNovo Ltd (ASX: PNV), Enero Group Limited (ASX: EGG), Non-Executive Chairman of Probiotec Ltd (ASX: PBP) and Non-Executive Director of CannPal Animal Therapeutics Limited (ASX: CP1).

Krista Bates | BA (Hons), Grad Dip (Law), PostGrad Dip (Law), GAICD

Krista was appointed as an Independent Non-Executive Director on 20 December 2019. Krista brings over 20 years of expertise in the legal market. She is currently a Partner at leading Western Australian law firm, Lavan, specialising in corporate law and is Head of Mining &

<p>Independent Non-Executive (appointed 20 December 2019)</p>	<p>Resources. Krista has led transactions with deal values ranging from \$20,000 to \$4.5 billion across multiple sectors advising a diverse base of private and listed companies, private equity funds, governments and individuals, nationally and internationally. Krista is qualified to practise law in England and Wales and Western Australia, and a Graduate of the Australian Institute of Company Directors.</p> <p>Krista is a former Non-Executive Director of Credit Intelligence Limited (ASX: CI1).</p>
<p>Bruce McHarrie BCom, FCA, GAICD Independent Non-executive Director (appointed 19 January 2017)</p>	<p>Bruce is a highly experienced senior executive and independent company director with a background in the life sciences industry focused on finance, operations, governance, business and investment management, and strategic planning. He previously served as the Chief Financial Officer, Director of Operations and Director of Strategic Projects with the Telethon Kids Institute in Western Australia. Prior to joining the Institute, Bruce was based in London as an Assistant Director at Rothschild Asset Management in the Bioscience Unit, a life sciences private equity group investing in early stage biotechnology, healthcare and agribusiness companies. He co-founded two Institute spin-outs including publicly listed drug discovery company, Phylogica Limited, and has held a number of other non-executive director positions in biotechnology and not-for-profit healthcare organisations.</p> <p>Bruce is currently a director of Adherium Limited (20 July 2015 – present).</p>
<p>Chris Mews BBus (Acc), CPA Non-Executive Director (appointed 1 December 2019)</p>	<p>Chris is an experienced non-executive director with over 20 years in the financial services sector, having held senior positions in finance, corporate secretarial and compliance in listed and unlisted companies. Chris is currently the Chief Financial Officer and Company Secretary of Merchant Group, a Perth based financial services firm that provides funds management and corporate finance services, with investment experience both in Australia and internationally in the medical cannabis sector. Prior to Merchant Group, he was the Chief Financial Officer and Company Secretary of listed biotech company Polynovo Limited (ASX:PNV) and is currently Company Secretary and Non-Executive Director of VPCL Limited (ASX:VPC).</p> <p>As Chris is the representative of Merchant Group on the AusCann Board and Merchant Group is a substantial shareholder of both AusCann and CannPal, the AusCann Board determined and agreed that to avoid any potential or perceived conflicts of interests, Chris would excuse himself from and not participate in any AusCann Board deliberations regarding the acquisition of CannPal. To the maximum extent permitted by law, Chris takes no responsibility for any disclosures in this Scheme Booklet other than his biography in this Section.</p>
<p>Nick Woolf BA (Hons), MA, FCCA, GAICD, GCM Chief Executive Officer (appointed 1 August 2020)</p>	<p>Nick has 25 years' experience in the Investment Banking and Life Sciences industries both in Australia and internationally. His previous roles include CEO of Proteolytics, Chief Business Officer of Suda Pharmaceuticals (ASX:SUD) and Chief Financial Officer of PYC Therapeutics (ASX:PYC). Nick is a qualified accountant, a Graduate of the Australian Institute of Company Directors, holds a Graduate Certificate in Management (with Distinction) from the Australian Institute of Business (AIB) and has a BA (Hons) and MA in Chemistry from Oxford University.</p>
<p>Susan Park BCom, ACA, F Fin, FGIA, FCG, GAICD Company Secretary</p>	<p>Susan has over 24 years' experience in the corporate finance industry and is founder and Managing Director of consulting firm Park Advisory Pty Ltd (formally Hunter Corporate Pty Ltd), which specialises in the provision of corporate governance and company secretarial advice to ASX listed companies. Susan holds a Bachelor of Commerce degree from the University of Western Australia majoring in accounting and finance, is a Member of the Australian Institute of Chartered Accountants, a Fellow of the Financial Services Institute of Australasia, and a Graduate Member of the Australian Institute of Company Directors. She is also a Fellow of the Governance Institute of Australia and a Fellow of the Chartered Governance Institute.</p>

8.6 Historical financial information

(a) Consolidated statement of financial position

Set out below is AusCann's consolidated statement of financial position as at 30 June 2020, 2019 and 2018.

	30 June 2020 \$	30 June 2019 \$	30 June 2018 \$
ASSETS			
Current Assets			
Cash and cash equivalents	19,165,661	35,307,287	12,878,252
Inventories	3,607,571	-	-
Assets held for resale	400,000	-	-
Other current assets	469,069	367,253	1,027,646
Total Current Assets	23,642,302	35,674,540	13,905,898
Non-Current Assets			
Investment in DayaCann	-	-	696,467
Right of use asset	84,822	-	-
Property, plant and equipment	11,738,064	7,193,235	109,806
Total Non-Current Assets	11,822,886	7,193,235	806,273
Total Assets	35,465,187	42,867,775	14,712,171
LIABILITIES			
Current Liabilities			
Trade and other payables	595,131	1,110,026	534,322
Lease liabilities	39,884	-	-
Employee entitlements	139,767	89,402	65,817
Total Current Liabilities	774,782	1,199,428	600,139
Non-Current Liabilities			
Lease liabilities	54,433	-	-
Total Non-Current Assets	54,433	-	-
Total Liabilities	829,215	1,199,428	600,139
NET ASSETS	34,635,972	41,668,347	14,112,032

	30 June 2020 \$	30 June 2019 \$	30 June 2018 \$
EQUITY			
Issued capital	75,468,632	75,452,467	39,328,101
Reserves	1,273,328	1,237,108	2,155,938
Accumulated losses	(42,105,988)	(35,021,228)	(27,372,007)
TOTAL EQUITY	34,635,972	41,668,347	14,112,032

(b) **Consolidated statement of comprehensive income**

Set out below is AusCann's consolidated statement of comprehensive income for the financial years ended 30 June 2020, 2019 and 2018.

	30 June 2020 \$	30 June 2019 \$	30 June 2018 \$
Sales	3,204	-	-
Less: cost of goods sold	(2,197)	-	-
Net sales	1,007	-	-
Interest revenue	385,328	861,770	235,064
Other income	1,324,675	670,606	53,814
Total Income	1,711,010	1,532,376	288,878
Employee benefits expense	(2,700,837)	(2,012,922)	(1,879,101)
Consulting fees	(555,942)	(975,275)	(401,262)
Research & Development -direct expenses	(2,707,134)	(1,941,411)	(1,641,489)
Joint venture expenses	(219,908)	(2,014,393)	38,867
Depreciation expense	(94,776)	(56,242)	(30,774)
Corporate / administration expenses	(1,370,042)	(1,179,165)	(1,330,918)
Impairment of asset held for resale	(406,400)	-	-
Other expenses	(732,184)	(1,002,190)	(2,712,500)
Total expenses	(8,787,223)	(9,181,597)	(7,957,186)
Loss before income tax expense	(7,076,213)	(7,649,221)	(7,688,308)
Income tax expense	-	-	-
Net loss for the year	(7,076,213)	(7,649,221)	(7,688,308)

	30 June 2020 \$	30 June 2019 \$	30 June 2018 \$
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation	-	(29,367)	99,307
Total comprehensive loss for the year	(7,076,213)	(7,678,588)	(7,569,001)
Earnings per share			
Basic loss per share (cents per share)	(2.24)	(2.48)	(2.81)
Diluted loss per share (cents per share)	(2.24)	(2.48)	(2.81)

(c) **Consolidated statement cash flows**

Set out below is AusCann's consolidated statement of cash flows for the financial years ended 30 June 2020, 2019 and 2018.

	30 June 2020 \$	30 June 2019 \$	30 June 2018 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Interest received	387,535	848,597	213,287
Government grants and incentives	1,274,675	670,606	53,814
Payments to suppliers and employees	(12,212,772)	(6,487,580)	(5,052,102)
Net cash used in operating activities	(10,550,511)	(4,968,377)	(4,785,001)
CASH FLOW ACTIVITIES FROM INVESTING			
Payments for investment in DayaCann	-	-	(338,324)
Payments for loans to DayaCann	(219,908)	(639,878)	(766,287)
Payments for term deposits	-	-	(122,679)
Payments for land & buildings	-	(5,541,328)	-
Payments for buildings & building improvements	(5,158,176)	(473,484)	-
Payments for assets held for resale	(36,000)	-	-
Payments for plant and equipment	(145,183)	(1,124,859)	(140,339)
Net cash used in investing activities	(5,559,268)	(7,779,549)	(1,367,629)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares and exercise of options	10,500	36,903,078	3,954,000

	30 June 2020 \$	30 June 2019 \$	30 June 2018 \$
Payments for capital raising costs	-	(1,726,118)	-
Repayment of lease liabilities	(42,348)	-	-
Net cash from financing activities	(31,848)	35,176,960	3,954,000
Net (decrease)/ increase in cash and cash equivalents	(16,141,626)	22,429,034	(2,198,630)
Cash and cash equivalents at the beginning of the financial year	35,307,287	12,878,253	15,076,882
Cash and cash equivalents at the end of the financial year	19,165,661	35,307,287	12,878,252

Material changes to AusCann's financial position since 30 June 2020

As at the date of this Scheme Booklet, as far as the AusCann Directors are aware there have been no material changes in the financial position of AusCann since 30 June 2020, other than:

- net cash outflows in the ordinary course of business; and
- as disclosed in this Scheme Booklet or otherwise disclosed to the ASX by AusCann.

On 10 November 2020, AusCann announced that it had entered into an agreement with GrowForChile SpA (**GFC**) and Telor International Limited (**Telor**), in respect of the sale of AusCann's 50% ownership interest in its Chilean joint venture, DayaCann SpA (**DayaCann**) (**DayaCann Sale**). The DayaCann Sale includes the transfer of AusCann's loan receivable from DayaCann to GFC. AusCann has received an upfront payment of US\$200,000 and anticipates further payments that amount to a total consideration of US\$1.5 million.

8.7 Full-year results FY20

On request, a copy of AusCann's annual report for FY20 will be provided to CannPal Shareholders.

8.8 AusCann's rationale for the Proposed Transaction

The medicinal cannabis industry is expanding rapidly in many countries. Australia is now repositioning itself to establish a high end value chain position in both the domestic supply and export of cannabis-related products.

In addition, the veterinary medicine sector has attractive growth potential due to increasing pet ownership and considerable unmet health needs.

The Transaction combines two complementary businesses with attractive growth potential and an enhanced platform to accelerate the clinical development, registration, commercialisation and market penetration of the Combined Group's products in Australia and internationally.

The Proposed Transaction positions the Combined Group to take a leadership position in the Australian medicinal cannabis sector and is expected to create:

- an expanded and complementary product portfolio and pipeline across both human and animal health;
- an expanded geographical footprint across the US, Australia and other key markets;

- a strengthened and complementary R&D capability;
- a significant combined balance sheet, infrastructure (including AusCann's existing R&D facility) to accelerate development and commercialisation of both companies' pipelines;
- opportunities to extract synergies through shared R&D, staff and administration, intellectual property, and procurement synergies;
- a strengthened and expanded leadership team; and
- a larger ASX-listed company with enhanced share liquidity, better placed to attract strategic and institutional investors, and pursue growth opportunities.

8.9 AusCann's intentions if the Scheme is implemented

AusCann's strategic intent for the Combined Group is to create a leading cannabinoid pharmaceutical company developing, producing and commercialising cost effective, affordable, clinically evidenced, Good Manufacturing Practice (**GMP**) compliant, cannabinoid medicines, in the human and veterinary space, aimed at attractive addressable market indications where there are continued unmet customer needs.

AusCann intends to continue to focus its efforts on progressing clinically evidenced commercialisation of its product portfolio in strategic markets with a focus on patient unmet needs.

Key initial strategic initiatives for the Combined Group to enable sustainable business growth and achievement of strategic business objectives are set out below.

AusCann has appointed Kidder Williams to look for strategic acquisitions. Subject to identifying a compelling opportunity, following Implementation, AusCann may consider further acquisitions in both human and animal health, as well as in distribution.

(a) **Protect Licence to Operate**

The rapidly changing market dynamics and competitive landscape of the cannabis industry mean that developing proprietary technology which is difficult to replicate is necessary to achieve a defensible market position.

Market exclusivity

The proposed strategy for the Combined Group will be to move rapidly to secure market exclusivity for relevant in-market products.

Additionally, AusCann's aim is to secure (where practicable) proprietary protection for the key technologies of the Combined Group and their application to provide a platform to enable increased market penetration through existing and future market channels. This will be facilitated through achieving strategically targeted regulatory approvals.

Licensing in key addressable markets

AusCann plans to progress licensing opportunities for key in-market and future products throughout the Combined Group's expanded geographical footprint across the US, Australia and other key markets.

(b) **Management team and Advisory board**

Highly experienced management & advisory team

From implementation of the Scheme, Layton Mills will assume the role of Chief Executive Office of the Combined Group. It is expected that further members of the management team will be appointed following implementation of the Scheme.

The management team will be supported by advisory board/s where they may support the activities of the Combined Group in covering targeted indications in both humans and animal companions; AusCann’s medical advisory board currently comprises:

Position	Team member
Chief Medical Advisor	Dr Marc Russo MBBS DA (UK) FANZCA FFPMANZCA
Medical Advisory Board Member	A/Prof Peter Gonski BMedSc, MB BS Hons UNSW, FRACP
Medical Advisory Board Member	Dr Peter Georgius MBBS, BMedSc, FFPMANZCA, FAFR
Medical Advisory Board Member	Dr Sachin Shetty MBBS, MD(PMR), FAFRM(RACP), FFPM(ANZCA)
Medical Advisory Board Member	Palliative Care Specialist

Strengthened Research & Development capability

AusCann will seek synergistic partnerships to strengthen its R&D platform, build scale and to enable the continuation of quality, disciplined and optimally sequenced R&D activities including clinical studies.

In addition, AusCann intends to explore potential opportunities to extend the use of innovative drug delivery platforms into veterinary applications while also utilising safety and efficacy data already generated in animal studies by CannPal.

Integrated Supply chain

Proposed supply chain initiatives for the Combined Group may include:

- combined cost effective, high quality cannabis raw material;
- ensuring, to the extent possible, GMP standards are adhered to throughout the Combined Group; and
- amalgamating distribution platforms including digital channels for in-market products, both in Australia and offshore.

Commercialisation Strategy

The Combined Group will develop a commercialisation strategy to take advantage of the Combined Group's market positioning, to align existing licensing opportunities and to address a targeted international customer base for clinically evidenced, GMP products.

Further, AusCann hopes that the heightened supply chain and distribution capability with a worldwide footprint will enable increased market access for both animal and human products within the combined portfolio.

(c) Major changes to the business and fixed assets of CannPal

Other than noted in this Section 8.9 and subject to an operational review after implementation, no major changes are proposed to the business of CannPal.

(d) CannPal to be delisted/removal from the ASX.

If the Scheme becomes Effective and is implemented so that CannPal becomes a wholly owned subsidiary of AusCann, AusCann will cause CannPal to apply to the ASX for the removal of CannPal from the Official list of the ASX with effect from or shortly after the Implementation Date.

(e) Board of Directors of AusCann

Following implementation, the AusCann board of Directors is proposed to comprise of:

Name	Position
Max Johnston	Non-executive Chair
Chris Mews	Non-Executive Director
Krista Bates	Non-Executive Director
Bruce McHarrie	Non-Executive Director
Geoff Starr	Non-Executive Director
Robert Clifford	Non-Executive Director
Dr Kathryn Adams	Non-Executive Director

8.10 AusCann's capital structure

AusCann's capital structure at the date of this Scheme Booklet and immediately following the Implementation of the Scheme is set out below.

Date of Scheme Booklet

The capital structure of AusCann at the date of this Scheme Booklet comprises the following securities:

Securities	Number
AusCann Shares	317,047,357
AusCann Options	400,000
AusCann Performance Rights	1,636,400

The AusCann Options comprise the following:

Number	Exercise Price	Expiry Date
200,000	\$0.255	9/6/2023
200,000	\$0.255	9/6/2024

Immediately following Implementation of the Scheme

The capital structure of AusCann immediately following Implementation of the Scheme is expected to comprise of the following securities:

Securities	Number ¹⁰
AusCann Shares	440,547,357
AusCann Options	10,800,000
AusCann Performance Rights	1,636,400

On the Implementation Date, approximately 123,500,000 New AusCann Shares will be issued to Scheme Participants. Additionally, 10,400,000 new AusCann Options will be issued to existing CannPal option holders.

8.11 AusCann's employee share plans and incentive plans

AusCann has adopted an employee incentive scheme (**Plan**) which provides for the granting of AusCann Securities as incentive-based remuneration to eligible participants. The Plan was approved by AusCann Shareholders at AusCann's annual general meeting held on 27 November 2018. There are currently 11 past and present employees and AusCann Directors participating in the Plan.

As at the date of this Scheme Booklet, AusCann has issued the following securities under the Plan:

AusCann Options

Number	Exercise Price	Expiry Date
200,000	\$0.255	9/6/2023
200,000	\$0.255	9/6/2024

AusCann Performance Rights

Class	Number	Expiry Date
Performance Rights	109,200	November 2021
Performance Rights	1,527,200	December 2022

AusCann's Performance Rights vest based on the relative share price performance versus a group of comparator pharmaceutical development companies in accordance with a defined scale, provided that the employee is still employed at the vesting date.

8.12 Recent share price history

AusCann share price information	Price (in cents)
Last recorded price on ASX on 29 January 2021, being the Last Practicable Date	17.0 cents
Last recorded price on ASX on 12 November 2020, being the last trading day before the public announcement of the Scheme (16 November 2020)	14.0 cents

¹⁰ On the assumption that no AusCann Shares are issued on the exercise AusCann Options or AusCann Performance Rights before the Scheme is implemented.

AusCann share price information	Price (in cents)
Highest closing price in the 3 months prior to the announcement of the Scheme (16 November 2020)	18.0 cents
Lowest closing price in the 3 months prior to the announcement of the Scheme (16 November 2020)	13.5 cents
12-Month VWAP prior to the announcement of the Scheme	21.1 cents

8.13 Substantial shareholders

The list of substantial shareholders below reflects the latest substantial holders notices as at the date of this Scheme Booklet:

Name	Units	Percentage
Merchant Funds Management as manager of the Merchant Opportunity Fund and Merchant Group Pty Ltd (Merchant)	42,570,578	13.43%

Based on information lodged with ASX (in respect of AusCann substantial shareholders) or set out in Section 7.5 (in respect of CannPal substantial shareholders), and assuming that:

- (a) the substantial shareholders of AusCann and CannPal as at the date of this Scheme Booklet continue to hold their existing holdings in AusCann and CannPal (respectively); and
- (b) no further AusCann Shares or CannPal Shares are issued except pursuant to the Scheme,

the holdings of those substantial shareholders in AusCann following implementation of the Scheme will be as follows:

Shareholder	Number of AusCann Shares Held	Percentage of Issued AusCann Shares
Merchant	66,310,797	15.13%

Merchant has agreed to the voluntarily escrow of all New AusCann Shares it receives on implementation of the Scheme for a period of 12 months, subject to the usual carve outs for a control transaction.

8.14 AusCann' dividend policy

As at the date of this Scheme Booklet AusCann Directors have not adopted a dividend policy.

8.15 Publicly available information

AusCann is a disclosing entity for the purposes of the Corporations Act and as such it is subject to regular reporting and disclosure obligations. As a company listed on ASX, AusCann is also subject to the ASX Listing Rules which require continuous disclosure (with some exceptions) of any information which a reasonable person would expect to have a material effect on the price or value of AusCann Shares. In addition, AusCann is required to maintain periodic disclosure (including yearly and half-yearly financial statements) with ASIC in accordance with the Corporations Act and the ASX in accordance with the ASX Listing Rules.

The information disclosed to the ASX is available from the ASX's website (www.asx.com.au) as well as AusCann's website ([www.https://auscann.com.au/](https://auscann.com.au/)). Copies of the documents lodged with ASIC by AusCann may be obtained from or inspected at any ASIC office.

8.16 AusCann's interest in CannPal Shares

As at the date of this Scheme Booklet, AusCann does not own or have a relevant interest in any CannPal Shares.

8.17 Interests of AusCann's Directors

As at the date of this Scheme Booklet, the Directors of AusCann have the following Interests in AusCann Shares and CannPal Shares:

Interests in AusCann Shares

Director	Security	Quantity
Max Johnston	Fully paid ordinary shares	500,000
Chris Mews ¹¹	-	-
Krista Bates	Fully paid ordinary shares	135,000
Bruce McHarrie	Fully paid ordinary shares	114,286

Interests in CannPal Shares

Director	Security	Quantity
Max Johnston	Fully paid ordinary shares	300,000
Chris Mews ¹²	Fully paid ordinary shares	215,146
Krista Bates	Fully paid ordinary shares	225,000
Bruce McHarrie	-	-

Given their positions as Directors of AusCann, each of Max Johnston, Chris Mews and Krista Bates will not vote the CannPal Shares that they own on the Scheme Resolution.

8.18 Rights and Liabilities attaching to New AusCann Shares

The rights and liabilities attaching to AusCann Shares that will be issued to participants in the Scheme as Scheme Consideration will be the same as those attaching to existing AusCann Shares and will rank equally in all respects with all issued fully paid ordinary shares of AusCann from the date of their issue. These rights and liabilities are detailed in the AusCann constitution and are subject to the Corporations Act and the Listing Rules.

The table below summarises some of the key rules in the AusCann constitution in relation to the rights and liabilities currently attaching to AusCann Shares. This summary does not purport to be exhaustive and must be read subject to the full text of the AusCann constitution. A copy of AusCann's constitution is available on AusCann's website: www.auscann.com.au.

CannPal Shareholders should obtain their own independent advice in relation to their rights and liabilities as potential holders of AusCann Shares in specific circumstances.

¹¹ Although Chris Mews has no personal shareholdings in AusCann, he is a representative of Merchant which holds approximately 13.43% of AusCann Shares.

¹² In addition to Chris Mews' personal shareholding in CannPal, he is a representative of Merchant which holds approximately 19.88% of CannPal Shares.

Item	Description
Issue of further AusCann Shares	AusCann's Board may from time to time issue any shares in the capital of AusCann.
Variation of class rights	<p>The rights attaching to AusCann Shares may, unless their terms of issue state otherwise, only be varied, converted or cancelled by a special resolution of AusCann and:</p> <ul style="list-style-type: none"> • a special resolution of the members holding AusCann Shares of that class; or • the written consent of the holders who are entitled to at least 75% of the votes that may be cast in that class.
AusCann Share transfers	<p>An AusCann Shareholder may transfer all or any of the AusCann Shares held by them to a third party, including on the ASX, subject to customary requirements.</p> <p>Generally, the AusCann Board must register a transfer of AusCann shares, unless the instrument of transfer is not in registerable form or the refusal to register the transfer is permitted under the ASX Listing Rules, Corporations Act or ASX Operating Rules.</p>
Meetings of members	<p>Each holder of AusCann Shares is entitled to receive notice of and to attend and vote at all meetings of members of AusCann.</p> <p>AusCann Shareholders are also entitled to call a general meeting in accordance with the Corporations Act.</p>
Voting	<p>Each AusCann Share confers the right to vote at general meetings. Each AusCann Shareholder is entitled to be present and vote at meetings in person, by proxy, attorney or representative.</p> <p>On a show of hands, each AusCann Shareholder has one vote. On a poll, each AusCann Shareholder has one vote for each fully paid ordinary share held by the shareholder and a fraction of a vote proportional to the amount paid on each partly-paid ordinary share (excluding amounts credited and amounts paid in advance of a call).</p>
Dividends	<p>AusCann Shareholders are entitled to receive dividends declared in respect of AusCann Shares they hold and a fraction of the dividend proportional to the amount paid on each partly-paid ordinary share (excluding amounts credited).</p> <p>The AusCann Board may declare dividends payable from the profits of AusCann as and when it sees fit.</p>
Rights of winding up	<p>Each AusCann Share confers on its holder the right to participate equally in the distribution of the assets of AusCann on a winding up, subject to any restrictions or amounts unpaid attached to the share (including amounts credited).</p> <p>If AusCann is wound up, the liquidator may, with the sanction of a special resolution, divide among the members all or any of AusCann's assets and for that purpose, determine how it will carry out the division between the members. The liquidator may settle any problem concerning the distribution of assets in any way, including vesting assets in a trustee on trust for the benefit of the members entitled.</p>
Sale of non-marketable parcels	<p>Subject to the ASX Listing Rules, Corporations Act and ASX Operating Rules, AusCann's constitution confers the power on AusCann to dispose of small parcels of AusCann Shares (being parcels of AusCann Shares, the number of which in aggregate constitutes less than a marketable parcel of shares under the ASX Listing Rules).</p> <p>AusCann must not sell a small parcel of AusCann Shares unless it has given at least 42 days' written notice to the AusCann Shareholder of its intention to sell those AusCann Shares. The shareholder may ask AusCann in writing to not sell or dispose their AusCann Shares, in which case AusCann will not sell all or some of the small parcel. If AusCann does sell the AusCann Shares, the proceeds of the sale are remitted to the AusCann shareholder (less the expenses of the sale or disposal and amounts due and unpaid in respect of those AusCann Shares).</p>

9. Financial overview of the Combined Group

The Combined Group pro forma historical financial information provided in this Scheme Booklet comprises a pro forma consolidated unaudited Statement of Financial Position as at 30 June 2020 which is based on:

- (a) AusCann's audited consolidated Statement of Financial Position as at 30 June 2020; and
- (b) CannPal's audited consolidated Statement of Financial Position as at 30 June 2020.

The pro forma historical financial information is provided for illustrative purposes and is prepared on the assumption that the Scheme had been implemented on 30 June 2020 and CannPal becomes a wholly owned subsidiary of AusCann.

The Combined Group pro forma historical financial information has been prepared by the management of AusCann with input from the management of CannPal. The information is based on AusCann's and CannPal's audited financial statements as at 30 June 2020. The pro forma historical financial information has been prepared in accordance with the recognition and measurement principles of the Australian Accounting Standards and in accordance with AusCann's accounting policies, as set out in AusCann's annual report for the financial year ended 30 June 2020.

The Combined Group pro forma historical financial information is presented in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act. In particular, it does not include the notes to and forming part of the financial statements of AusCann and CannPal.

The information provided in this Section is presented on a pro forma basis only and, as a result, it is likely that this information will differ from the actual financial information of the Combined Group.

Acquisition Accounting

Australian Accounting Standards require the Scheme to be accounted for as an in substance acquisition, with AusCann deemed to be the acquirer. The Scheme has been accounted for as a business combination in accordance with AASB 3 *Business Combinations*.

Under AASB 3, AusCann as acquirer has a period of 12 months from the date of acquisition to finalise the identification and valuation process for all assets and liabilities. AusCann will not finalise this purchase price allocation exercise until after implementation of the Scheme. For the purpose of the Combined Group Pro Forma Historical Financial Information in this Scheme Booklet, the fair value of CannPal's assets and liabilities has been assumed to be equal to the carrying value of assets and liabilities reported by CannPal in the consolidated Statement of Financial Position as at 30 June 2020.

As the purchase price allocation exercise has not been finalised, additional finite life intangible assets and associated amortisation expense may arise. The quantum of any additional amortisation will depend on the incremental fair value allocated and the useful lives ascribed to the identifiable intangible assets as part of the final purchase price allocation exercise.

The value of the consideration for the acquisition of the CannPal Shares under the Scheme will be measured based on the value of the AusCann Shares at close of trading on the Implementation Date. For the purposes of the Combined Group Pro Forma Historical Financial Information, a value of \$0.14 per New AusCann Share has been assumed, being the ASX closing price of AusCann Shares on 12 November 2020 (the last trading day before the Announcement Date). Consequently, the value of the purchase consideration for accounting purposes may differ from the amount assumed in the Combined Group Pro Forma Historical Financial Information due to future changes in the market price of AusCann Shares.

In determining the value of consideration transferred, any new AusCann share based payment awards to be exchanged for awards held by CannPal employees must be considered.

Exchanges of the share options or performance rights in conjunction with a business combination are accounted for as modifications of share based payment awards in accordance with AASB 2 Share Based Payments (AASB 2).

An existing CannPal employee is to receive 975,000 AusCann Options in consideration for the cancellation of 750,000 CannPal Options. As the CannPal Options have fully vested 100% of the replacement award value is treated as part of the purchase price consideration transferred in exchange for CannPal.

In addition, there are 7,250,000 fully vested CannPal Options (issued under a strategic partnership agreement in 2017), which are to be converted to 9,425,000 AusCann Options.

CannPal's Managing Director and CEO is to receive 2,437,500 AusCann Shares in consideration for 1,875,000 unvested CannPal Performance Rights. To determine the portion of the replacement award that is part of the consideration transferred for CannPal and the portion that is remuneration for post-combination service, AusCann must measure both the replacement awards granted by AusCann and CannPal awards as at acquisition date in accordance with AASB 2. The portion of market-based measure of the replacement award that is part of the consideration transferred in exchange for CannPal equals the portion of CannPal award that is attributable to pre-combination service. The portion of the replacement award attributable to pre-combination service is the market-based measure of the CannPal award multiplied by the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the CannPal award. The table below shows the calculation of the value of the purchase consideration based on the Combined Group's capital structure outlined in Section 8.10:

AusCann Shares to be issued:	123,500,000
AusCann Share price (at 12 November 2020)	\$0.14
Value of Shares to be issued	\$17,290,000
Less: Value of Employee replacement award to be treated as remuneration for post-combination service (to be accounted in accordance with AASB 2)	\$144,375
Consideration transferred - Shares	\$17,145,625
AusCann Options to be issued:	10,400,000
AusCann Option Price (Fair Value at 12 November 2020)	\$0.06
Consideration transferred – Options	\$616,904
Consideration transferred - Shares	\$17,145,625
Consideration transferred - Options	\$616,904
Total Scheme Consideration	\$17,762,529

Combined Group pro forma statement of financial position – 30 June 2020

	AusCann	CannPal	Notes	Pro forma Adjustments	Combined Group Pro forma
	30-Jun-20	30-Jun-20			30-Jun-20
	\$	\$		\$	\$
ASSETS					
Current Assets					
Cash and cash equivalents	19,165,661	1,915,662		-	21,081,323
Inventories	3,607,571	-		-	3,607,571
Assets held for resale	400,000	-		-	400,000
Other current assets	469,069	30,471		-	499,540
Total Current Assets	23,642,301	1,946,133		-	25,588,434
Non-Current Assets					
Investment in DayCann	-	-		-	-
Intangibles and Goodwill	-	-	(a),(c),(e)	16,150,620	16,150,620
Right of use asset	84,822	-		-	84,822
Property, plant and equipment	11,738,064	-		-	11,738,064
Total Non-Current Assets	11,822,886	-		16,150,620	27,973,506
Total Assets	35,465,187	1,946,133		16,150,620	53,561,940
LIABILITIES					
Current Liabilities					
Trade and other payables	595,131	291,550	(a)	1,202,620	2,089,301
Lease liabilities	39,884	-		-	39,884
Employee entitlements	139,767	42,674		-	182,441
Total Current Liabilities	774,782	334,224		1,202,620	2,311,626
Non-Current Liabilities					
Lease liabilities	54,433	-		-	54,433
Total Non-Current Assets	54,433	-		-	54,433

	AusCann	CannPal	Notes	Pro forma Adjustments	Combined Group Pro forma
	30-Jun-20	30-Jun-20			30-Jun-20
	\$	\$		\$	\$
Total Liabilities	829,215	334,224		1,202,620	2,366,059
NET ASSETS	34,635,972	1,611,909		14,948,000	51,195,881
EQUITY					
Issued capital	75,468,632	6,975,607	(b)	10,170,018	92,614,257
Reserves	1,273,328	1,729,727	(c)	(968,448)	2,034,607
Accumulated losses	(42,105,988)	(7,093,425)	(d)	5,746,430	(43,452,983)
TOTAL EQUITY	34,635,972	1,611,909		14,948,000	51,195,881

Notes to pro forma Consolidated Statement of Financial Position

The following pro forma adjustments to the historical financial information have been made in order to present the Combined Group Pro Forma Historical Financial Information:

(a) Transaction Costs

Transaction Costs of \$1,202,620 have been included as an increase in trade and other payables and accounted for as follows:

- (i) \$842,620 of transaction costs expected to be incurred by AusCann will be expensed and are therefore reflected in retained profits
- (ii) \$360,000 of transaction costs expected to be incurred by CannPal will be a pre-acquisition expense which will reduce CannPal's net assets. They are therefore reflected as an increase in goodwill upon acquisition.

(b) Issued Capital

Issued capital has been increased for the Scheme Consideration of \$17,145,625, offset by the elimination of CannPal's issued capital of \$6,975,607.

(c) Share Based Payment Reserve

CannPal's share based payments reserve of \$1,729,727 has been eliminated since, as outlined in the Scheme Booklet, the existing CannPal Options and CannPal Performance Rights will convert or be cancelled if the Scheme is implemented. In consideration for the cancellation of CannPal Options, 10,400,000 AusCann Options will be issued. The fair value of these options totalling \$616,904 (\$0.06 per instrument) has been determined using a Black-Scholes model.

As described above, in accordance with accounting standards, \$144,375 has been treated as remuneration for an employee's post-combination service. As the replacement instruments (AusCann shares) do not have vesting conditions, this amount has been immediately expensed in accordance with AASB 2. A corresponding entry has been recognised in the Share Based Payment Reserve.

(d) Accumulated Losses

CannPal's accumulated losses of \$7,093,425 have been eliminated, in part offset by an increase in accumulated losses of \$1,202,620 in relation to AusCann and CannPal's expensed transaction costs. In addition, an expense of \$144,375 has been recognised in accordance with AASB 2 as remuneration costs for the post combination service of CannPal's Managing Director & CEO.

(e) Intangibles and Goodwill

For the purposes of preparing the Combined Group Pro Forma Historical Consolidated Financial Information, the Scheme Consideration (assumed as \$17,762,529 comprising share consideration (\$17,145,625) and consideration for the transfer of options (\$616,904) less CannPal net assets at 30 June 2020 (\$1,611,909) has been reflected as a single Pro Forma Adjustment to the "intangibles and goodwill" line. Subsequent to Implementation, the actual determination of the fair values of goodwill, and identifiable assets and liabilities acquired, may differ to those values presented in the Combined Group Pro Forma Historical Consolidated Statement of Financial Position.

(f) Deferred taxation

At 30 June 2020, CannPal had \$2,580,270 of available tax losses, based on reported net deferred tax assets on losses to the value of \$774,081 which had not been brought to account, as it was not probable within the immediate future that taxable profits would be available against which the deferred tax assets could be recognised. For the purposes of preparing the Combined Group Pro Forma Historical Financial Position it has been assumed that the Business Continuity Test and the Continuity of Ownership Tests will be met. No deferred tax assets have been recognised on the basis that it is not probable within the immediate future that taxable profits will be available against which the deferred tax assets could be recognised.

Material events since 30 June 2020

As at the date of this Scheme Booklet, the AusCann Directors and the CannPal Directors are not aware of any significant change in the state of affairs of the Combined Group or events subsequent to 30 June 2020 that would have a material impact on the Financial Information other than that detailed in Section 7.12 for CannPal and Section 8.6 for AusCann; other than:

- net cash outflows in the ordinary course of business; and
- as disclosed in this Scheme booklet or otherwise disclosed to the ASX or set out below.

At 30 September 2020, the Combined Group had cash and cash equivalents of \$18,763,000 which represents the addition of cash and cash equivalents balances of AusCann (\$16,798,000) and CannPal (\$1,965,000) in their respective quarterly activity report and Appendix 4C's disclosed to the ASX.

On 10 November 2020, AusCann announced that it had entered into an agreement with GrowForChile SpA (**GFC**) and Telor International Limited (**Telor**), in respect of the sale of AusCann's 50% ownership interest in its Chilean joint venture, DayaCann SpA (**DayaCann**) (**DayaCann Sale**). The DayaCann Sale includes the transfer of AusCann's loan receivable from DayaCann to GFC. AusCann has received an upfront payment of US\$200,000 and anticipates further payments that amount to a total consideration of US\$1.5 million.

10. Potential risk factors

10.1 Overview

The CannPal Board considers that it is appropriate for CannPal Shareholders, in considering the Scheme, to be aware that it has identified a number of risk factors, general and specific to CannPal's business, which could materially adversely affect the future operating and financial performance of CannPal and the value of CannPal Shares. This Section identifies some, but not all, of the major risks associated with your current investment in CannPal and general investment risks. You should read the whole of this Scheme Booklet in order to fully appreciate such matters and the manner in which CannPal currently operates before any decision is made on how to vote at the Scheme Meeting.

If the Scheme is implemented, you will receive the Scheme Consideration and will no longer be a CannPal Shareholder. However, you will have an indirect interest in CannPal (as a holder of the New AusCann Shares) and will therefore remain exposed to some of the risks set out below. If the Scheme does not proceed, you will continue to hold your CannPal Shares and will continue to be exposed to risks associated with that investment.

The outline of risks in this Section 10 is a summary only and should not be considered exhaustive. No assurances or guarantees are given in relation to the future performance of, profitability of, or payment of dividends by CannPal, AusCann or the Combined Group.

10.2 Specific risks associated with CannPal's business

Key personnel

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

Future capital requirements

It is likely that CannPal will require future funding to explore and progress their projects or additional projects that CannPal may identify. There can be no assurance that such funding will be available on satisfactory terms or at all. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities.

If CannPal raises additional funds through future issuances of equity or convertible debt securities, existing shareholder could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of the current shareholders. In addition, any debt financing obtained in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult to obtain additional capital and to pursue business opportunities, including potential acquisitions. CannPal may not be able to obtain additional financing on favourable terms, if at all. If CannPal is unable to obtain adequate financing or financing on terms satisfactory to it when required, its ability to continue to support its business growth and to respond to business challenges could be significantly impaired, and its business may be harmed.

Intellectual Property

CannPal may be forced to litigate to enforce or defend its intellectual property rights against infringement and unauthorised use by competitors, and to protect our trade secrets. In so doing, CannPal's intellectual property may be put at risk of being invalidated, unenforceable, or limited or narrowed in scope. Further, an adverse result in any litigation or defence proceedings may place pending applications at risk of non-issuance. In addition, if any licensor fails to enforce or defend their intellectual property rights, this may adversely affect CannPal's ability to develop and commercialise its products and prevent competitors from making, using, and selling competing products. Any such litigation could be very costly and

could distract management from focusing on operating CannPal's business. Further, because the content of much of CannPal's intellectual property concerns cannabis and other activities that are not legal in some state jurisdictions, we may face additional difficulties in defending our intellectual property rights or securing intellectual property which is deemed to be commercially valuable and defensible.

Risk of changes to laws and regulations

CannPal's operations are subject to a variety of laws, regulations and guidelines. The medicinal cannabis industry is evolving in Australia and worldwide and has been identified as possibly posing risks in relation to law enforcement and government regulation. Various regulatory agencies, including The Food and Drug Administration (FDA) and the European Medicines Agency (EMA) are continuing to explore the benefits, risks, regulations and operations of companies involved in medical cannabis as well as the compounds derived from the plant and their appropriate classifications and scheduling.

The introduction of new legislation or amendments to existing legislation by governments, or the respective interpretation of the legal requirements in any of the legal jurisdictions which govern CannPal's operations or contractual obligations, could impact adversely on the assets, operations and, ultimately, the financial position and financial performance of CannPal. In addition, there is a risk that legal action may be taken against CannPal in relation to commercial, legal, regulatory or other matters.

These changes could also have an impact on the scheduling of CannPal's registered products (if any) which could impact their commercialisation potential due to cumbersome controls and requirements in order to prescribe distribute the products to patients.

Risk associated with commercialisation

Commercial success is dependent on a number of factors, including clinicians, veterinarians, distributors, retailers and customers purchasing CannPal's products. There are risks involved with the slow adoption of new technologies and products, particularly with cannabinoid-derived products which may be new and unfamiliar. Overcoming these challenges may require significant expenditure in medical and clinician outreach as well as marketing expenses. Product performance is still not guaranteed, despite heavy marketing investment.

Additionally, some of CannPal's products are at early stages of development and are not yet ready for commercialisation. There is no assurance that CannPal will be able to commercialise or obtain registration for products for the animal and human health markets, generate any revenue, achieve profitability or securing the partners necessary for commercialisation.

Risk associated with clinical trials

Scientifically robust clinical trials have long lead-in times, can be expensive to conduct, and are, by definition of their purpose, uncertain as to outcome. Prior to conduct of clinical trials involving cannabis extracts/derivatives, a number of approvals, licences and/or permits are required. Delays in obtaining all necessary authorisations can impact upon downstream activities, including the potential introduction of scheduling issues.

After commencement, clinical trials are also subject to suspension, delay or termination by regulatory bodies due to revocation of licences/permits to conduct research on unregistered medicinal products, and/ or importation or sourcing of trial material, and/or handling of material classified as poisons. Issues that may impact upon the aforementioned include:

- (a) participant recruitment not meeting trial timelines;
- (b) lower than expected rates of compliance with the trial protocol by the participants;
- (c) low rate of participant retention for the duration of the trial;
- (d) lack of availability of the trial product for the duration of the trial due to manufacturing constraints, or regulatory constraints (including importation);

- (e) unfavourable results from third party pre-clinical or clinical studies which regulatory or ethical bodies believe are relevant; and
- (f) failure of any key trial partners (e.g. contract research organisation) to provide their services in a quality and timely manner.

Positive results are not guaranteed and even with positive results, this may not ensure a product will achieve registration or that registration will provide a claim which is commercially valuable.

Risk of adverse events or other safety issues associated with product

If any of the products sold by CannPal cause serious or unexpected side effects, or are associated with other safety risks such as misuse, abuse or diversion, a number of potentially significant negative consequences could result, including:

- (a) regulatory authorities may withdraw their approval, or require more onerous labelling statements for any product that is approved;
- (b) CannPal could be sued and held liable for harm caused to patients; or
- (c) CannPal's reputation may suffer.

Any reputational damage is likely to have a material impact on CannPal and its operations and financial performance.

Risks associated with adverse publicity

CannPal is developing new therapeutic treatments for animals, using compounds from regulated botanicals (cannabis). Some of the compounds being investigated have been known for unwanted psychoactive effects, and this could lead to adverse publicity that could significantly impact CannPal's ability to distribute its products.

The nature of the Company's business also increases regulatory scrutiny which could impact the operations of the Company, including:

- (a) delays in clinical trial approvals by the animal ethics committees;
- (b) delays in dossier preparation and regulatory communications with authorities such as the Food and Drug Administration;
- (c) negative consumer perception of the products in development;
- (d) possible adverse publicity through animal health and welfare organisations; and
- (e) veterinarian scrutiny, which significantly impacts the Company's ability to promote positive messages.

Dependency on key inputs and their related costs

CannPal's ability to procure its active ingredients will be dependent on a number of key inputs and their related costs. The key inputs include raw material and supplies related to growing operation as well as electricity, water and other local utilities. Any significant interruptions or negative changes in the availability or economics of the supply chain for the inputs could materially impact the business, financial condition and operating results of CannPal. Due to the nature of the product some of these inputs may only be available from single suppliers or a limited group of suppliers and there may be gaps in the information that would be expected of longstanding suppliers of active pharmaceutical ingredients. Any restrictions on the ability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact of the business, financial condition and operating results of CannPal.

Product liability and uninsured risks

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

10.3 General risks associated with CannPal

Economic

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

Equity market conditions

Securities listed on the stock market, and in particular securities of cannabis companies, can experience extreme price and volume fluctuations that are often unrelated to the operating performances of such companies. The market price of securities may fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general.

General factors that may affect the market price of securities include economic conditions in both Australia and internationally, investor sentiment, local and international share market conditions, changes in interest rates and the rate of inflation, variations in commodity prices, the global security situation and the possibility of terrorist disturbances, changes to government regulation, policy or legislation, changes which may occur to the taxation of companies as a result of changes in Australian and foreign taxation laws, changes to the system of dividend imputation in Australia, and changes in exchange rates.

Coronavirus (COVID-19)

The outbreak of the coronavirus disease (**COVID-19**) is impacting global economic markets. The nature and extent of the effect of the outbreak on the performance of CannPal remains unknown. CannPal's Share price may be adversely affected in the short to medium term by the economic uncertainty caused by COVID-19. Further, any governmental or industry measures taken in response to COVID-19 may adversely impact CannPal's operations and are likely to be beyond the control of CannPal.

The CannPal Directors are monitoring the situation closely and have considered the impact of COVID-19 on CannPal's business and financial performance. However, the situation is continually evolving, and the consequences are therefore inevitably uncertain.

Climate change

There are a number of climate-related factors that may affect the operations and proposed activities of CannPal. The climate change risks particularly attributable to CannPal include:

- (a) the emergence of new or expanded regulations associated with transitioning to a lower-carbon economy and market changes related to climate change mitigation. CannPal may be impacted by changes to local or international compliance

regulations related to climate change mitigation efforts, or by specific taxation or penalties for carbon emissions or environmental damage. These examples sit amongst an array of possible restraints on industry that may further impact CannPal and its profitability. While CannPal will endeavour to manage these risks and limit any consequential impacts, there can be no guarantee that CannPal will not be impacted by these occurrences; and

- (b) climate change may cause certain physical and environmental risks that cannot be predicted by CannPal, including events such as increased severity of weather patterns and incidence of extreme weather events and longer-term physical risks such as shifting climate patterns. All these risks associated with climate change may significantly change the industry in which CannPal operates.

Insurance risks

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

Litigation risks

CannPal is exposed to possible litigation risks including contractual disputes and employee claims. Further, the CannPal may be involved in disputes with other parties in the future which may result in litigation. Any such claim or dispute if proven may impact adversely on CannPal's operations, financial performance and financial position.

Other

Other risk factors include those normally found in conducting business, including litigation resulting from the breach of agreements or in relation to employees (through personal injuries, industrial matters or otherwise) or any other cause, strikes, lockouts, loss of service of key management or operational personnel, non-insurable risks, delay in resumption of activities after reinstatement following the occurrence of an insurable risk and other matters that may interfere with the business or trade of CannPal.

10.4 Specific risks relating to AusCann

Business model

AusCann's objective is to undertake both research and development work as well as commercial operations in Australia in respect of cannabinoid-based medicines. These activities are reliant on AusCann obtaining and retaining the necessary licences and approvals. AusCann holds appropriate licences, and has contractual relationships with licenced entities, to enable its research and commercial operations in Australia.

The business model of AusCann is reliant on obtaining and retaining the necessary licences, permits and approvals from relevant regulatory bodies within the operational jurisdictions of AusCann. These include the Office of Drug Control (**ODC**), Therapeutic Goods Administration (**TGA**) and State-based medicines and poisons regulators. These approvals are granted on the basis of specified activities, named responsible persons, fit and proper members of the governing structure, and physical premises.

AusCann has been granted a manufacturing licence and a cannabis research licence from the ODC for its development facility. Manufacturing through a licensed contract manufacturing organisation, and distribution of AusCann's therapeutic goods is not impacted. There is a risk that the Commonwealth or States may amend or change their approach to the regulatory system. Further changes in governments, regulations and policies may have an adverse impact on AusCann.

Key personnel

AusCann is heavily dependent on professional staff and relationships with consultants, which represents a significant proportion of its cost base. Any loss of key personnel or consultants may have a material adverse impact on the financial performance of AusCann.

As a result of the cannabis industry being relatively immature, it is common for sector experts and consultants to work across multiple companies. This could create potential conflicts of interest and give rise to potential litigation, especially where such personnel are working for competitors.

Product development pipeline risk

There are technical risks associated with the pharmaceutical product pipeline. Examples include product design formulation efficacy risk for a targeted indication together with the risk of the delivery vehicle selected to administer the formulation.

In addition, AusCann is subject to pharmaceutical product development risks associated with getting viable and legally compliant products to a position where a paying customer is likely to purchase that product. These risks include:

- (a) inability to secure a commercially viable and compliant supply chain within key identified markets due to regulatory constraints, or lack of appropriate partnerships;
- (b) failure to obtain product registration, where applicable, or maintain product differentiation where registration is not required, due to competitor product advance application, superiority, or capability constraints or failure to obtain minimum standards for registration; and
- (c) failure to implement AusCann operational, business continuity, Quality Control (**QC**) and Quality Assurance (**QA**) processes across the supply chain.

If the risks above were to materialise, AusCann's products may become obsolete or uncompetitive, adversely impacting market penetration, product profitability and AusCann's future cashflows.

In addition, there is the combined risk of each individual product within the development portfolio of AusCann. The different components of the product development portfolio, their active ingredients, targeted indications, pathways and timelines to commercialisation and their weightings contribute to the extent to which AusCann is exposed to business model risk associated with the product portfolio.

Adverse publicity

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

Clinical trials

Scientifically robust clinical trials have long lead-in times, can be expensive to conduct, and are, by definition of their purpose, uncertain as to outcome. They commonly exhibit high failure rates in efficacy demonstration. Furthermore, there is a risk that clinical trials are adversely impacted or invalidated through business management process factors such as study design, materials handling and logistics, formulation and sampling errors, capital priority related investment phasing and clinical capability.

Prior to conduct of clinical trials involving cannabis extracts/derivatives, a number of approvals, licences and/or permits are required. Delays in obtaining all necessary authorisations can impact downstream activities, including the potential introduction of scheduling issues. This may result in the delayed achievement of product development milestones including registration and increase the potential for material cost overrun.

After commencement, clinical trials are also subject to suspension, delay or termination by the ethical review board of the clinical facility or by regulatory bodies due to revocation of licences/permits to conduct research on unregistered medicinal products, and/or importation or sourcing of trial material, and/or handling of material classified as poisons. These and other factors may lead also to conditions placed on the issuance of licences/permits.

Issues that may impact the above include:

- (a) participant recruitment not meeting trial timelines or requirements;
- (b) lower than expected rates of compliance with the trial protocol by the participants;
- (c) low rate of participant retention for the duration of the trial;
- (d) lack of availability of the trial product for the duration of the trial due to manufacturing constraints, or regulatory constraints (including importation);
- (e) unfavourable results from third party pre-clinical or clinical studies which regulatory or ethical bodies believe are relevant;
- (f) failure of any key trial partners (e.g. contract research organisations) to provide their services in a quality and timely manner;
- (g) failure to comply with legislative requirements regarding sourcing (including importation if applicable), handling, storage, transport, destruction of unregistered pharmaceuticals which may be a narcotic; and
- (h) failure by one or more parties to stay within the agreed study protocol or applicable requirements.

In addition to the above, all clinical trials must be approved, and are monitored and may be suspended or terminated by the ethical review board of the clinical institution due to matters outlined above as well as:

- (a) lack of efficacy of the trial product;
- (b) number or severity of adverse events or unexpected side effects;
- (c) withdrawal of trial participants, for whatever reason, which impacts the statistical power of the trial, changing the scientific validity of the trial;
- (d) non-compliance by AusCann, the contract research organisation, the clinician or any other partner organisation in the trial, with the agreed protocol and/or all applicable requirements of the ethical review board;
- (e) mishandling of trial samples, leading to degradation, destruction or loss;
- (f) mishandling of trial data, including security of participant records and personal information; and
- (g) mishandling of trial records.

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

Adverse safety events

If any of the products sold by AusCann cause serious or unexpected adverse effects or reactions, or are associated with other safety risks such as misuse, abuse or diversion, a number of potentially significant negative consequences could result, including:

- (a) regulatory authorities may withdraw their approval, or require more onerous testing, labelling, or monitoring, or more restricted distribution;
- (b) AusCann could be sued and held liable for harm caused to patients; and/or
- (c) AusCann's reputation may suffer.

AusCann may voluntarily suspend or terminate its activities associated with a product if at any time AusCann believes that the product presents an unacceptable risk to consumers, or is unlikely to receive regulatory approval or is unlikely to be successfully commercialised.

Loss of key relationships

The medicinal cannabis industry is undergoing rapid growth and substantial change, which has resulted in increasing consolidation and formation of strategic relationships. AusCann and its Directors expect this consolidation and strategic partnering to continue. This could harm AusCann in a number of ways, including:

- (a) loss of strategic relationships if third parties with whom AusCann has arrangements are acquired by or enter into relationships with a competitor (which could cause AusCann to lose access to necessary resources);
- (b) the relationship between AusCann and third parties may deteriorate and have an adverse impact on AusCann's business; and
- (c) AusCann's current competitors could become stronger, or new competitors could form, from consolidations.

Any of these events could put AusCann at a competitive disadvantage, which could cause AusCann to lose access to key partners and markets. Consolidation could also force AusCann to expend greater resources to meet new or additional competitive threats, which could also harm AusCann's financial performance.

Laws and regulations

There is an ongoing risk that the introduction of new legislation or amendments to existing legislation by governments, a change in the processing time for approvals, or the respective interpretation of the legal requirements in any of the legal jurisdictions which govern AusCann's operations or contractual obligations, could adversely impact the assets, operations and, ultimately, the financial position and financial performance of AusCann and its shares. In addition, there is a risk that legal action may be taken against AusCann in relation to commercial, legal, regulatory or other matters.

AusCann's operations are subject to a variety of laws, regulations and guidelines. The medicinal cannabis industry is evolving in Australia and worldwide and has been identified as possibly posing risks in relation to law enforcement and government regulation. It is likely that governments worldwide, including Australia, will continue to explore the benefits, risks, regulations and operations of companies involved in medical cannabis and to monitor developments across international regulatory frameworks in locations where cannabis has been legalised.

The business model of AusCann is reliant on obtaining and retaining the necessary licences, permits and approvals from relevant regulatory bodies within the operational jurisdictions of AusCann. These include the ODC, TGA and State-based medicines and poisons regulators. These approvals are granted on the basis of specified activities, named responsible persons, fit and proper members of the governing structure, and physical premises.

Regulatory requirements pertaining to the legality of source, quality standards, licences and certifications of suppliers impacts on supply chains in the medicinal cannabis sector. Supply agreements of AusCann subject suppliers to rigorous standards, as required under GMP, including compliance with changes in relevant legislation and the ability of the principal and stipulated regulatory bodies to audit the supplier.

Following amendments to the *Narcotic Drugs Act 1967 (Narcotic Drugs Act)* and the release of associated regulations in 2016, the Narcotic Drugs Act has undergone a comprehensive review, as legislated within that Act, the outcomes of which are being implemented by AusCann. Engagement with and monitoring of activities in the medicinal cannabis sector are necessary to ensure that the business model of the AusCann adapts to regulatory changes in a timely manner.

While to the knowledge of AusCann management, AusCann is currently in compliance with all current laws, changes to laws and regulations due to matters beyond the control of AusCann may adversely impact its operations.

Intellectual Property

The value of AusCann is strongly linked to its intellectual property. Maintaining and increasing this value is therefore dependent on AusCann's ability to protect its intellectual property which may comprise patents, trade marks, copyright, trade secret protection (i.e. know-how), licensing agreements to access third party intellectual property and other proprietary information.

If AusCann fails to adequately maintain or enforce its intellectual property rights, then competitors may develop and/or market a product substantially similar to one in AusCann's existing and proposed future product portfolio that is not covered by any of AusCann's patents.

As a result, AusCann may be forced to litigate to enforce or defend its intellectual property rights against infringement and unauthorised use by competitors, and to protect trade secrets. In so doing, AusCann's intellectual property may be put at risk of being invalidated, unenforceable, or limited or narrowed in scope. Any such litigation could be very costly and could distract management from focusing on operating AusCann's business.

In addition, the process for achievement, protection and enforcement of intellectual property rights can differ substantially across international jurisdictions, in relation to pharmaceuticals in general, and cannabis in particular, due to inconsistency in its legality. This process complexity combined with ongoing litigation or defence proceedings or an adverse result in any previous litigation or defence proceedings may place pending applications in different jurisdictions at risk of non-issuance or delayed issuance.

Patents

The strengths of patents in the pharmaceutical field involve complex legal and scientific questions and can be uncertain. Where appropriate, AusCann seeks patent protection for certain aspects of its products and technology, including composition of matter, manufacturing process and use. AusCann's policy is to seek patent protection for its technologies and products in jurisdictions that offer compelling commercial opportunities. However, AusCann's patents may not be granted in certain jurisdictions, which could impact AusCann's competitive position.

Trade secrets

AusCann relies in part on confidentiality agreements with AusCann's employees, consultants, outside scientific collaborators, sponsored researchers and other advisors to protect AusCann's trade secrets and other proprietary information. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorised disclosure of confidential information. In addition, others may independently discover, or reverse engineer, AusCann's trade secrets and proprietary information.

Plant breeders' rights

The International Convention for the Protection of New Varieties of Plants (**Convention**) was put in place in 1961 to provide a *sui generis* form of intellectual property protection specifically developed for plant breeds. While the Convention is intended to provide exclusive rights to the plant breeder for propagating material, only 74 countries are members, and excepted are acts for the purpose of breeding other plant varieties. The Convention extends to derived varieties and therefore it is possible that a protected plant breed is derived from plants protected by a patent on a process or gene. If this is not understood and managed by suppliers of raw plant material used to derive botanical drug substances, then they could be subject to third party action that disrupts supply and could impact AusCann's commercial operations.

Product pricing and market risk

AusCann operates in the medicinal cannabis industry with the aim to supply GMP certified, clinically evidenced cannabinoid medicines to patients via a multi-channel health care professional (**HCP**) strategy. Ongoing end customer satisfaction is dependent on a number of factors including trust and affordability linked to the HCP distribution strategy and associated with the current administrative requirements of the medicinal cannabis access schemes in Australia and differing regimes worldwide.

Associated risks include:

- (a) the failure to sufficiently engage and educate health care professionals and end use customers in product benefits, efficacy and dosage; and
- (b) the product long term retail price being at an 'out of pocket' level which exceeds the amount considered by end customers as reasonable or palatable given the product's perceived or actual differentiation to other available products.

Uncertainty of future profitability

AusCann's profitability will be impacted by its ability to successfully maintain its licence to operate, including relationships with key licensed entities throughout the value chain, its ability to execute its development and growth strategies, the ability to access key medical markets, economic conditions in the markets in which it operates, competitive factors and regulatory developments. Accordingly, the extent of future profits, if any, and the time required to achieve sustained profitability are uncertain. Additionally, the level of such profitability cannot be predicted.

AusCann's operations will be dependent on additional financing and revenues

It is likely that AusCann will need to generate operating revenues and/or require further funding to progress its research and development and commercialisation plan as detailed in this Section.

Although there is no current need for funding, there can be no assurance that future financing can be obtained, on terms acceptable to AusCann, or at all. The pricing of that funding may be materially affected by volatility in global or local financial markets, sector or geographic region specific market participants, or by a credit rating downgrade.

If AusCann is unable to generate such revenues or obtain such financing on acceptable terms, any investment in AusCann Shares may be materially diminished in value or lost and its ability to respond effectively to business challenges could be significantly impaired.

Any additional equity financing to new investors would dilute the shareholdings of existing AusCann Shareholders.

There is a risk that any new equity securities issued could have rights, preferences and privileges superior to those of the current AusCann Shareholders. In addition, any debt financing obtained in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult to obtain

additional capital, to operate AusCann's business and to pursue business opportunities, including potential acquisitions.

Drug substance sourcing and pricing

Access to high quality botanically derived drug substances from licenced third party Active Pharmaceutical Ingredient (**API**) producers for a cost-effective price, has removed the need for AusCann to undertake extensive cannabis cultivation and extraction activities in-house. The growing of medical cannabis, which is an agricultural product, by third parties is subject to the risks inherent in the agricultural industry, such as damage from insects, plant diseases, storm, fire, frost, flood, drought, water availability, water salinity, pests, birds and *force majeure* events.

Although AusCann seeks to diversify its supply chain, the quality requirements associated with an input into a therapeutic good, place constraints on the number of potential suppliers that meet rigorous standards.

Supply chain disruption

Any significant interruptions or negative changes in the availability or economics of the supply chain for the specialised inputs into AusCann's products or proposed products, or the manufacture or distribution of those products, could materially impact the business, financial condition and operating results of AusCann. This includes existing commercial arrangements and agreements with suppliers.

In addition, there is a risk that production downtime and structural or mechanical integrity of facilities, technical equipment or machinery owned or leased by AusCann or used by contracted parties may cause bottlenecks in the supply chain impacting market supply which could adversely affect AusCann's reputation.

Due to the nature of the products and proposed products, and the applicable regulatory requirements, some of these inputs may only be available from single suppliers or a limited group of suppliers. Any restrictions on the ability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of AusCann.

Uninsured risks

Through its intended business, AusCann will be exposed to uninsured risks which are inherent in its operations. These include:

- (a) undertaking research into the clinical safety and efficacy of, and the manufacture and supply of, medicinal cannabis products;
- (b) transportation and storage of raw material, clinical research material or manufactured products; and
- (c) maintenance of data and information systems including privacy requirements.

AusCann may not be able to maintain insurances on reasonable terms in the future and, in addition, AusCann's insurance may not be sufficient to cover large claims, or the insurer could disclaim coverage on claims. Although AusCann endeavours to work to rigorous standards there is still the potential for adverse events in patients. These events could result in the loss of or delay in generating revenue, loss of market share, failure to achieve market acceptance, diversion of development resources, injury to AusCann's reputation or increased insurance costs.

If AusCann fails to meet its clients' expectations, AusCann's reputation could suffer and it could be liable for damages. Furthermore, AusCann is exposed to the risk of catastrophic loss of necessary equipment or facilities which would have a serious impact on AusCann's operations. AusCann gives no assurance that all such risks will be adequately managed

through its insurance policies to ensure that catastrophic loss does not have an adverse effect on its performance.

10.5 General risks relating to AusCann

The following risks have been identified as being general risks associated with an investment in AusCann. These risks have the potential to have a significant adverse impact on AusCann and may affect its financial position, prospects and the price of its shares.

Price of shares

The price at which AusCann Shares trade on the ASX may be volatile. There are general risks associated with an investment in AusCann Shares. The trading price of AusCann Shares may fluctuate with movements in equity capital markets in Australia and internationally.

Securities listed for quotation on the stock market, and in particular securities of medicinal cannabis companies, can experience extreme price and volume fluctuations that are often unrelated or disproportionate to the operating performances of such companies. These broad market fluctuations may adversely affect the market price of the shares of AusCann and are affected by a range of external factors over which AusCann or the AusCann Directors have no control. The volatility may affect the ability of shareholders to sell their shares of AusCann at an advantageous price.

There is no assurance that the price of AusCann Shares will increase in the future, even if AusCann achieves key technical or commercial milestones including its financial forecasts.

Generally applicable factors which may affect the market price of AusCann Shares include:

- (a) fluctuations in the domestic and international markets for listed stocks;
- (b) general economic conditions, including interest rates;
- (c) inflation rates, exchange rates, commodity and oil prices or changes to government;
- (d) fiscal, monetary or regulatory policies, legislation or regulation;
- (e) inclusion in or removal from market indices;
- (f) the nature of the markets in which AusCann operates;
- (g) variations in sector performance, which can lead to investors exiting one sector to prefer another; and
- (h) initiatives by other sector participants which may lead to investors switching from one stock to another.

In addition to general factors impacting domestic and international markets for listed stocks, the market price of Auscann Shares may be affected by a variety of additional factors, including:

- (a) investor sentiment;
- (b) variations in commodity prices and sector performance (which can lead to sector herd exit or entry by investors);
- (c) the actions taken by competitors;
- (d) the unavailability of finance on acceptable terms;
- (e) AusCann's operating results failing to meet market analyst expectations or downward revisions in market analyst estimates;

- (f) acquisitions, dispositions or other material public announcements by AusCann or its competitors;
- (g) the global security situation and the possibility of terrorist disturbances;
- (h) changes to government regulation including those relating to the ASX listing obligations, policy or legislation;
- (i) changes which may occur to the taxation of companies as a result of changes in Australian and foreign taxation laws; and
- (j) changes to the system of dividend imputation in Australia.

Deterioration of general economic conditions may also affect AusCann's business operations, and the consequent returns from an investment in AusCann Shares.

Liquidity

AusCann Shares are listed on the ASX and it is not currently intended to list the AusCann Shares for trading on any other financial market, other than Chi-X. There can be no guarantee that an active market in AusCann Shares will continue. If an active market for the AusCann Shares is not sustained, it may be difficult for investors to sell their AusCann Shares at the time or for the price they seek. Furthermore, the market price for AusCann Shares may fall or be made more volatile because of relatively low volume of trading in AusCann Shares. When trading volume is low, significant price movements can be caused by the trading in a relatively small number of shares. Similarly, the sale of large parcels of AusCann Shares may cause a decline in the price at which AusCann Shares trade. AusCann may also offer additional AusCann Shares in order to raise capital or to (part) fund future acquisitions, which may adversely affect the market price for AusCann shares.

Access to capital

AusCann may rely on access to debt and equity financing. The ability to secure financing on acceptable terms may be materially adversely affected by volatility in financial markets, either globally or impacting a particular geographic region, industry or economic sector, or by a downgrade in its credit rating. For these (or other) reasons, financing may be unavailable or the cost of financing may be significantly increased. Such inability to obtain, or such increase to the costs of obtaining, financing could materially adversely affect AusCann's operations, financial performance and position.

Ability to service future debt

AusCann may become unable to obtain, service or refinance any future debt, on acceptable terms or at all, depending on future performance and cash flows of AusCann which are affected by various factors, some of which may be outside AusCann's control, such as interest and exchange rates, general economic conditions and global financial markets. If any of these scenarios materialise in an adverse way, AusCann may be unable to raise financing on acceptable terms to repay maturing indebtedness. This could adversely affect the longer-term prospects and financial performance of AusCann's business.

Tax law and application

The application of and change in, relevant tax laws (including income tax, goods and services tax (or equivalent), rules relating to deductible liabilities and stamp duty), or changes in the way those tax laws are interpreted, will or may impact the tax liabilities of AusCann or the tax treatment of an AusCann Shareholder's investment. An interpretation or application of tax laws or regulations by a relevant tax authority that is contrary to AusCann's view of those laws may increase the amount of tax paid or payable by AusCann.

Both the level and basis of tax may change. Any changes to the current rate of company income tax (in Australia or other countries in which AusCann operates) and/or any changes in tax rules and tax arrangements (in Australia or other countries in which AusCann operates)

may increase the amount of tax paid or payable by AusCann, and could also have an adverse impact on the level of dividend franking/conduit foreign income and AusCann Shareholder returns. In addition, an investment in AusCann Shares involves tax considerations which may differ for each AusCann Shareholder. Each AusCann Shareholder is encouraged to seek professional tax advice in connection with any investment in AusCann.

AusCann has received R&D tax incentives for expenditure that has been incurred in the past. Under the R&D incentive framework, both the Australian Taxation Office and AusIndustry are entitled to audit the expenditure incurred on R&D activities to ensure that it has been incurred in accordance with requirements of Division 355 of the Income Tax Assessment Act 1997 (Division 355). To this extent, there is a risk that some or all of the R&D tax incentives received to date could be required to be repaid (together with interest and penalties) if audits of the claims are conducted and the relevant regulatory authority forms the view that the requirements of Division 355 have not been met in full or in part.

Additionally, there is no guarantee of the continuation of the R&D incentive program. If the program ceases or if there is a material adverse change made, AusCann may lose a significant source of funds which may inhibit AusCann's product development and commercialisation objectives.

Force majeure events

Events may occur within or outside Australia that could impact on global, Australian or other local economies relevant to AusCann's financial performance, the operations of AusCann and the price of AusCann Shares. These events include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other man-made or natural events or occurrences that can have an adverse effect on the demand for AusCann's services and its ability to conduct business. AusCann has only a limited ability to insure against some of these risks.

Accounting standards

Australian Accounting Standards (**AAS**) are adopted by the Australian Accounting Standards Board (**AASB**) and are not within the control of AusCann or AusCann Directors. The AASB may, from time to time, introduce new or refined AAS, which may affect the future measurement and recognition of key statement of profit or loss and statement of financial position items. There is also a risk that interpretation of existing AAS, including those relating to the measurement and recognition of key statement of profit or loss or statement of financial position items may differ. Any changes to the AAS or to the interpretation of those standards may have an adverse effect on the reported financial performance and position of AusCann.

Shareholder dilution

In the future, AusCann may elect to issue further AusCann Shares in connection with fundraisings, including to raise proceeds for acquisitions. While AusCann will be subject to the constraints of the Listing Rules regarding the percentage of its capital it is able to issue within a 12 month period (other than where exceptions apply), there is no assurance that AusCann Shareholders will be able to participate in such fundraisings and they may be diluted as a result of such fundraisings.

Economic conditions and COVID-19

The performance of AusCann will be affected by domestic and global economic conditions. Adverse changes in macroeconomic conditions, including global and country-by-country economic growth, the costs and general availability of credit, the level of inflation, interest rates, exchange rates, changes in national demographics, government policy (including fiscal, monetary and regulatory policies), general consumption, consumer spending and sentiment, employment levels, industrial disruption, and other conditions, are outside the control of AusCann and the AusCann Directors and their impact cannot be predicted.

The current global COVID-19 pandemic may impact existing product revenues, in particular due to the loss of face to face interactions with health care professionals. The digitisation of

education and product information has partly mitigated this risk and as a consequence, at this stage, AusCann Directors do not believe that COVID-19 is likely to have any material impact on AusCann's development pipeline, although it could cause delays or interruption to future prospective clinical studies if another similar outbreak coincided with a future study.

Litigation

AusCann is exposed to possible litigation risks including contractual disputes with third parties and employee claims. Furthermore, AusCann may be involved in disputes with other parties in the future which may result in litigation. Any such claim or dispute if proven may impact adversely on AusCann's operations, financial performance and financial position.

Climate risk

Natural events caused or affected by changing climate may have an impact on AusCann's business. Conditions may influence the supply of and demand for cannabinoid-based pharmaceutical products provided by AusCann, resulting in varied revenue levels. Climate change may have financial implications to AusCann and could potentially cause direct damage to assets and indirect impacts caused by supply chain or product distribution disruption.

10.6 Risks specific to the Scheme and creation of the Combined Group

The following risks have been identified as being key risks specific to an investment in AusCann if the Scheme is implemented and relating to the creation of the Combined Group. These risks have the potential to have a significant adverse impact on AusCann and may affect AusCann's financial position, prospects and share price.

Risks relating to integration and realisation of synergies

There is a risk that the expected synergies may not be realised to their full extent or at all. Furthermore, the expected synergies may be realised over a longer period of time, or involve greater costs to achieve, than anticipated.

The ability to realise the expected synergies will be dependent on, among other things, the success of management in integrating the CannPal and AusCann businesses in an efficient, effective and timely manner without disruption to the respective businesses.

There is no guarantee that the businesses of AusCann and CannPal will be able to be integrated successfully within a reasonable period of time. There are risks that any integration of the businesses of CannPal and AusCann may take longer than expected and that anticipated efficiencies and benefits of that integration may be less than estimated.

Integration risk factors include:

- (a) possible differences in the management style and culture of AusCann and CannPal;
- (b) unexpected losses of key personnel;
- (c) difficulty in consolidating corporate and administrative infrastructures and removing duplicative operations;
- (d) difficulty in aligning and executing the strategy of the Combined Group including the achievement, and timing of the expected synergistic benefits and cost savings;
- (e) difficulty in integrating management information and data systems, including integration of financial and quality controls;
- (f) loss of clients or client opportunities due to conflicts or other factors;
- (g) unanticipated market conditions; and

- (h) changes in regulations, or regulatory conditions imposed in connection with the Scheme, impacting the ability of the Combined Group to use its scale and presence to achieve anticipated benefits.

AusCann and CannPal have head offices in Western Australia and New South Wales, respectively, where corporate and administrative functions reside. Both companies have research partners and operating activities across multiple jurisdictions worldwide. The realisation of synergies will depend on the ability to integrate corporate, research and development and administrative functions.

Integration business planning is expected to mitigate risks relating to the integration. Nonetheless, a risk remains that difficulties may arise in integrating the two businesses, which depends on the ability to identify and implement the synergies.

Management of Growth

The Combined Group may not be able to effectively manage its continued growth while integrating CannPal into its ongoing operations, which will require, among other things, proper integration and continued development of management information systems, the update of financial and management controls and the training of personnel. Failure to successfully manage these factors simultaneously could have a material adverse effect on both businesses and the value of AusCann Shares.

Key Personnel

The responsibility to oversee the day-to-day operations and the strategic management of AusCann will depend substantially on its senior management and key personnel.

Many of AusCann's and CannPal's key personnel are highly qualified and highly experienced with in-depth industry and client knowledge. Any loss of key personnel may have a material adverse impact on the respective financial performance of the Combined Group. Employee retention may be particularly challenging during the Scheme process and integration of AusCann and CannPal, as employees may experience change fatigue or uncertainty about their future roles. This may result in business disruption due to key roles becoming vacant and as such the ability to realise the benefits of the Scheme may be adversely affected.

Since the respective businesses are heavily dependent on professional staff, any loss of these personnel may have a material adverse impact on the ability of the Combined Group to realise the anticipated benefits of the Scheme and on the financial performance of AusCann. Furthermore, the Combined Group may have to incur significant costs in identifying and hiring replacements for departing employees.

Implementation of the Scheme and subsequent integration planning may result in the termination of some management positions, employees and consultants of AusCann or CannPal, which may result in significant redundancy or termination payments. Certain key executives and other employees of AusCann or CannPal may terminate their management positions or their employment contracts on their own initiative as a result of or following the Scheme. If members of the Combined Group's senior management depart, the Combined Group may not be able to find effective replacements in a timely manner, or at all, and its business may be disrupted.

Conditions Precedent

Implementation of the Scheme is subject to a number of Conditions Precedent, outlined in Section 12.5 including that no court or Regulatory Authority takes any action to restrain or prohibit the Scheme. Certain Conditions Precedent are beyond the control of AusCann and CannPal. There can be no guarantee that the Conditions Precedent to the Scheme will be satisfied or waived (as applicable) in a timely manner or at all. Any failure or delay to satisfy the Conditions Precedent could prevent or delay Implementation, which could reduce or delay the benefits that are anticipated to arise from the Scheme, increase the costs associated with the Scheme and impede the successful integration of the AusCann and CannPal businesses.

Reputation

Industry reputation is a key asset of AusCann and CannPal. Maintenance of the reputation and value associated with the Combined Group, and the development and commercialisation of the pharmaceutical businesses within it, will be critical to the Combined Group's businesses and their strategy for the future.

It is possible that, if the Scheme is implemented, the strategies described in this Scheme Booklet may not be achieved, or key employees may leave, resulting in the erosion of the reputation or value associated with the Combined Group and its businesses, which in turn could have an adverse effect on the performance and operations of the Combined Group. Other events, including a material non-compliance with regulations or a breach of or failure in information and technology systems, could have a material adverse impact on the Combined Group's reputation or the value of its businesses and increase expenditure due to additional security costs and/or potential claims for compensatory damages.

Regulatory

Many regulatory approvals, licences and permits are dependent upon named responsible persons, fit and proper person requirements and the governance framework of the legal entity, and the specified activities. Loss of key employees, changes in the governing board or executive, changes in significant shareholders and/or activities may require disclosure to and approval from one or more regulatory body. It is possible that any licences to operate are suspended or revoked requiring re-application and approval.

Engagement with the regulatory bodies to ensure any necessary transitioning of the approvals to the Combined Group will be paramount to ensure no disruption of operations.

Regulatory requirements pertaining to the legality of source, quality standards, licences and certifications of suppliers impacts on supply chains in the medicinal cannabis sector and the implications across the activities of the Combined Group will need to be managed.

Litigation

In connection with the Scheme, the Combined Group could face new claims and litigation, in particular brought by existing or former business partners, suppliers, competitors and / or regulators of AusCann or CannPal, or by investors in connection with the Scheme.

Due Diligence

The negotiations between AusCann and CannPal were conducted on the basis of the information that was publicly available to each party and on voluntary limited disclosure by each party to the other. While AusCann and CannPal consider the due diligence investigations to have been adequate and consistent with market practice for a transaction of this type, the investigations were undertaken within a limited timeframe and both parties have not been able to verify the accuracy, reliability or completeness of all of the information provided to them against independent data. In addition, consistent with market practice in Australia, the warranties provided by AusCann and CannPal in the Scheme Implementation Deed are more limited than what a seller in a privately negotiated share acquisition agreement would normally provide.

As a result, following Implementation of the Scheme, unknown liabilities of AusCann or CannPal may arise, or expected types of liabilities may be greater than anticipated, and this may impact negatively on profitability, results of operations, financial position, of the Combined Group and the AusCann Share price, which the relevant party might otherwise have discovered if it had conducted a complete due diligence review and obtained extensive warranties from the other party.

Contract Risk

The implementation of the Scheme or subsequent the issuance of shares by AusCann, may trigger clauses in contracts to which AusCann or CannPal or their subsidiaries are a party, in

respect of a change of a share ownership event that allows the counterparty to review or terminate the contract as a result of the change. If the counterparty to any such contract were to validly seek to renegotiate or terminate the contract on that basis, this may have a material adverse effect on the financial performance of the Combined Group, depending on the relevant contracts.

After-market

If the Scheme is implemented CannPal Shareholders will receive 1.3 New AusCann Shares for every one CannPal Share they hold at the Record Date. The exact value of this Scheme Consideration that would be realised by individual CannPal Shareholders will be dependent on the price at which the new AusCann Shares trade on ASX after the Implementation Date.

If a large number of shareholders in the Combined Group do not intend to continue to hold their AusCann Shares (including, for CannPal Shareholders, those new AusCann Shares received as Scheme Consideration) after Implementation and instead choose to sell, there is a risk that the trading price of AusCann Shares will be adversely impacted by such selling.

Additionally, if the Scheme is implemented, there will be a change in the risk profile to which AusCann Shareholders are exposed. AusCann Shareholders are currently exposed to various risks as a result of their investment in AusCann.

If the Scheme is implemented, existing AusCann Shareholders will be exposed to risk factors relating to CannPal, and to certain additional risks relating to CannPal and the integration of the two businesses. In many cases, those risks are different from or additional to those currently faced by CannPal Shareholders.

If for any reason the conditions to the Scheme are not satisfied or waived (where applicable) and the Scheme is not completed, the market price of AusCann Shares may be adversely affected.

Loss or disruption of key business relationships

The creation of the Combined Group may cause third parties with which AusCann currently do business, including industry partners, customers and suppliers, to experience uncertainty, including with respect to current or future business relationships with AusCann or CannPal. Such uncertainty may cause third parties to reassess their future relationship and business dealings with the Combined Group.

The exact value of the Scheme consideration is not certain

Under the terms of the Proposed Transaction, CannPal Shareholders will receive 1.3 New AusCann Shares for every one CannPal Share they hold at the Record Date. The exact value of the Scheme Consideration is dependent on the price at which the New AusCann Shares trade on ASX after the Implementation Date.

In addition, the Sale Agent (and/or a nominee of the Sale Agent) will be issued New AusCann Shares attributable to certain Ineligible Foreign Shareholders and will sell them on market as soon as reasonably practicable after the Implementation Date. It is possible that such sales may exert downward pressure on AusCann's share price during the applicable period. In any event, there is no guarantee regarding the prices that will be realised by the Sale Agent or the future market price of the New AusCann Shares. Future market prices may be either above or below current or historical market prices.

Capital markets and funding

It is likely that the Combined Group will require future funding to progress its research and development activities and business plan objectives. There can be no assurance that such funding will be available on satisfactory terms or at all and may be materially affected by volatility in financial markets impacting global, local, sector or geographic region specific market participants, or by a credit rating downgrade. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and

operating activities and may adversely affect the scope of the business plan objectives of the Combined Group.

The AusCann pro forma Statement of Financial position as at 30 June 2020 is illustrative only

The Combined Group's unaudited pro forma consolidated financial information contained in this Scheme Booklet which is based on the audited Statements of Financial Position for AusCann and CannPal as at 30 June 2020, is presented for illustrative purposes only and may not be an indication of AusCann's financial position when the Scheme is implemented.

For example, certain adjustments and assumptions have been made to give effect to the implementation of the Scheme.

The information on which these adjustments and assumptions have been made is preliminary and these kinds of adjustments and assumptions are difficult to make with complete accuracy. Moreover, the Combined Group's pro forma Statement of Financial Position as at 30 June 2020 may not reflect all costs expected to be incurred by AusCann in connection with the Scheme. For example, the impact of any unexpected incremental costs incurred in integrating CannPal and AusCann are not reflected.

10.7 Risks to CannPal Shareholders if the Scheme does not proceed

CannPal Shareholders should be aware that if the Scheme does not proceed, CannPal Shareholders will retain their CannPal Securities and will not receive any form of Scheme Consideration. CannPal Shareholders may, in addition to the normal risks they face, be exposed to the additional risks as described in Section 6.3.

If the Proposed Transaction does not proceed, and no Superior Proposal for CannPal is received, the CannPal Directors will consider a number of alternative strategies for the operation and ownership of CannPal's assets, as well as other growth initiatives. These alternatives would take time to implement.

If the Scheme is not implemented, then in order for CannPal to develop or enhance its project portfolio, it would need to raise additional funds, which may include an equity issue. There can be no assurance that such funding will be available on satisfactory terms, or at all.

If the Proposed Transaction does not proceed, CannPal will continue to operate its current businesses as a stand-alone listed entity. Each CannPal Shareholder will retain their CannPal Shares and will not receive any New AusCann Shares. CannPal will still incur a relative proportion of the transaction and other costs of the Proposed Transaction. In those circumstances, it is likely that CannPal's management would seek to continue to progress activities on the CannPal's projects and continue to maximise value for CannPal Shareholders. CannPal Shares may trade below their current market price (or the value attributed by the Independent Expert) if the Proposed Transaction is not implemented. This may occur if, for example, investors consider that CannPal's growth prospects are lower in the absence of the Proposed Transaction.

11. Australian tax implications

This Section has been prepared by BDO Corporate Tax (WA) Pty Ltd.

11.1 Disclaimer and general use restriction

The following is a general description of the Australian income tax, stamp duty and GST consequences of the Scheme (assuming it is implemented) for CannPal Shareholders who participate in the Scheme. It does not constitute tax advice and should not be relied upon as such.

The description is based upon the Australian taxation law and administrative practice of the tax authorities in effect at the date of this Scheme Booklet, but is general in nature and is not intended to be an authoritative or complete statement of the laws applicable to the particular circumstances of a CannPal Shareholder. Taxation laws are complex and are subject to frequent change, as is their interpretation by the courts and the tax authorities. CannPal Shareholders should seek independent professional advice in relation to their own particular circumstances.

The comments set out below are relevant only to those CannPal Shareholders who hold their CannPal Shares on capital account. The description does not address the Australian tax consequences for CannPal Shareholders who:

- (a) hold their CannPal Shares for the purposes of speculation or a business of dealing in securities (for example, shares held as a revenue asset or as trading stock);
- (b) acquired their CannPal Shares pursuant to an employee share, option or rights plan;
- (c) are under a legal disability;
- (d) are temporary residents for Australian income tax purposes;
- (e) are subject to special tax rules applicable to certain classes of entity, including partnerships, insurance companies, tax exempt entities or entities subject to the Investment Manager Regime under Subdivision 842-I of the *Income Tax Assessment Act 1997* (Cth); or
- (f) are subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* (Cth) in relation to gains and losses on their CannPal Shares.

11.2 Australian income taxation implications for Scheme Shareholders

(a) Capital gains tax (CGT)

Under the Scheme, CannPal Shareholders will dispose of their CannPal Shares to AusCann. For CannPal Shareholders, this disposal will constitute a CGT event A1 for Australian CGT purposes.

The time of the CGT event will be the Implementation Date.

(b) Calculation of capital gain or capital loss

Shareholders may make a capital gain on the disposal of CannPal shares to the extent that the 'capital proceeds' from the disposal of the CannPal shares are more than the 'cost base' of the said shares (availability of CGT scrip-for-scrip rollover relief is discussed below). Conversely, shareholders may make a capital loss to the extent that the capital proceeds are less than the 'reduced cost base' of the CannPal shares.

The 'capital proceeds' received in respect of the disposal of each Share should be the market value of the ASX Listed CannPal Shares or, if elected, the AusCann Shares, received per CannPal Share.

The 'cost base' of the CannPal shares generally includes the cost of acquisition and any incidental costs of acquisition and disposal that are not deductible to the Shareholder. The 'reduced cost base' of the CannPal Shares is usually determined in a similar, but not identical, manner.

The sum of all capital gains made by a CannPal Shareholder on the disposal of their CannPal Shares to AusCann, reduced by any capital loss incurred during the year or carried forward from prior years, subject to satisfaction of the relevant loss recoupment tests, is referred to as the net capital gain and should be included in the CannPal Shareholder's taxable income in the year in which the Implementation Date occurs.

Alternatively, in the event that a CannPal Shareholder makes a capital loss on the sale of their CannPal Shares, the capital loss may be used to offset a capital gain made in a future income year subject to satisfaction of the loss recoupment tests. Capital losses may not be deducted against other income for income tax purposes.

(c) **CGT Discount**

Generally, Australian resident Scheme Shareholders who are individuals, complying superannuation entities, trustees or life insurance companies may be entitled to reduce the amount of any capital gain made on the disposal of their CannPal Shares if they have held their CannPal Shares for at least 12 months before the Implementation Date (this reduction is referred to as the CGT discount).

The CGT discount, if it is available, is applied only after any available capital losses have been applied to reduce the capital gain.

The discount rate is 50% for individuals and trustees, and 33.3% for complying superannuation entities and life insurance companies (where the life insurance company qualifies for the CGT discount).

Capital gains and capital losses made by a Scheme Shareholder in a year of income from all sources are aggregate to determine whether they make a net capital gain or capital loss for the year of income. A net capital loss is not deductible from the assessable income for a Scheme Shareholder. However, a net capital loss may be able to be carried forward to offset capital gains made by the Scheme Shareholder in future years of income, subject to various requirements being met.

The CGT discount is not available to Scheme Shareholders that are companies.

(d) **CGT Roll-Over Relief**

Australian resident Scheme Shareholders who participate in the Scheme may be eligible for CGT scrip-for-scrip rollover relief.

In broad terms, eligible Scheme Shareholders who choose to obtain CGT scrip-for-scrip rollover relief disregard the CGT consequences of disposing of their CannPal Shares under the Scheme, including the capital gain that arises. The rollover relief does not apply where Scheme Shareholders make a capital loss.

Scheme Shareholders will generally need to choose CGT scrip-for-scrip rollover relief before lodging their income tax return for the year of income in which the CGT event happens. This should, as discussed above, be the year of income in which the Implementation Date occurs.

Choosing to obtain CGT rollover relief can simply be evidenced by excluding the relevant capital gain in respect of which the CGT rollover relief is chosen from the Scheme Shareholder's tax return.

(e) **Non-Australian Resident Shareholders**

A CannPal shareholder who is not a resident of Australia for Australian tax purposes should be able to disregard any capital gain or capital loss that would otherwise arise from the disposal of their CannPal shares on the basis the shares should not be "taxable Australian property".

Specifically, Taxable Australian Property includes an indirect interest in Australian real property which constitute interests held in an entity that satisfies both of the following two tests:

- (i) Non-portfolio interest test – holdings, on an associate inclusive basis, in the test entity of 10% or more at the time of disposal (or throughout a 12 month period within the period commencing 24 months before the time of disposal).
- (ii) Principal asset test – where the sum of the market values of the entity's assets that are taxable Australian real property exceeds the sum of the market value of its assets that are not taxable Australian real property, which is expected to be the case.

It is recommended that CannPal shareholders who are non-Australian residents should seek their own independent tax advice regarding the tax implications of the Scheme in their country of tax residence.

11.3 GST

The transfer of CannPal Shares to AusCann under the Scheme should not give rise to any GST liability for Scheme Shareholders. In addition, Scheme Shareholders who are registered or required to be registered for GST should not have any GST obligations in relation to the Scheme. However, for those Scheme Shareholders who are registered for GST, there may be consequences in relation to claiming input tax credits on any GST included on costs (such as legal and adviser costs) associated with the Scheme.

11.4 Stamp duty

No Australian stamp duty should be payable by Scheme Shareholders on the transfer of their CannPal Shares to AusCann or the issue of New AusCann Shares.

12. Overview of the Scheme

This Section provides an overview of the Scheme Conditions, the Scheme Meeting, and other steps required to implement the Scheme.

12.1 Summary of the proposed Scheme

A scheme of arrangement is a statutory procedure that is commonly used to enable one company to acquire or merge with another. The Scheme is the mechanism by which CannPal Shareholders may approve the Proposed Transaction.

If implemented, the Scheme will have the following effect:

- (a) all CannPal Shares will be transferred from existing CannPal Shareholders to AusCann in return for the Scheme Consideration;
- (b) CannPal will become a wholly-owned subsidiary of AusCann, and CannPal will be de-listed from ASX;
- (c) Scheme Shareholders will become shareholders in AusCann;
- (d) Ineligible Foreign Shareholders will receive the Cash Proceeds of the sale of the New AusCann Shares that would otherwise be issued to them net of brokerage and other costs; and
- (e) the strategic direction for the development of CannPal's existing projects will be determined by the post-Scheme AusCann Board.

Implementation of the Scheme is subject to the Scheme Conditions being satisfied or waived, including the condition that the Scheme may only be implemented if CannPal Shareholders vote in favour of the Scheme at the Scheme Meeting. A summary of the Scheme Conditions which have not already been satisfied and the steps necessary to implement the Scheme appears in Section 12.5.

12.2 People who are affected by the Scheme

If the Scheme becomes Effective, Scheme Shareholders will have all of their Scheme Shares transferred to AusCann without the need for any further act by any Scheme Shareholder in return for the Scheme Consideration for each Scheme Share that they hold.

12.3 Scheme Implementation Deed

CannPal and AusCann entered into the Scheme Implementation Deed on 14 November 2020 in which they agreed (among other things) their respective obligations in proposing and implementing the Scheme. The key terms of the Scheme Implementation Deed not otherwise addressed in this Section, are summarised in Section 14. A copy of the Scheme Implementation Deed (with certain schedules redacted) was released on ASX on 16 November 2020 and is available on CannPal's website (www.cannpal.com).

12.4 Deed Poll

AusCann has executed the Deed Poll in favour of each CannPal Shareholder, pursuant to which AusCann covenants to perform its obligations under the Scheme, including, among other things, to issue the Scheme Consideration to each Scheme Shareholder, subject to satisfaction of the Scheme Conditions.

The Deed Poll may be relied upon by a CannPal Shareholder, despite the fact that they are not a party to it, and each CannPal Shareholder appoints CannPal as its agent to enforce their rights under the Deed Poll against AusCann.

The Deed Poll is governed by the laws of Western Australia.

A copy of the Deed Poll is set out in full at Annexure C of this Scheme Booklet.

12.5 Scheme Conditions

Implementation of the Scheme is subject to satisfaction or waiver of the applicable Scheme Conditions. The Scheme Conditions are set out in clause 3.1 of the Scheme (set out in Annexure B) and clause 3.1 and schedule 3 of the Scheme Implementation Deed.

Certain of the Scheme Conditions set out in the Scheme and the Scheme Implementation Deed have already been satisfied. The Scheme Conditions that remain outstanding as at the date of this Scheme Booklet are set out in the table below.

	Scheme Condition
1.	<p>Regulatory Approvals</p> <p>Before the Delivery Time on the Second Court Date:</p> <p>(a) ASIC and ASX issue or provide such consents or approvals as are necessary or which CannPal and AusCann agree are necessary or desirable to implement the Scheme and such consent, approval or other act has not been withdrawn or revoked before the Delivery Time on the Second Court Date; and</p> <p>(b) each other relevant Governmental Agency issue or provide such consents, waivers, approvals which AusCann and CannPal consider are necessary or desirable to implement the Scheme (noting that if such consents waivers/and/or approvals are subject to conditions those conditions must be acceptable to the parties (each acting reasonably)) and such consent, approval or other act has not been withdrawn or revoked before the Delivery Time on the Second Court Date.</p>
2.	<p>No CannPal Prescribed Occurrence</p> <p>No CannPal Prescribed Occurrence occurs between the date of the Scheme Implementation Deed and Delivery Time on the Second Court Date.</p>
3.	<p>No AusCann Prescribed Occurrence</p> <p>No AusCann Prescribed Occurrence occurs between the date of Scheme Implementation Deed and at the Delivery Time on the Second Court Date.</p>
4.	<p>CannPal representations and warranties</p> <p>CannPal's representations and warranties set out in the Scheme Implementation Deed are true and correct in all material respects as at the date of Scheme Implementation Deed and as at Delivery Time on the Second Court Date.</p>
5.	<p>AusCann representations and warranties</p> <p>AusCann's representations and warranties set out in the Scheme Implementation Deed are true and correct in all material respects as at the date of Scheme Implementation Deed and as at the Delivery Time on the Second Court Date.</p>
6.	<p>Shareholder approval</p> <p>The Scheme is approved by CannPal Shareholders at the Scheme Meeting by the majorities required under section 411(4)(a)(ii) of the Corporations Act.</p>
7.	<p>Court approval</p> <p>The Scheme is approved by the Court in accordance with section 411(4)(b) of the Corporations Act either unconditionally or on conditions that do not impose unduly onerous obligations upon either party (acting reasonably).</p>
8.	<p>No Material Adverse Change</p> <p>No Material Adverse Change occurs between the date of the Scheme Implementation Deed and the Delivery Time on the Second Court Date</p>
9.	<p>AusCann Cash Balance</p> <p>No change, event, circumstance or occurrence (singularly or in combination) occurs which results in or has the effect of (or which with the lapse of time is reasonably likely to result in or have the effect of) reducing, or being reasonably likely to reduce, the AusCann Group's consolidated available cash to:</p> <p>(a) less than \$12,480,000 as at 31 January 2021; or</p>

	Scheme Condition
	(b) (if the Scheme Booklet is dispatched to CannPal Shareholders after 31 January 2020) less than \$11,580,000 as at 28 February 2021.
10.	Restraining orders No judgment, order, decree, statute, law, ordinance, rule or regulation, or other temporary restraining order, preliminary or permanent injunction, restraint or prohibition, entered, enacted, promulgated, enforced or issued by any court or other Governmental Agency of competent jurisdiction in Australia remains in effect as at the Delivery Time on Second Court Date that prohibits, materially restricts, makes illegal or restrains the completion of the Scheme.
11.	Third party consents All consents, approvals or waivers of rights by parties other than CannPal under any Material Contracts are necessary or desirable are obtained in a form and subject to conditions acceptable to AusCann (acting reasonably), and such consents, approvals or waivers have not been withdrawn, cancelled or revoked before the Delivery Time on the Second Court Date.

For the Scheme to be implemented, each Scheme Condition must be satisfied by the due date (if any) fixed for its satisfaction as set out in the above table (or otherwise waived to the extent it is capable of waiver).

As at the date of this Scheme Booklet, CannPal is not aware of any circumstances that would cause the Scheme Conditions to not be satisfied. CannPal Shareholders will receive an update on the status of the Scheme Conditions at the Scheme Meeting.

CannPal will also announce to ASX any relevant matter that affects the Scheme or the likelihood of a Scheme Condition being satisfied or not being satisfied, in accordance with CannPal's continuous disclosure obligations. These details will be published on ASX's website (www.asx.com.au) and will also appear on CannPal's website (www.cannpal.com).

12.6 Status of Scheme Conditions

As at the date of this Scheme Booklet, the following Scheme Conditions have been either wholly or partially satisfied or waived:

- (a) **FIRB Condition:** AusCann has waived the FIRB approval condition.

12.7 Scheme Meeting

On 1 February 2021, the Court ordered that the Scheme Meeting be convened in accordance with the Notice of Scheme Meeting.

The Scheme Meeting will be held at 12:00 pm (AEDT) on 8 March 2021 at BDO, Level 11, 1 Margaret Street, Sydney NSW 2000.

CannPal Shareholders will also be able to participate in the Scheme Meeting, vote and ask questions, from smartphones, tablets or desktop devices through an online platform, details of which are set out in Section 4.2.

The fact that under section 411(1) of the Corporations Act the Court ordered on 1 February 2021 that a meeting of CannPal Shareholders be convened by CannPal to consider and vote on the Scheme and has approved the Scheme Booklet does not mean that the Court:

- (a) has formed any view as to the merits of the proposed Scheme or as to how CannPal Shareholders should vote (on this matter, CannPal Shareholders must reach their own decision); and
- (b) has prepared, or is responsible for, the content of this Scheme Booklet.

For the Scheme to be implemented, it is necessary that the Requisite Majorities of CannPal Shareholders vote in favour of passing the resolution to approve the Scheme at the Scheme Meeting.

If the Requisite Majorities of CannPal Shareholders approve the Scheme at the Scheme Meeting, CannPal will, as soon as possible after the Scheme Meeting is held, announce the results of the CannPal Shareholders' vote to ASX and will publish the results on CannPal's website (www.cannpal.com).

Details of how to vote at the Scheme Meeting are set out in Section 4.

A copy of the Notice of Scheme Meeting is set out in Annexure D of this Scheme Booklet.

12.8 Second Court Hearing

In accordance with section 411(4)(b) of the Corporations Act, in order to become Effective, the Scheme (with or without modification) must be approved by an order of the Court.

If:

- (a) the Scheme Resolution is passed by the Requisite Majorities of Scheme Shareholders at the Scheme Meeting; and
- (b) all other Conditions have been satisfied or waived (if applicable),

CannPal will apply to the Court for orders approving the Scheme.

The Second Court Date is expected to be 11:00am (WST) on 10 March 2021 and the hearing is open to all CannPal Shareholders. The Court will consider things such as whether procedural requirements have been satisfied, whether CannPal Shareholders have received adequate information and whether the terms and conditions of the exchange of securities under the Scheme is fair and reasonable to CannPal Shareholders. The Court may refuse to grant the orders referred to above even if the Scheme is approved by the Requisite Majorities of CannPal Shareholders.

Each CannPal Shareholder has the right to appear at Court at the hearing of the application by CannPal for orders approving the Scheme. Any CannPal Shareholder who wishes to object to the Scheme at that Court hearing or make a complaint to ASIC about the Scheme should note that the Court hearing for approval of the Scheme is expected to be held at 11:00 am (WST) on 10 March 2021. The Court has an overriding discretion regarding whether or not to approve the Scheme, even if the Scheme is approved by the Requisite Majorities of CannPal Shareholders at the Scheme Meeting.

CannPal has requested ASIC provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court at the time of the Second Court Hearing.

12.9 Record Date

CannPal Shareholders will be entitled to receive the Scheme Consideration under the Scheme if they are registered as holders of CannPal Shares at 7.00 pm (AEDT) on the Record Date. The Record Date is expected to be 7.00 pm (AEDT) on Monday, 15 March 2021.

As from the Record Date (and other than for AusCann following the Implementation Date), CannPal will not accept for registration or recognise for any purpose any transmission application or transfer in respect of CannPal Shares, other than to AusCann in accordance with the Scheme and any subsequent transfer by AusCann or its successors in title.

All share certificates and holding statements for CannPal Shares will cease to have effect as documents of title. Each entry on the CannPal Share Register at 7.00 pm (AEDT) on the Record Date will cease to have any effect other than as evidence of entitlement to the Scheme Consideration.

12.10 Effective Date

If the Court approves the Scheme, CannPal will (pursuant to section 411(10) of the Corporations Act) lodge with ASIC an office copy of the Court order approving the Scheme. CannPal will lodge an office copy of the Court order with ASIC as soon as reasonably practicable and in any event by 5.00 pm (WST) on the first Business day after the day on which the Court approves the Scheme. On that date (currently proposed to be 11 March 2021), the Scheme will become Effective.

If a Scheme has not become Effective or the relevant Scheme Conditions have not been satisfied or waived by 11 March 2021, or such later date as CannPal and AusCann agree in writing, the Scheme will lapse and be of no further force or effect.

12.11 Suspension of trading of CannPal Shares

CannPal will apply to ASX for suspension of trading of CannPal Shares on ASX after the close of trading on ASX on the Effective Date. It is expected that the suspension of trading on the ASX will occur from close of trading on the Effective Date.

12.12 Implementation Date

The Implementation Date is expected to be on 18 March 2021. If the Scheme becomes Effective, on the Implementation Date:

- (a) all Scheme Shareholders who receive New AusCann Shares will have their names entered on the AusCann Register;
- (b) subject to the Scheme Consideration having been paid in full, the board of each member of the CannPal Group will be reconstituted as directed by AusCann;
- (c) all Scheme Shares held by Scheme Shareholders will be transferred to AusCann without any further action required by Scheme Shareholders;
- (d) CannPal will enter the name of AusCann into the CannPal Register in respect of the Scheme Shares;
- (e) CannPal will then become a wholly owned subsidiary of AusCann; and
- (f) all existing CannPal Options will be cancelled pursuant to the Option Cancellation Deeds in exchange for the issue of AusCann Options in accordance with an agreed ratio, as set out in Section 12.14.

For further information regarding the New AusCann Shares to be issued to the Scheme Shareholders, refer to Section 8.18. No securities will be issued on the basis of this Scheme Booklet after the date which is 13 months after the date of this Scheme Booklet, being the expiry date of this Scheme Booklet.

New AusCann Shares are expected to commence trading on the ASX on 22 March 2021.

12.13 De-listing of CannPal

At a time determined by AusCann following the implementation of the Scheme, AusCann will cause CannPal to apply for termination of the official quotation of CannPal Shares on ASX and have itself removed from the official list of ASX. It is expected that this will occur shortly after the Implementation Date.

12.14 Treatment of CannPal Options

Under the Scheme Implementation Deed, AusCann and CannPal entered into the Option Cancellation Deeds with the CannPal Optionholders, pursuant to which the CannPal Optionholders have agreed to the cancellation of their CannPal Options in exchange for

AusCann granting new AusCann Options to the CannPal Optionholder at the ratio of 1.3 new AusCann Options for every one CannPal Option held.

This will result in 10,400,000 new AusCann Options being granted to the CannPal Optionholders (or their nominees) with an exercise price of \$0.1538 and expiring on the date set out in the table below (assuming that no CannPal Options are exercised before the Record Date).

	Number
AusCann Options (exercisable at \$0.1538 on or before 24 March 2022)	9,425,000
AusCann Options (exercisable at \$0.1538 on or before 9 November 2022)	325,000
AusCann Options (exercisable at \$0.1538 on or before 31 December 2024)	650,000

The grant of new AusCann Options to the CannPal Optionholders is subject to the Scheme having become Effective.

CannPal has obtained a waiver from ASX of the requirements of ASX Listing Rule 6.23.2 to permit the CannPal Options to be cancelled for consideration without requiring CannPal Shareholder approval to be obtained. Refer to Section 15.15 for further details.

12.15 Treatment of CannPal Performance Rights

CannPal has a total of 1,875,000 CannPal Performance Rights on issue, all held by Managing Director Mr Layton Mills.

In accordance with their terms, the existing CannPal Performance Rights will vest and convert into CannPal Shares on a one for one basis on the Scheme being approved by the Court at the Second Court Hearing.

The CannPal Shares issued on conversion will be eligible to participate in the Scheme.

12.16 If the Scheme does not proceed

If the Scheme does not proceed, CannPal Shareholders will continue to hold CannPal Shares. In the absence of any Superior Proposal to the Scheme, CannPal will continue as a standalone entity. CannPal Shareholders will be exposed to the risks relating to CannPal's business set out in Section 10.3. CannPal Shareholders may, in addition to the normal risks it faces, be exposed to the additional risks as described in Section 10.7.

Depending on the reasons why the Scheme does not proceed, either CannPal or AusCann may be liable to pay a break fee of \$150,000 (inclusive of GST) to the other party. The Break Fee is not payable if the Scheme does not proceed merely because CannPal Shareholders do not vote in favour of the Scheme in sufficient numbers to meet the legal tests. Further information in relation to the Break Fee is set out in Section 14.3.

CannPal will also be liable to pay certain transaction costs in relation to the Scheme, regardless of whether or not the Scheme is implemented. If the Scheme does proceed, additional costs will be incurred.

13. Scheme Consideration

13.1 Scheme Consideration

If the Scheme becomes Effective, each Scheme Shareholder (other than Ineligible Foreign Shareholders), will receive 1.3 New AusCann Shares for every CannPal Share they hold as at 7.00 pm (AEDT) on the Record Date. The Scheme Consideration of New AusCann Shares will be issued by AusCann on the Implementation Date, which is expected to be 18 March 2021.

Ineligible Foreign Shareholders will not be issued with New AusCann Shares. Instead, the New AusCann Shares that would otherwise have been issued to them will be issued to the Sale Agent on their behalf and they will be sold on ASX. The Cash Proceeds of the sale of these New AusCann Shares less brokerage and other costs, taxes and charges will then be paid pro-rata to Ineligible Foreign Shareholders.

Further details of the Scheme Consideration for Ineligible Foreign Shareholders are set out at Section 13.2.

A holding statement detailing the issue of the New AusCann Shares is expected to be despatched to Scheme Shareholders within two Business Days after the Implementation Date.

Scheme Shareholders may be unable to trade until they receive the holding statement confirming the number of New AusCann Shares held. It is the responsibility of each Scheme Shareholder to confirm their holding before trading in their securities. New AusCann Shareholders who sell their securities before they receive their holding statements do so at their own risk. CannPal and AusCann disclaim all liability (to the maximum extent permitted by law) to persons who trade the New AusCann Shares before receiving their holding statements.

13.2 Ineligible Foreign Shareholders

AusCann is not obliged to issue New AusCann Shares as consideration to any foreign holder (being a CannPal Shareholder whose address in the CannPal Share Register is in a jurisdiction other than Australia or its external territories or New Zealand), unless AusCann is satisfied that the laws of a particular foreign holder's country of residence (as shown in the CannPal Share Register) would permit the issue and allotment of New AusCann Shares to that foreign holder, either unconditionally or after compliance with conditions which AusCann in its sole discretion regards as acceptable and not unduly onerous.

The New AusCann Shares that would have been issued to these Ineligible Foreign Shareholders will be issued to the Sale Agent on the Implementation Date and dealt with in the manner described in Section 13.3.

This Scheme Booklet does not constitute an offer of AusCann Shares in any jurisdiction in which it would be unlawful. In particular, this Scheme Booklet may not be distributed to any person, and the AusCann Shares may not be offered or sold, in any country outside Australia and its external territories and New Zealand.

CannPal Shareholders whose address shown on the CannPal Register is outside of the aforementioned jurisdictions should refer to the Important Notices Section of this Scheme Booklet.

13.3 Sale Agent

As indicated in Section 13.2, Ineligible Foreign Shareholders will not receive New AusCann Shares under the Scheme. Instead, the New AusCann Shares that would otherwise have been issued to them will be issued to Euroz Hartleys Securities Limited (AFSL 243302), a broker appointed to act as sale agent (the **Sale Agent**) (or to a nominee of the Sale Agent) on the Implementation Date.

AusCann will:

- (a) procure that, as soon as reasonably practicable (and in any event not more than 15 Business Days after the Implementation Date), the Sale Agent sells or procures the sale on ASX of all of the New AusCann Shares issued to the Sale Agent (in relation to Ineligible Foreign Shareholders) in such manner, at such price and on such other terms as the Sale Agent determines in good faith; and
- (b) procure that, promptly after the last sale of all New AusCann Shares issued to the Sale Agent, the Sale Agent pays the Cash Proceeds into a trust account for payment by CannPal to the Ineligible Foreign Shareholders of their proportion of the Cash Proceeds, being the Cash Proceeds of the sale of the relevant New AusCann Shares after deduction of a brokerage fee and other selling costs, taxes and charges.

Under the Scheme, Ineligible Foreign Shareholders appoint CannPal as their agent to receive any financial services guide or other notice given by the Sale Agent. Copies of any document CannPal receives from the Sale Agent as agent for the Ineligible Foreign Shareholders can be obtained by contacting CannPal's Company Secretary.

CannPal, AusCann and the Sale Agent give no assurance as to the price that will be achieved for the sale of New AusCann Shares described above. The Cash Proceeds that Ineligible Foreign Shareholders will receive may be more or less than the current market value of AusCann Shares after deducting any applicable brokerage and other costs. Further details about the Sale Facility are set out below.

Ineligible Foreign Shareholders are not required to make an election or do any act to participate in the Sale Facility.

Further details regarding the Sale Facility are as follows:

- (a) AusCann has appointed the Sale Agent (who holds an Australian Financial Services Licence);
- (b) the market price of AusCann Shares is subject to change from time to time. Up-to-date information on the market price of AusCann Shares is available from www.asx.com.au (using the code "AC8");
- (c) all New AusCann Shares attributable to Ineligible Foreign Shareholders will be issued to the Sale Agent, who will pool those New AusCann Shares and sell them on market (in one transaction or a number of transactions). All of the proceeds of those sales will be pooled and then (after deduction of brokerage and other costs) the Cash Proceeds will be divided by the total number of New AusCann Shares issued to the Sale Agent. The resultant amount will be paid to each Ineligible Foreign Shareholder in respect of each New AusCann Share to which they would otherwise have been entitled (subject to rounding); and
- (d) the amount of Cash Proceeds received by Ineligible Foreign Shareholders may be less than the actual proceeds received by the Sale Agent (or the nominee of the Sale Agent) for that person's New AusCann Shares.

13.4 Fractional entitlements

If, pursuant to the Scheme, a Scheme Shareholder becomes entitled to a fraction of a New AusCann Share, the number of New AusCann Shares issued (or, in the case of Ineligible Foreign Shareholders, the number of New AusCann Shares the Sale Agent will receive for sale on their behalf) will be rounded down to the nearest whole number.

13.5 Warning against CannPal Share splitting

If AusCann reasonably believes that a Scheme Shareholder has been a party to the splitting or division of a shareholding in an attempt to obtain an advantage in relation to the rounding referred to in Section 13.4, then AusCann reserves the right to round the entitlement of such

holdings so as to provide only the number of New AusCann Shares that would have been received but for the splitting or division.

13.6 Tax consequences of the Scheme and trading and holding New AusCann Shares for Australian resident CannPal Shareholders

A general guide to the Australian tax consequences for the Scheme for certain Scheme Shareholders who are Australian tax residents is set out in Section 11. This guide is not intended to provide specific tax advice in respect of the individual circumstances of any Scheme Shareholder. Accordingly, Scheme Shareholders should seek their own independent professional tax advice.

14. Key terms of the Scheme Implementation Deed

CannPal and AusCann entered into the Scheme Implementation Deed on 14 November 2020.

The Scheme Implementation Deed sets out the obligations of CannPal and AusCann in relation to the Scheme.

The CannPal Directors consider that the Scheme Implementation Deed was entered into on arm's length commercial terms having regard to the fact that CannPal undertook an assessment of any alternative strategic options available to it.

In making the above statement, the CannPal Directors note that CannPal Shareholders are being given the opportunity to consider and vote on whether the Proposed Transaction is implemented at the Scheme Meeting.

This Section sets out a summary of the key terms and conditions of the Scheme Implementation Deed that are not otherwise addressed in this Scheme Booklet.

14.1 Scheme Conditions under the Scheme Implementation Deed

The Scheme is subject to the fulfilment or, in certain cases, waiver of the Scheme Conditions. Refer to Section 12.5 for further details.

14.2 Exclusivity

The Scheme Implementation Deed contains certain exclusivity arrangements in favour of AusCann, which CannPal considers are in line with market practice. Those arrangements include:

- (a) **No shop:** CannPal must not solicit or encourage any Competing Proposal or any enquiries, discussions or negotiations in relation to, or that may reasonably be expected to lead to, a Competing Proposal;
- (b) **No talk:** CannPal must not participate in any negotiations or discussions with any person in relation to, or that may reasonably be expected to lead to, a Competing Proposal;
- (c) **No due diligence:** CannPal must not invite, facilitate or permit any person (other than AusCann) to undertake due diligence investigations in respect of CannPal or its Related Bodies Corporate, or any of their businesses and operations in connection with such person formulating, developing or finalising a Competing Proposal;
- (d) **Competing Proposal:** During the Exclusivity Period, CannPal must promptly notify AusCann in writing of:
 - (i) any approach, inquiry or proposal to initiate any discussions or negotiations that concern, or that could reasonably be expected to lead to, an actual, proposed or potential Competing Proposal; and
 - (ii) any request for any information relating to CannPal, its Related Bodies Corporate, or any of their businesses and operations, if CannPal has reasonable grounds to suspect that the request may be in connection with such person formulating, developing or finalising, or assisting in the formulation, development or finalisation of a Competing Proposal.

The notice must provide details of the identity of the relevant person making or proposing the Competing Proposal and the material terms of any such Competing Proposal (including price, conditions precedent, timetable and break fee (if any) of any Competing Proposal or proposed Competing Proposal to the extent known). CannPal must keep AusCann updated in relation to any material developments in relation to any actual, proposed or potential Competing Proposal; and

- (e) **Matching right:** If CannPal receives a Competing Proposal and as a result, any CannPal Director proposes to either:
- (i) change, withdraw or modify his or her recommendation of the Scheme; or
 - (ii) approve or recommend entry into any agreement, commitment, arrangement or understanding relating to the Competing Proposal,

CannPal must ensure that no CannPal Director does so unless:

- (iii) the Competing Proposal is bona fide;
- (iv) CannPal has provided AusCann with material terms of the Competing Proposal (including price, conditions precedent, timetable and break fee (if any) of the Competing Proposal);
- (v) CannPal has given AusCann at least five Business Days after the date of the provision of the information referred to above to amend the terms of the Proposed Transaction or propose another form of transaction; and
- (vi) AusCann has not announced or otherwise formally proposed to CannPal a matching or superior proposal to the terms of the actual, proposed or potential Competing Proposal (including by way of an increase or decrease in the Scheme Consideration) by the expiry of the five Business Day period above.

CannPal is not required to comply with the no talk and no due diligence provisions in the Scheme Implementation Deed if the CannPal Board, acting in good faith and after receiving written legal advice, determines that complying with those provisions would be likely to constitute a breach of the fiduciary or statutory duties owed by the CannPal Directors.

These exclusivity arrangements are set out in full in clause 16 of the Scheme Implementation Deed.

14.3 Payment of Break Fee by CannPal

In accordance with Australian market practice, CannPal has agreed to pay to AusCann a cash reimbursement fee of \$150,000 (inclusive of GST) (**CannPal Break Fee**) in any of the following circumstances:

- (a) **Competing Proposal Succeeds:** a Competing Proposal is publicly announced prior to the End Date, and within twelve months of the date of such announcement:
 - (i) the Competing Proposal is implemented or completed substantially on the terms described in the public announcement; or
 - (ii) the proponent of that Competing Proposal acquires a relevant interest in at least 50% of the CannPal Shares and the Competing Proposal is (or becomes) free of any defeating condition;
- (b) **Competing Proposal executed:** at any time before termination of the Scheme Implementation Deed, CannPal enters into any agreement with a third party in respect of a Competing Proposal under which that third party and CannPal agree to undertake or give effect to such Competing Proposal;
- (c) **Change of Recommendation:** at any time prior to the Second Court Date, any CannPal Director:
 - (i) withdraws or adversely modifies their recommendation of the Proposed Transaction or recommends or supports a Competing Proposal;

- (ii) does not recommend in the Scheme Booklet that CannPal Shareholders approve the Scheme; or
- (iii) makes any public statement to the effect that the Scheme is not, or is no longer, recommended,

except where this is:

- (iv) as a result of a CannPal Director having an interest in the Scheme that is so materially different from other CannPal Shareholders which would properly preclude or render it inappropriate for him or her to provide any such recommendation, which for the avoidance of doubt will not extend to any CannPal Director adversely revising or adversely modifying his or her recommendation of the Proposed Transaction or making a public statement indicating that they recommend, endorse or support a Competing Transaction;
 - (v) as a result of the Independent Expert (either in its initial report or any updated, revised or supplemental report) opining that the Scheme is not in the best interest of CannPal Shareholders (other than where the reason for that opinion is a Superior Proposal); or
 - (vi) in circumstances where CannPal is entitled to terminate the Scheme Implementation Deed; or
- (d) **Material Breach:** AusCann terminates the Scheme Implementation Deed on account of a material breach (subject to specified cure periods).

The CannPal Directors consider the CannPal Break Fee is reasonable and appropriate in amount, structure and effect. The fee is not payable if the Scheme does not proceed merely because CannPal Shareholders do not vote in favour of the Scheme in sufficient numbers to satisfy the legal requirements.

Full details of the CannPal Break Fee are set out in clause 14 of the Scheme Implementation Deed available at www.cannpal.com.

14.4 AusCann Break Fee

AusCann agrees to pay to CannPal a cash reimbursement fee of \$150,000 (inclusive of GST) (**AusCann Break Fee**) in the following circumstances:

- (a) **Material Breach:** if CannPal terminates the Scheme Implementation Deed for a material breach by AusCann or
- (b) **Payment of Consideration:** the Scheme becomes Effective but AusCann does not provide the Scheme Consideration in accordance with the terms and conditions of the Scheme Implementation Deed and the Deed Poll.

Full details of the AusCann Break Fee are set out in clause 15 of the Scheme Implementation Deed.

14.5 Termination

Either party may terminate the Scheme Implementation Deed at any time prior to the Second Court Date:

- (a) if the other party is in material breach of any of its material obligations under the Scheme Implementation Deed (other than the breaching of a party's respective representations and warranties) and the other party has failed to remedy that breach within 5 Business Days (or the Delivery Time on the Second Court Date if earlier) of receipt by it of a notice in writing from the terminating party setting out details of the relevant circumstance and requesting the other party to remedy the breach;
- (b) if a Scheme Condition becomes incapable of being satisfied before the End Date;

- (c) if the Court refuses to make any order directing CannPal to convene the Scheme Meeting, provided that both CannPal and AusCann have met and consulted in good faith and either party does not wish to proceed with the Scheme; or
- (d) if the Effective Date for the Scheme has not occurred on or before the End Date.

CannPal may, by notice in writing to AusCann, terminate the Scheme Implementation Deed at any time prior to the Delivery Time on the Second Court Date if at any time before then that number of CannPal Directors as constitutes a majority of the CannPal Board publicly recommend a Superior Proposal and do not, within 3 Business Days, reinstate their recommendation of the Proposed Transaction.

AusCann may, by notice in writing to CannPal, terminate the Scheme Implementation Deed if at any time prior to the Delivery Time on the Second Court Date, any CannPal Director:

- (a) fails to recommend the Scheme;
- (b) withdraws or adversely revises or adversely modifies his or her recommendation of the Scheme; or
- (c) makes a public statement indicating that he or she recommends, endorses or supports a Competing Transaction,

other than as a result of a CannPal Director having an interest in the Scheme that is so materially different from other CannPal Shareholders which would properly preclude or render it inappropriate for him or her to provide any such recommendation, which for the avoidance of doubt will not extend to any CannPal Director adversely revising or adversely modifying his or her recommendation of the Proposed Transaction or making a public statement indicating that they recommend, endorse or support a Competing Transaction.

Further details on termination are set out in clause 13 of the Scheme Implementation Deed.

14.6 Amendments to the Scheme

CannPal must not consent to any modification of, or amendment to, or the making or imposition by the Court of any Scheme Condition in respect of the Schemes without the prior consent of AusCann.

14.7 Representations and warranties

Each of CannPal and AusCann has given representations, warranties and covenants to the other than are considered to be standard warranties for an agreement of this kind. The representations, warranties and covenants given by each of CannPal and AusCann are set out in full in clause 10 of the Scheme Implementation Deed.

15. Additional information

15.1 Introduction

This Section 15 sets out additional information required to be disclosed to CannPal Shareholders pursuant to the Corporations Act and the Corporations Regulations, together with other information that may be of interest to CannPal Shareholders.

15.2 Interests of CannPal Directors

As at the date of lodgement of this Scheme Booklet with ASIC for registration:

- (a) CannPal Directors held interests in marketable securities of CannPal as set out in Section 7.6; and
- (b) no CannPal Director held an interest in marketable securities of AusCann (as set out in Section 7.6).

No CannPal Director has acquired or disposed of a Relevant Interest in any CannPal Shares in the four month period ending on the date immediately before the date of this Scheme Booklet.

CannPal Directors who are Scheme Shareholders will be entitled to receive New AusCann Shares in accordance with the terms of the Scheme.

15.3 Benefits to CannPal officers in connection with retirement from office

There are no other current proposals for any payments or other benefit to be made or given to a director, secretary or executive officer of CannPal or any Related Body Corporate of CannPal as compensation for the loss of, or as consideration for or in connection with his or her retirement from office in CannPal or any Related Body Corporate of CannPal as a result of the Scheme.

15.4 Agreements or arrangements connected with or conditional on the Scheme

If the Scheme becomes Effective, AusCann has agreed to appoint:

- (a) Layton Mills as Chief Executive Officer;
- (b) Geoff Starr as Non-Executive Director;
- (c) Robert Clifford as Non-Executive Director; and
- (d) Dr Kathryn Adams as Non-Executive Director.

It has been agreed that:

- (a) Layton Mills will be paid a base salary of \$275,000 (**Base Salary**) (excluding superannuation) and entitled to receive:
 - (i) short term incentives of up to 25% of his Base Salary;
 - (ii) a long term incentive package which will be finalised prior to the implementation of the Scheme;
 - (iii) 6 months' notice of termination; and
 - (iv) a reasonable relocation allowance; and
- (b) Geoff Starr, Robert Clifford and Dr Kathryn Adams will each be paid \$50,000 (excluding superannuation) for their roles as Non-Executive Directors in line with

current directors fees paid by AusCann. Each incoming director will also be entitled to receive travel allowances and reimbursement of incidental expenses from AusCann in connection with their appointments.

Other than as set out in this Section, there are no agreements or arrangements made between any CannPal Director and another person in connection with, or conditional on, the outcome of the Scheme other than in their capacity as a CannPal Shareholder.

15.5 CannPal Directors' interests in AusCann contracts

No CannPal Director has any interest in any contract entered into with AusCann, or any interest as a creditor of AusCann.

15.6 Remuneration of CannPal Directors

The CannPal Directors are entitled to be paid fees for their services as directors of CannPal and have been paid the following fees in the past two financial years (inclusive of superannuation entitlements):

CannPal Director	FY 2020	FY2019
Geoff Starr	\$60,000	\$86,621 ²
Layton Mills	\$243,710 ¹	\$235,605 ³
Dr. Kathryn Adams	\$36,000	\$62,621 ²
Robert Clifford	\$36,000	\$62,621 ²

Notes:

1. Comprising of a salary payment of \$198,800, an annual leave accrual of \$7,217, a superannuation payment of \$18,886 and a share-based (ie, non-cash) payment valued at \$18,807.
2. Includes a share-based (ie, non-cash) payment valued at \$26,621.
3. Comprising of a salary payment of \$194,275, an annual leave accrual of \$4,119, a superannuation payment of \$18,456 and a share-based (ie, non-cash) payment valued at \$18,755.

15.7 Payments to non-executive AusCann Directors

The AusCann Constitution provides that non-executive directors of AusCann may be paid, as remuneration for their services as directors of AusCann, a sum determined from time to time by AusCann Shareholders in a general meeting, with that sum to be divided amongst the non-executive directors in such manner and proportion as they agree.

As at the date of this Scheme Booklet, the aggregate maximum remuneration for non-executive AusCann Directors is \$500,000 per annum.

15.8 Disclosure of payments and benefits to CannPal Directors, secretaries and executive officers

No CannPal Director, secretary or executive officer of CannPal (or any of its Related Bodies Corporate) has agreed to receive, or is entitled to receive, any payment or benefit from AusCann which is conditional on, or is related to, the Scheme other than in their capacity as a CannPal Shareholder or as set out in Section 15.3 or 15.4.

15.9 Disclosure of interests

Except as disclosed below or elsewhere in this Scheme Booklet, no:

- (a) CannPal Director or proposed director of CannPal;
- (b) AusCann Director or proposed director of AusCann;

- (c) person named in this Scheme Booklet as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Scheme Booklet; or
- (d) promoter or underwriter of AusCann or the Combined Group,

(together “**Interested Persons**”) holds, or held at any time during the two years before the date of this Scheme Booklet any interests in:

- (e) the formation or promotion of AusCann or the Combined Group;
- (f) property acquired or proposed to be acquired by AusCann in connection with the formation or promotion of AusCann or the Combined Group or the offer of New AusCann Shares under the Scheme; or
- (g) the offer of New AusCann Shares under the Scheme.

15.10 Disclosure of fees and other benefits

Except as disclosed elsewhere in this Scheme Booklet, neither AusCann nor CannPal has at any time during the two years before the date of this Scheme Booklet paid or agreed to pay any fees, or provided or agreed to provide any benefit to:

- (a) a director or proposed director of AusCann to induce them to become or qualify as a director of AusCann; or
- (b) any Interested Person for services provided by that person in connection with:
 - (i) the formation or promotion of AusCann or the Combined Group; or
 - (ii) the offer of New AusCann Shares under the Scheme.

15.11 Creditors of CannPal

The Scheme, if implemented, will not affect the interests of creditors of CannPal.

CannPal has paid and is paying all of its creditors within normal terms of trade. It is solvent and is trading in an ordinary commercial manner.

15.12 Cancellation of CannPal Options

CannPal has a total of 8,000,000 CannPal Options on issue.

As set out in Section 12.14, pursuant to the Option Cancellation Deeds the CannPal Optionholders have agreed to cancel their CannPal Options in exchange for AusCann granting new AusCann Options to them at a ratio of 1.3 AusCann Options for every CannPal Option held. This will result in 10,400,000 new AusCann Options being granted to the CannPal Optionholders (or their nominees) (assuming that no CannPal Options are exercised before the Record Date).

Each new AusCann Option will have an exercise price of \$0.1538 and expiry dates as detailed in Section 12.14 and will otherwise be on terms materially the same as the terms of the existing CannPal Options being cancelled pursuant to the Option Cancellation Deeds.

15.13 Treatment of CannPal Performance Rights

CannPal has a total of 1,875,000 CannPal Performance Rights on issue, all held by the Managing Director, Mr Layton Mills.

In accordance with their terms, the existing CannPal Performance Rights will vest and convert into CannPal Shares on a one for one basis on the Scheme being approved by the Court at the Second Court Hearing.

The CannPal Shares issued on conversion will be eligible to participate in the Scheme.

15.14 Right to inspect and obtain copies of the CannPal Share Register

A CannPal Shareholder has the right to inspect the CannPal Share Register, which contains the name and address of each CannPal Shareholder and certain other prescribed details relating to CannPal Shares, without charge. A CannPal Shareholder also has the right to request a copy of the register, upon payment of a fee (if any) up to a prescribed amount.

15.15 ASX waiver

ASX Listing Rule 6.23.2 provides that the cancellation of options for consideration requires the approval of shareholders. CannPal has been granted a waiver of ASX Listing Rule 6.23.2 to permit the CannPal Options to be cancelled without requiring the approval of CannPal Shareholders, subject to the Scheme being approved by the Requisite Majorities of CannPal Shareholders and the Court. The waiver application was made on the basis that CannPal Shareholders are provided with information of the proposed treatment of CannPal Options in this Scheme Booklet and therefore able to consider this information when determining whether to vote in favour of the Scheme. Refer to Section 12.14 for further information on the proposed treatment of CannPal Options.

15.16 No administrator

It is not proposed that any person be appointed to manage or administer the Scheme.

15.17 No relevant restrictions in the constitution of CannPal

There are no restrictions on the right to transfer CannPal Shares in CannPal's constitution.

15.18 No unacceptable circumstances

The CannPal Directors do not believe that the Scheme involves any circumstances in relation to the affairs of any member of CannPal that could reasonably be characterised as constituting "unacceptable circumstances" for the purposes of section 657A of the Corporations Act.

15.19 CannPal Shareholders in jurisdictions outside Australia and New Zealand

This Scheme Booklet and the Scheme are subject to Australian disclosure requirements that may be different to those applicable in other jurisdictions. This Scheme Booklet and the Scheme do not in any way constitute an offer of securities in any place in which, or to any person to whom, it would not be lawful to make such an offer.

Any CannPal Shareholder whose address as shown in the CannPal Share Register at 7.00 pm (AEDT) on the Record Date is outside of Australia or its external territories or New Zealand will be an Ineligible Foreign Shareholder for the purposes of the Scheme, other than a CannPal Shareholder in respect of whom AusCann is satisfied that the laws of that holder's country of residence (as shown in the CannPal Share Register) would permit the issue and allotment of New AusCann Shares, either unconditionally or after compliance with conditions which AusCann in its sole discretion regards as acceptable and not unduly onerous.

AusCann will not issue New AusCann Shares to an Ineligible Foreign Shareholder. If you are an Ineligible Foreign Shareholder, you should refer to Section 13.2 for further information.

15.20 Privacy and personal information

CannPal and AusCann, their respective share registries and investor relations advisers may collect personal information about you in the process of implementing the Scheme. The personal information may include the names, contact details and details of the security

holdings of CannPal Shareholders, and the names of individuals appointed by CannPal Shareholders as proxies, corporate representatives or attorneys at the Scheme Meeting.

The personal information is collected for the primary purpose of implementing the Scheme. The personal information may be disclosed to CannPal's and AusCann's share and option registries and investor relations advisers, to securities brokers and to print and mail service providers.

CannPal Shareholders who are individuals and the other individuals in respect of whom personal information is collected as outlined above have certain rights to access the personal information collected in relation to them. To access and correct your personal information, and information on the privacy complaints handling procedure, please contact the Privacy Officer at privacy@computershare.com.au or see Computershare's Privacy Policy at <http://www.computershare.com/au>.

CannPal Shareholders who appoint an individual as their proxy, corporate representative or attorney to vote at the Scheme Meeting should inform that individual of the matters outlined above.

15.21 Supplementary information

CannPal will issue a supplementary document to this Scheme Booklet if it becomes aware of any of the following between the date of lodgement of this Scheme Booklet for registration by ASIC and the date of the Scheme Meeting:

- (a) a material statement in this Scheme Booklet that is false or misleading;
- (b) a material omission from this Scheme Booklet;
- (c) a significant change affecting a matter included in this Scheme Booklet; or
- (d) a significant new matter arising that would have been required to be included in this Scheme Booklet if it had arisen before the date of lodgement of this Scheme Booklet for registration by ASIC.

The form of the supplementary document and whether a copy will be sent to each CannPal Shareholder will depend on the nature and timing of the new or changed circumstances. Any such supplementary document will be made available on CannPal's website (www.cannpal.com). Any such supplementary document will also be released to ASX and accordingly will be available from ASX's website (www.asx.com.au).

15.22 Advisers and experts

(a) Roles of advisers and experts

The persons named in this Scheme Booklet as performing a function in a professional, advisory or other capacity in connection with the Scheme or the preparation or distribution of this Scheme Booklet are:

Name	Role	Estimate of Fees (ex. GST)
KPMG Financial Advisory Services (Australia) Pty Ltd	Independent Expert	\$100,000
Steinepreis Paganin	Legal adviser to CannPal	\$180,000
Counsel's fees	CannPal's barrister	\$35,000
AusCann costs	Financial adviser, legal adviser, accounting adviser, counsel fees, etc	\$842,620

Name	Role	Estimate of Fees (ex. GST)
Computershare	CannPal's share registry	\$40,000
BDO Corporate Tax (WA) Pty Ltd	Tax adviser to CannPal	\$5,000

(b) **Consents of advisers and experts**

KPMG Financial Advisory Services (Australia) Pty Ltd has given its consent to the inclusion of its Independent Expert's Report in this Scheme Booklet in the form and context in which it appears in Annexure A of this Scheme Booklet and has not withdrawn that consent before the date of this Scheme Booklet.

KPMG Financial Advisory Services (Australia) Pty Ltd takes no responsibility for the contents of the Scheme Booklet other than the Independent Expert's Report. The interests of KPMG Financial Advisory Services (Australia) Pty Ltd in its capacity as Independent Expert are disclosed in the Independent Expert's Report.

BDO Audit (WA) Pty Ltd has consented to the inclusion in the Scheme Booklet of references to the audited financial statements of CannPal as at 30 June 2020, 2019 and 2018 in the form and context in which they appear, and has not withdrawn that consent before the date of this Scheme Booklet.

PKF Perth has consented to the inclusion in the Scheme Booklet of references to the audited financial statements of AusCann as at 30 June 2020, 2019 and 2018 in the form and context in which they appear, and has not withdrawn that consent before the date of this Scheme Booklet.

AusCann has given its consent to the inclusion of the AusCann Information in the form and context in which it appears and has not withdrawn that consent before the date of this Scheme Booklet.

BDO Corporate Tax (WA) Pty Ltd has consented to the inclusion of Section 11 of this Scheme Booklet and references to the information set out in that Section in the form and context in which they appear and has not withdrawn that consent before the date of this Scheme Booklet.

Each person named in Section 15.22(a) has given, and before the time of registration of this Scheme Booklet with ASIC, has not withdrawn, their consent to being named in this Scheme Booklet in the capacity indicated next to their name.

(c) **Disclaimers of responsibility**

Each person named in Section 15.22(a) as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Scheme Booklet or in Section 15.22(b) as having consented to the inclusion of information in this Scheme Booklet:

- (i) has not authorised or caused the issue of this Scheme Booklet or the making of the offer of New AusCann Shares under the Scheme;
- (ii) does not make, or purport to make, any statement in this Scheme Booklet or any statement on which a statement in this Scheme Booklet is based, other than a statement included in this Scheme Booklet with the written consent of that person as stated in Section 15.22(b); and
- (iii) makes no representations regarding, and to the maximum extent permitted by law, expressly disclaims and takes no responsibility for, any statements in or omissions from any part of this Scheme Booklet, other than a

reference to its name and any statement or report that has been included in this Scheme Booklet with the consent of that person.

(d) **Fees**

Each person named in Section 15.22(a) as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Scheme Booklet will be entitled to receive professional fees charged in accordance with their normal basis of charging. The estimated fees payable to these parties are set out in Section 15.22(a).

15.23 No other material information

Other than as set out in this Scheme Booklet, including the Annexures to this Scheme Booklet, there is no information material to the making of a decision in relation to the Scheme or a decision by a CannPal Shareholder whether or not to vote in favour of the Scheme, being information that is within the knowledge of any CannPal Directors or of a Related Body Corporate of CannPal and which has not previously been disclosed to CannPal Shareholders.

16. Glossary of defined terms

The following defined terms used throughout this Scheme Booklet have the meaning set out below unless the context otherwise requires.

A\$ or \$ means the lawful currency of Australia.

AASB means the Australian Accounting Standards Board, being the Australian Regulatory Authority responsible for developing and issuing accounting standards applicable to Australian entities and the “care and maintenance” of the body of standards as set out in the Australian Securities and Investments Commission Act 2001 (Cth).

AASB Standards means the Australian Accounting Standards issued by the AASB.

Annexure means an annexure to this Scheme Booklet.

Announcement Date means 16 November 2020, being the date of announcement of the Proposed Transaction.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given in sections 12 and 16 of the Corporations Act as if section 12(1) of that Act included a reference to this Scheme Booklet and CannPal was the designated body.

ASX means ASX Limited (ABN 98 008 624 691) or the financial market known as the Australian Securities Exchange operated by it, as the context requires.

ASX Listing Rules means the listing rules of ASX.

ASX Settlement Rules means the settlement rules of ASX Settlement Pty Ltd (ACN 008 504 532).

ATO means the Australian Taxation Office.

AusCann means AusCann Group Holdings Ltd (ACN 008 095 207).

AusCann Board means the board of AusCann Directors as at the date of this Scheme Booklet.

AusCann Constitution means the constitution of AusCann.

AusCann Directors means the directors of AusCann.

AusCann Group means AusCann and its subsidiaries.

AusCann Information means the information concerning AusCann and the Combined Group provided by AusCann to CannPal in writing for inclusion in this Scheme Booklet.

AusCann Option means an unlisted option to subscribe for an AusCann Share.

AusCann Performance Rights means a performance right issued under the Plan for eligible employees which vest upon the satisfaction of certain performance milestones.

AusCann Prescribed Occurrence has the meaning given in clause 1.1 of the Scheme Implementation Deed.

AusCann Register means the register of AusCann Shareholders maintained by Computershare.

AusCann Security means an AusCann Share, an AusCann Option and/or an AusCann Performance Right (as applicable).

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

AusCann Shareholder means a person who is registered in the AusCann Register from time to time as the holder of an AusCann Share.

Business Day means a day as defined in the ASX Listing Rules other than any day which banks are not open for general banking business in Perth, Western Australia.

CannPal or **Company** means CannPal Animal Therapeutics Limited (ACN 612 791 518).

CannPal Board means the board of CannPal Directors as at the date of this Scheme Booklet.

CannPal Directors means the directors of CannPal.

CannPal Group means CannPal and its subsidiaries.

CannPal Option means an option to subscribe for a CannPal Share.

CannPal Option Register means the register of CannPal Optionholders maintained by Computershare in accordance with the Corporations Act.

CannPal Optionholder means each person who is registered in the CannPal Option Register from time to time as the holder of a CannPal Option.

CannPal Performance Right means a right to subscribe for a CannPal Share on satisfaction of specified performance milestones.

CannPal Performance Rights Holder means the person who is registered as being the holder of a CannPal Performance Right.

CannPal Prescribed Occurrence has the meaning given in clause 1.1 of the Scheme Implementation Deed.

CannPal Security means a CannPal Share or a CannPal Option.

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

CannPal Share Register means the register of CannPal Shareholders maintained by Computershare in accordance with the Corporations Act.

CannPal Shareholder means each person who is registered in the CannPal Share Register from time to time as the holder of a CannPal Share.

Cash Proceeds means the sale proceeds of New AusCann Shares sold under the Sale Facility by the Sale Agent in respect of Ineligible Foreign Shareholders.

CGT means Capital Gains Tax, as defined in the Income Tax Assessment Act 1997.

Combined Group means the corporate group comprising AusCann and its subsidiaries, including CannPal, if the Scheme is implemented.

Combined Group Board means the board of directors of AusCann, after the implementation of the Scheme.

Competing Transaction means any proposed or potential transaction or arrangement (including any takeover bid, scheme of arrangement, capital reduction, sale of assets, sale of

shares, joint venture or dual listed company structure) in relation to CannPal or AusCann under which a third party would, if completed:

- (a) directly or indirectly, acquire an interest or Relevant Interest in or become the holder of:
 - (i) 20% or more of the relevant party's shares or more than 50% of the shares in any of the relevant party's Subsidiaries; or
 - (ii) all or a substantial part or a material part of the business of the relevant party or any of its Subsidiaries;
- (b) directly or indirectly acquire control of the relevant party, within the meaning of section 50AA of the Corporations Act; or
- (c) otherwise acquire or merge (including, without limitation, by a reverse takeover bid or dual listed company structure) with the relevant party.

Computershare means Computershare Investor Services Pty Limited (ACN 078 279 277), the security registry for AusCann and CannPal.

Corporations Act means the Corporations Act 2001 (Cth).

Corporations Regulations means the Corporations Regulations 2001 (Cth).

Court means the Supreme Court of Western Australia, or such other court of competent jurisdiction as agreed in writing by the parties.

Deed Poll means the deed poll dated 21 January 2021 executed by AusCann whereby, among other things, AusCann covenants to carry out its obligations under the Scheme, as set out in Annexure C.

Delivery Time means 9:00am (WST) on the Second Court Date.

Effective when used in relation to the Scheme, means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under sections 411(4)(b) and 411(6) in relation to the Scheme.

Effective Date means the date on which the Scheme becomes Effective.

End Date means 30 April 2021 or such other date as agreed in writing between AusCann and CannPal.

Implementation Date means the date that is the fifth Business Day after the Record Date.

Independent Expert means KPMG Financial Advisory Services (Australia) Pty Ltd.

Independent Expert's Report means the report of the Independent Expert in relation to the Scheme as set out in Annexure A of this Scheme Booklet.

Ineligible Foreign Shareholder means a CannPal Shareholder whose address as shown in the CannPal Share Register at 7.00 pm (AEDT) on the Record Date is a place outside Australia or its external territories or New Zealand, other than one in respect of whom AusCann is satisfied that the laws of the CannPal Shareholder's country of residence (as shown in the CannPal Share Register) would permit the issue and allotment of New AusCann Shares, either unconditionally or after compliance with conditions which AusCann in its sole discretion regards as acceptable and not unduly onerous.

Interested Person means a person named in Section 14.12.

Last Practicable Date means 29 January 2021, being the last practicable date before the finalisation of this Scheme Booklet.

Material Adverse Change has the meaning given in clause 1.1 of the Scheme Implementation Deed.

New AusCann Share means an AusCann Share to be issued as consideration under the Scheme.

Option Cancellation Deeds means the deeds between CannPal, AusCann and the CannPal Optionholders which were executed on 15 and 16 December 2020 relating to the cancellation of CannPal Options in exchange for the grant of AusCann Options at a ratio of 1.3 new AusCann Options for every CannPal Option held.

Plan has the meaning given in Section 8.11.

Proposed Transaction means the proposed acquisition of CannPal by AusCann on the terms and conditions in this Scheme Booklet.

Record Date means 7.00 pm (AEDT) on the second Business Day after the Effective Date.

Regulatory Authority includes:

- (a) ASX;
- (b) ASIC;
- (c) the Takeovers Panel;
- (d) a government or governmental, semi-governmental or judicial entity or authority;
- (e) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and
- (f) any regulatory organisation established under statute.

Related Body Corporate has the meaning given in the Corporations Act.

Relevant Interest has the meaning given in sections 608 and 609 of the Corporations Act.

Requisite Majorities in respect of the Scheme, approval by:

- (a) more than 50% in number of CannPal Shareholders present and voting (whether in person, by proxy, by attorney or, in the case of a corporation, by corporate representative); and
- (b) at least 75% of the total number of votes cast on the Scheme Resolution by CannPal Shareholders.

Sale Agent has the meaning given in Section 13.3.

Sale Facility means the mechanism by which Ineligible Foreign Shareholders receive Cash Proceeds of any sale of New AusCann Shares they would otherwise receive, as described in Section 13.3.

Scheme means the scheme of arrangement between CannPal and the Scheme Shareholders as described in clause 4 of the Scheme Implementation Deed and set out in Annexure B.

Scheme Booklet means this booklet that comprises the explanatory statement in respect of the Scheme to be approved by the Court and despatched to CannPal Shareholders and includes the Annexures to this booklet.

Scheme Conditions means the conditions for implementation of the Scheme as set out in Schedule 3 to the Scheme Implementation Deed and clause 3.1 of the Scheme.

Scheme Consideration means New AusCann Shares to be issued to Scheme Shareholders under the terms of the Scheme in consideration for the transfer to AusCann of CannPal Shares or the Cash Proceeds (less applicable costs and expenses) to be paid under the Sale Facility.

Scheme Implementation Deed means the Scheme Implementation Deed dated 14 November 2020 between CannPal and AusCann relating to the implementation of the Scheme.

Scheme Meeting means the meeting of CannPal Shareholders to be held at 12:00 pm (AEDT) on 8 March 2021 at BDO, Level 11, 1 Margaret Street, Sydney NSW 2000 to consider and vote on the Scheme. The notice convening the Scheme Meeting is set out in Annexure D.

Scheme Resolution means the resolution set out in the Notice of Scheme Meeting set out in Annexure D.

Scheme Share means a CannPal Share on issue as at the Record Date.

Scheme Shareholder means each person who is a CannPal Shareholder as at the Record Date.

Second Court Date means the first day of the Second Court Hearing, expected to be on or about 10 March 2021.

Second Court Hearing means the hearing of the application made to the Court for an order pursuant to sections 411(4)(b) and, if applicable, 411(6) of the Corporations Act approving the Scheme.

Section means a section of this Scheme Booklet.

Subsidiaries has the meaning it given in the Corporations Act.

Superior Proposal means a bona fide Competing Transaction which the CannPal Board or AusCann Board (as applicable), acting in good faith, and after receiving written advice from its legal and financial advisers, determines:

- (a) is reasonably capable of being implemented taking into account all aspects of the Competing Transaction; and
- (b) is more favourable to CannPal Shareholders or AusCann Shareholders (as applicable) than the Scheme, taking into account all terms and conditions of the Competing Transaction.

Annexure A – Independent Expert's Report



KPMG Corporate Finance
A division of KPMG Financial Advisory Services
(Australia) Pty Ltd
Australian Financial Services Licence No. 246901
Level 38 Tower Three
300 Barangaroo Avenue
Sydney NSW 2000

ABN: 43 007 363 215
Telephone: +61 2 9335 7000
Facsimile: +61 2 9335 7001
DX: 1056 Sydney
www.kpmg.com.au

P O Box H67 Australia Square
Sydney NSW 1213
Australia

The Directors
CannPal Animal Therapeutics Limited
Level 3/45A Bay St
Double Bay NSW 2028

1 February 2021

Dear Directors

Independent Expert Report and Financial Services Guide

Part One – Independent Expert Report

1 Introduction

On 16 November 2020, CannPal Animal Therapeutics Limited (**CannPal**) announced it had entered into a Scheme Implementation Deed (**SID**) with AusCann Group Holdings Ltd (**AusCann or Bidder**) which will result in AusCann acquiring 100% of the issued shares of CannPal (**Proposed Transaction**).

The Proposed Transaction will be implemented by way of a scheme of arrangement (**Scheme**) under which the holders of CannPal shares (**CannPal Shareholders**) will receive 1.3 shares in AusCann for every CannPal share held on the Scheme Record Date (**Scheme Consideration**).

Implementation of the Scheme requires the approval of CannPal Shareholders and is subject to the satisfaction of a number of conditions precedent, including an independent expert determining that the Scheme is in the best interests of CannPal Shareholders and receipt of approvals, consents or relief from regulatory authorities. Further details of the Scheme and the conditions precedent are outlined in Section 5 of this report and described in Section 12.5 of the Scheme Booklet.

CannPal is an Australian public company listed on the Australian Stock Exchange (ASX) (ASX: CP1), and is an animal health company based in Sydney, NSW. CannPal is aiming to provide pet owners and veterinarians with access to high quality, plant derived therapeutic products to support better health and well-being for animals. Currently, the focus is on the development of pharmaceutical and nutraceutical products for dogs, using compounds derived from the hemp and cannabis plant. As at 12 November 2020, being the last trading day prior to the announcement of the Proposed Transaction, CannPal had a market capitalisation of approximately \$11.64 million.

KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215, Australian Financial Services License No. 246901, is an affiliate of KPMG. KPMG is an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited ("KPMG International")



AusCann is an Australian public company listed on the ASX (ASX: AC8) which focuses on the development, production, and distribution of cannabinoid-based medicines for humans within Australia and internationally. As at 12 November 2020, being the last trading day prior to the announcement of the Proposed Transaction, AusCann had a market capitalisation of approximately \$44.38 million.

The board of CannPal (**Board**) has requested KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (**KPMG Corporate Finance**) to prepare an independent expert report for the benefit of CannPal Shareholders setting out whether, in our opinion, the Scheme is in the best interests of CannPal Shareholders (**IER**).

This IER sets out KPMG Corporate Finance's opinion on the Scheme and should be considered in conjunction with and not independently of the information set out in the Scheme Booklet. The specific resolutions to be put to CannPal Shareholders are set out in the Notice of Meeting included in the Scheme Booklet, to which this IER is attached.

Further information regarding KPMG Corporate Finance as it relates to the preparation of this IER is set out in Appendix 1.

KPMG Corporate Finance's Financial Services Guide is contained in Part Two.

2 Requirements for our report

Section 412(1) of the Corporations Act 2001 (Cth) (**Act**) requires that an explanatory statement issued in relation to a proposed scheme of arrangement under Section 411 of the Act, include information that is material to the making of a decision by a member as to whether or not to agree with the relevant proposal.

In this regard, although an independent expert report is not explicitly required to be provided under Schedule 8 of the Corporations Regulations 2001 (Cth), the Board has requested KPMG Corporate Finance to prepare an independent expert report to satisfy the requirements of Section 412(1a).

In undertaking our work, we have referred to guidance provided by ASIC in its Regulatory Guides, in particular Regulatory Guide 111 'Content of expert reports' (**RG 111**) which outlines the principles and matters which it expects a person preparing an independent expert report to consider when providing an opinion on whether a transaction is "fair and reasonable", and therefore "in the best interests" of scheme participants.

Further details of the relevant technical requirements and the basis of assessment in forming our opinion are set out in Section 6 of this report.



Contents

Part One – Independent Expert Report.....	1
1 Introduction.....	1
2 Requirements for our report.....	2
3 Opinion	6
3.1 The Scheme is fair to CannPal Shareholders	7
3.2 The Scheme is reasonable to CannPal Shareholders.....	12
3.3 Other considerations.....	16
3.4 Consequences if the Scheme is not approved.....	17
4 Other matters.....	19
5 The Proposed Transaction.....	20
5.1 Terms of the Scheme	20
5.2 Conditions of the Scheme.....	20
5.3 Transaction costs.....	21
5.4 Break fees	21
5.5 Other terms.....	21
6 Scope of the report	22
6.1 Purpose	22
6.2 Basis of assessment.....	22
6.3 Limitations and reliance on information.....	24
6.4 Disclosure of information	25
7 Profile of CannPal.....	26
7.1 Background	26
7.2 Strategy	28
7.3 Business operations	28
7.4 Financial summary.....	31
7.5 Key risks and outlook.....	34
7.6 Board of Directors and senior management.....	36
7.7 Capital structure and ownership.....	36



7.8	Share price performance	38
7.9	Dividends.....	43
8	Profile of AusCann.....	44
8.1	Background	44
8.2	Strategy	45
8.3	Business operations	45
8.4	Financial summary.....	47
8.5	Key risks and outlook.....	52
8.6	Board of Directors and senior management.....	54
8.7	Capital structure and ownership.....	54
8.8	Share price performance	56
8.9	Dividends.....	61
9	Profile of Combined Group	62
9.1	Background	62
9.2	Business operations	62
9.3	Pro forma financials	63
9.4	Strategy and outlook.....	66
9.5	Key risks.....	67
10	Valuation of CannPal.....	70
10.1	Summary	70
10.2	Valuation methodology	71
10.3	Valuation of CannPal's operating business.....	74
10.4	Other assets and liabilities	79
10.5	Adjusted net debt.....	79
10.6	Cross-check.....	79
11	Assessment of Scheme Consideration	80
11.1	Implied valuation.....	80
11.2	Cross-check.....	82
	Appendix 1 – KPMG Corporate Finance Disclosures	85
	Appendix 2 – Sources of information	86



Appendix 3 – Industry summary.....	87
Appendix 4 – Discount rate.....	90
Appendix 5 – Overview of valuation methodologies.....	92
Appendix 6 – Glossary.....	94
Part Two – Financial Services Guide.....	96

3 Opinion

In our opinion, the Scheme **is in the best interests** of CannPal Shareholders, in the absence of a superior proposal.

In arriving at this opinion, we have assessed whether the Scheme is:

- **fair**, by assessing the implied value of the Scheme Consideration based on our assessed value of a CannPal share on a controlling interest basis and the merger ratio. This approach is in accordance with the guidance set out in RG 111, and
- **reasonable**, by assessing the implications of the Scheme for CannPal Shareholders, the alternatives to the Scheme which are available to CannPal Shareholders, and the consequences for CannPal Shareholders of not approving the Scheme.

Our assessment has concluded that the Scheme is fair and reasonable. As such, in accordance with RG 111, we have concluded that the Scheme **is in the best interests** of CannPal Shareholders.

CannPal is one of a very limited number of Australian companies within the pharmaceutical sector that is developing cannabinoid based products for animal health. The company is currently testing its lead drug candidate CPAT-01D, which has been developed for pain control in dogs, with the Food and Drug Administration, Centre for Veterinary Medicine (**FDA-CVM**) in the US. It also has started commercialisation activities for its lead nutraceutical product, DermaCann and a patented drug delivery technology, MicroMAX®.

However, since listing on the ASX on 25 October 2017 at a price of \$0.20 per share, CannPal's shares have declined to a low of \$0.069 per share in March 2020. Several factors contributed to this decline, mainly the slower than anticipated growth as the company moved through pre-commercialisation of its products into the revenue generating phase, as well as the related reduction in CannPal's liquidity, with prospects of another required capital raise. As such CannPal's share price performance is a reflection of the challenges facing many small pharmaceutical companies, where success is dependent on a narrow technology window, with the potential for the support of the investment markets to waiver the longer it takes for this success to emerge.

For that reason, CannPal has investigated alternative business strategies, including cooperation with larger companies in the animal health sector, as well as the Proposed Transaction. Combining the CannPal business with AusCann (to form the **Combined Group**) is expected to deliver a deeper pipeline of products, giving the business more opportunities to develop successful technologies, as well as improving operational efficiency and providing a stronger capital base to fund ongoing Research and Development (**R&D**) activities and paths to commercialisation of products.

The all scrip consideration of the Scheme means CannPal Shareholders will be able to continue to benefit from the development of the Combined Group and therefore the critical issue we have

assessed is whether the merger ratio that drives the Scheme Consideration appropriately reflects the value of CannPal. Whilst acknowledging valuing early stage pharmaceutical companies requires significant judgement given the uncertainties of the research and commercialisation processes, a premium of our assessed value of the Scheme Consideration on a per share basis, to the one month volume weighted average price (VWAP) of a CannPal share of 55% and a premium to the 12 month VWAP of 44%, clearly represents a good opportunity for CannPal Shareholders to participate in a transaction that will address a number of the issues that have contributed to CannPal's recent subdued market performance.

Our analysis is set out in further detail below.

3.1 The Scheme is fair to CannPal Shareholders

Our assessed value of a CannPal share and the merger ratio imply a value of the Scheme Consideration which is supported by the traded price of an AusCann share. Therefore, we consider the Scheme to be fair to CannPal Shareholders

We have assessed the value of the equity of CannPal to lie in the range of \$17.0 million to \$21.0 million, which equates to an assessed value per CannPal share of between \$0.143 and \$0.176. Our assessed value range represents the value of a 100% interest in CannPal and includes a premium for control. As the valuation includes a control premium, it exceeds the price at which we expect CannPal shares would trade on the ASX in the absence of the Proposed Transaction.

We have assessed the value of CannPal's equity by determining the value of CannPal's operating business and considering the value of any assets currently not contributing to the forecast cash flows of the operating business. The forecast cash flows of CannPal's operating business reflect its three current products under development, CPAT-01D, DermaCann and MicroMAX[®], based on forecast estimates of the relevant addressable markets and target market shares. CannPal does not hold any net borrowings or non-trading liabilities.

We have assessed the value of the Scheme Consideration by assessing the implied value of an AusCann share on the basis of the merger ratio and our assessed value of a CannPal share and compared that to the recent traded prices of AusCann shares on the ASX. This is appropriate because AusCann is obtaining control of CannPal, and CannPal Shareholders are receiving consideration in the form of a minority interest share in the Combined Group. Neither the theoretical value of the Combined Group as a stand-alone entity nor considerations of control premia are relevant to minority interest shareholders in the Combined Group in the short term, except in the event of an offer for the Combined Group itself.

In applying this approach, we have assessed the implied value of an AusCann share to be received by CannPal Shareholders as part of the Scheme Consideration, to be in the range \$0.110 to \$0.136. As the trading range of AusCann shares post announcement of the Proposed Transaction is at the higher end and above that range, we consider the Proposed Transaction to be fair.



Our analysis of the fairness of the Proposed Transaction is detailed further below.

Value of CannPal

We have assessed the value of the equity in CannPal to be in the range of \$17.0 million to \$21.0 million, which equates to a value of \$0.143 and \$0.176 per CannPal share on a control basis. The value of CannPal has been assessed by determining the value of CannPal's operating business and considering the value of any assets currently not contributing to the forecast cash flows of the operating business. Our valuation is set out in full in Section 10 of this report and summarised below.

Table 1: Valuation of CannPal

\$ million unless otherwise stated	Section reference	Valuation range	
		Low	High
Value of CannPal operating business	10.3	17.00	21.00
Other assets/(liabilities) (net)	10.4	0.00	0.00
CannPal enterprise value (control basis)		17.00	21.00
Adjusted net debt	10.5	0.00	0.00
Value of CannPal equity (control basis)		17.00	21.00
Number of shares outstanding (million) ¹		119.04	119.04
Value per CannPal share on a control stand-alone basis (\$)		0.143	0.176
Trading price per CannPal share pre-announcement		0.125	0.125

Source: KPMG Corporate Finance Analysis

Notes:

1. The number of shares outstanding reflects the dilution resulting from an assumed capital raising of \$2.5 million, the approximate amount required by CannPal in the short term to fund business operations in the absence of the Proposed Transaction.
2. Table may not sum due to rounding.

Our assessed value range represents the value of a 100% interest in CannPal and includes a premium for control. The valuation exceeds the price at which we expect CannPal shares would trade on the ASX in the absence of the Proposed Transaction. In assessing a control value in accordance with RG 111, we have only considered those synergies and benefits that would be available to more than one potential purchaser (or a pool of potential purchasers) of CannPal. Accordingly, our valuation of CannPal has been determined without regard to the specific bidder, and any special benefits have been considered separately.

Our valuation range of \$0.143 to \$0.176 per share reflects a premium over the closing price of CannPal shares immediately prior to the announcement of the Proposed Transaction of between 14% and 41%. This premium reflects the valuation of 100% of CannPal inclusive of a control premium, as opposed to the valuation of a portfolio interest in the company as reflected in trading on the ASX.

Value of the Scheme Consideration

The Scheme Consideration to be received by CannPal Shareholders comprises new ordinary shares in the Combined Group. Accordingly, RG 111 requires the value of the scrip consideration to be assessed on a minority interest basis. Based on our valuation of a CannPal share and the merger ratio, we have assessed the implied value of an AusCann share to be received by CannPal Shareholders as part of the Scheme Consideration (on a minority basis) to be in the range of \$0.110 to \$0.136 per share.

It is common practice in these circumstances to utilise the post announcement market price as a basis for estimating the value of an offer with a scrip component, as this is the price at which shareholders can monetise the Scheme Consideration. Neither the theoretical value of the Combined Group as a stand-alone entity nor considerations of control premia are relevant to portfolio shareholders in the Combined Group in the short term, except in the event of an offer for the Combined Group itself.

Given the liquidity analysis, as set out in Section 8.8 of this report, indicates that trading in AusCann shares has been sufficient for the shares to be considered liquid, we consider the trading price of AusCann shares provides a strong indicator of the value of a minority interest in the company to CannPal Shareholders. Therefore, performing a fundamental valuation of AusCann is not required.

Under the Proposed Transaction, CannPal Shareholders will receive 1.3 New AusCann ordinary shares for every CannPal share held on the Scheme Record Date.

We have assessed the value of a share in CannPal to lie in the range of \$0.143 to \$0.176, which, based on the terms of the Proposed Transaction, implies a value of an AusCann share to be received by CannPal Shareholders as part of the Scheme Consideration, to be in the range of \$0.110 to \$0.136 per share, as set out in the table below.

Table 2: Assessment of the Scheme Consideration

\$ unless otherwise stated	Valuation range	
	Low	High
Value per CannPal share on a control stand-alone basis	0.143	0.176
Number of CannPal shares in merger ratio	1.00	1.00
Value of 1 CannPal shares	0.143	0.176
Number of AusCann shares in merger ratio	1.30	1.30
Implied value of AusCann share based on merger ratio	0.110	0.136

Source: KPMG Corporate Finance analysis

Assessment of fairness

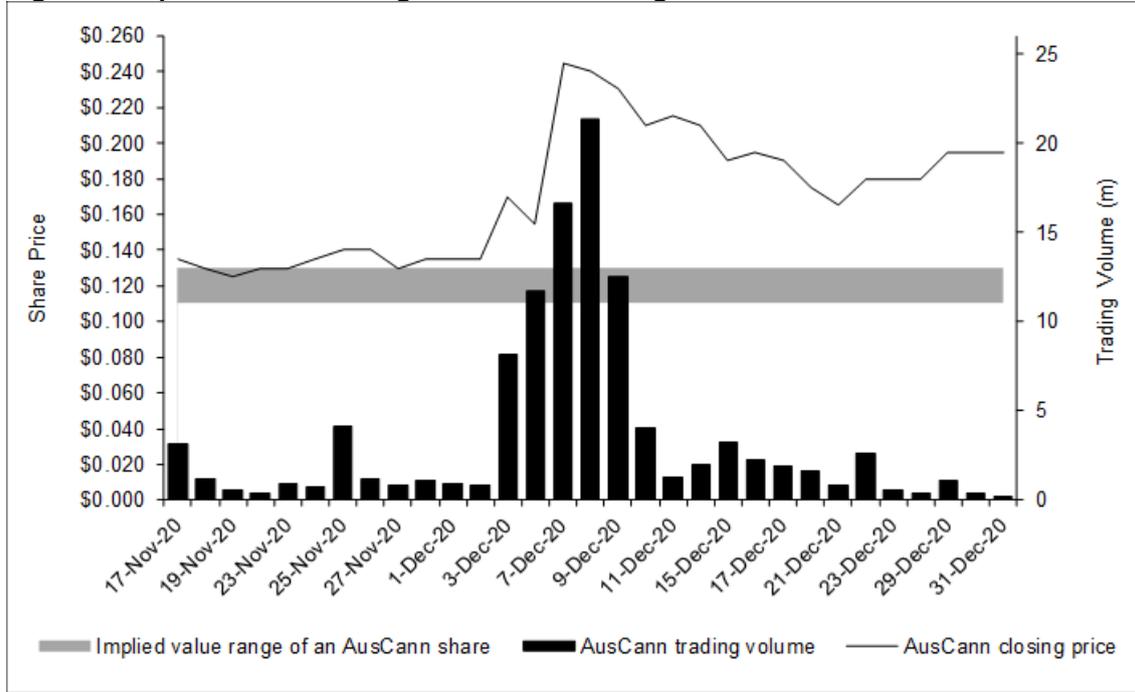
To assess the fairness of the Scheme, we have compared the implied value of an AusCann share based on our valuation of CannPal and the merger ratio, against the recent traded prices

of an AusCann share on the ASX. In making this assessment, we have considered the following:

- the trading price of AusCann shares reflects the value of portfolio interests as required by RG111
- AusCann is a publicly listed company and is required to comply with ASX Listing Rules in relation to continuous disclosure, including in particular the release of price sensitive information
- AusCann is currently not followed by any broking houses, which may lessen the ability of shareholders to make informed decisions regarding the prospects of the company and industry more generally and prices at which AusCann shares should trade
- there has been sufficient time and information available, including the information contained in the announcement of the Proposed Transaction released to the market on 16 November 2020, for the market to assess the Scheme and its implications for AusCann should the Scheme be implemented. Therefore, trading in AusCann shares subsequent to 16 November 2020 should reflect the market's assessment of the Scheme, albeit the market may also take into account the implementation and integration risks associated with the Scheme, including the required approvals and the type, timing and quantum of any positive and/or negative cost savings and synergies that may be realised
- whilst trading in AusCann shares is not deep in the context of the number of shares on issue and its market capitalisation, its shares were traded on the ASX on each of the available trading days over the 12 months prior to the announcement date of the Proposed Transaction and also in the subsequent period and average daily trading volumes have been sufficient for portfolio shareholders who wanted to realise their investment, to do so.

A summary of the trading activity in AusCann shares from 17 November 2020 to 31 December 2020 and the implied value of an AusCann share based on our assessed value of a CannPal share and the merger ratio, is set out in the chart below.

Figure 1: Implied valuation range and recent trading in AusCann shares



Source: KPMG Corporate Finance analysis

As the figure above indicates, the recent trading performance of AusCann shares is at the upper end or above the value range of an AusCann share implied by our assessment of the control value of CannPal and the merger ratio. The increase in AusCann share price since 5 December 2020 is underpinned by the passing of the MORE Act in the United States of America (US) and AusCann’s announcement regarding Therapeutic Goods Administration’s (TGA) final decision to amend the current classification of CBD, removing the requirement for a doctor’s prescription as a result.

On that basis, we have assessed the Scheme to be fair to CannPal Shareholders.

Cross-check of fairness assessment

As a cross-check of the implied value range approach set out above, we have also considered the position of a CannPal Shareholder pre and post the Proposed Transaction. This cross-check is set out in full in Section 11 of this report, with the key considerations being:

- the position of a CannPal Shareholder pre-merger has been determined on the basis of our assessment of the value of CannPal (as detailed in Section 10), on a control and stand-alone basis

- the position of a CannPal Shareholder post-merger has been determined on the basis of the hypothetical value of the Combined Group on a minority basis, including an estimate of the value of synergies that can be realised in the short-term by the Combined Group.

On the basis of the above cross-check assessment, we conclude that the position of a CannPal shareholder post-merger of \$0.171 to \$0.175 (being the value of 1.3 AusCann shares on a minority basis) is at the upper end of the value range of the position of a CannPal Shareholder pre-merger of \$0.143 to \$0.176 on a control basis.

As such, the cross-check confirmed our assessment that the Scheme is fair to CannPal Shareholders.

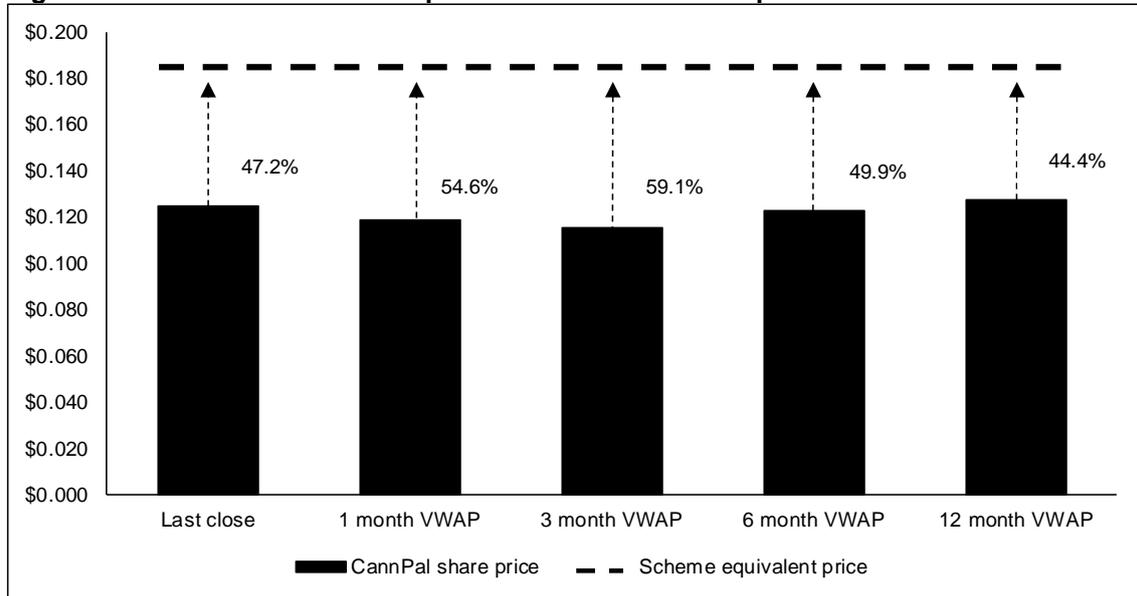
3.2 The Scheme is reasonable to CannPal Shareholders

In accordance with RG 111, an offer is reasonable if it is fair. As we consider the Scheme to be fair, this would imply that the Scheme is also reasonable. However, irrespective of the statutory obligation to conclude the Scheme is reasonable, we have also considered a range of other factors CannPal Shareholders may wish to take into account in considering whether to approve the Scheme.

The Scheme Consideration represents a strong premium to the trading price of CannPal shares prior to the announcement of the Scheme

The Scheme Consideration represents a strong premium to the VWAP of a CannPal share on the last trading day prior (47.2%), one month prior (54.6%) and three months prior (59.1%) to 12 November 2020, being the day prior to the announcement of the Proposed Transaction.

Figure 2: Scheme Consideration premium to recent traded price



Source: KPMG Corporate Finance analysis

In assessing the premium implied by the Scheme Consideration, we note:

- the premium to traded prices over the past 12 months is relatively stable, reflecting the stable trading range of a CannPal share over that period
- it is commonly accepted that acquirers of 100% of a business should pay a premium over the value implied by the trading price of a share to reflect their ability to obtain control over the target's strategy and operations, as well as extract synergies from integration. Observations from transaction evidence indicate that takeover premia concentrate around a range between 25% and 40%¹ for completed takeovers, depending on the individual circumstances of the specific transaction. In transactions where it was estimated that the combined entity would be able to achieve significant synergies, the takeover premia were typically at the upper end or in excess of this range
- the implied premia previously noted are above the range usually observed in completed takeovers due to a combination of factors, including amongst other things:
 - the substantial synergy opportunities in merging with AusCann in terms of a broader product suite, a strengthened leadership team and the removal of duplicated overhead costs (approximately \$0.6 million per annum)

¹ KPMG Corporate Finance analysis based on Mergerstat data for Australian transactions completed between 2001 and 2018, comparing the closing price of the target company one day prior to the takeover announcement to the final offer price.

- there is special value that may be unique to the acquirer given CannPal's complementary technologies, existing laboratory and back-office structure, as well as its relationships with international distributors which offers long term benefits to the Combined Group's' development and growth.

Post announcement of the Scheme, CannPal shares have traded at a level supported by the existence of the Scheme (between \$0.13 and \$0.25 compared to the implied value of the Scheme Consideration of \$0.26²). The small discount in the traded price to the Scheme Consideration reflects, in our view, the market's assessment of the potential for either the Scheme not to be approved by CannPal Shareholders or for it to fail to complete. The trading level, in our opinion, does not indicate that the market considers an alternative offer is likely to be forthcoming.

By receiving shares in AusCann, CannPal Shareholders will participate in the potential longer term benefits from any future development of the business

CannPal is well-positioned to benefit from the ongoing development of its CPAT-01D, DermaCann and MicroMAX[®] products. Further, AusCann's product suite is highly complementary to CannPal's, offering the chance for the Combined Group to become a larger and more diversified participant in the pharmaceutical cannabinoid industry.

Lead by its Board and experienced leadership team, the Combined Group is expected to be able to more efficiently leverage reserved cash and R&D expenditure over a wider range of products and deliver higher shareholder value.

By receiving new shares in AusCann, CannPal Shareholders will retain an interest in the CannPal business and participate in the potential longer term benefits from the future development of the Combined Group.

The Combined Group has an opportunity to achieve significant product and cost synergies over and above those likely to be available to other potential acquirers

As AusCann advanced its acquisition strategy in early 2020, the benefits of a potential association with CannPal were identified. Certain characteristics of each company suggest that an acquisition would be highly complementary. These include:

- the Combined Group will have an increased market presence, greater liquidity and enhanced financial strength enabling it to better develop the existing businesses of CannPal and AusCann
- combining the product pipelines of CannPal and AusCann across both human and animal health would offer the Combined Group alternatives if development is ceased on any given

² Based on the VWAP of the traded price of an AusCann share post the announcement of the Proposed Transaction through to 31 December 2020 of \$0.20.

product, giving the Combined Group more options than either CannPal or AusCann would have as stand-alone companies

- both CannPal and AusCann are relatively small Australian based listed companies and therefore carry a significant amount of duplicated administration cost.

As a result of these characteristics, the combination of the CannPal and AusCann businesses offers a level of potential revenue and cost synergies which are unlikely to be available to other potential acquirers.

Implementation of the Scheme will result in CannPal Shareholders holding shares in a larger business, which should result in increased liquidity

In the event CannPal Shareholders approve the Scheme, CannPal Shareholders will hold a 28.0% interest in the Combined Group.

The Combined Group will have approximately \$18.8 million of pro forma cash,³ \$2.5 million of pro forma income and \$4.5 million of pro forma direct R&D expenditure in FY20 (compared to CannPal's stand-alone cash of \$2.0 million,⁴ income of \$0.8 million, and R&D expenditure of \$1.8 million in FY20) and the combined balance sheet position will offer a more robust platform to pursue growth opportunities.

Post implementation of the Scheme, AusCann will have a total of 440,547,357 shares outstanding and a likely market capitalisation in excess of \$70 million.⁵ This increased business scale and shareholder base should provide more liquidity in the investment held by CannPal Shareholders post implementation of the Scheme, as compared to the low liquidity currently experienced in the trading of CannPal shares, as set out in Section 7.8 of this report.

No alternative proposal has been presented to the market and the likelihood of an alternative proposal emerging at this time is considered low

By announcing the Scheme, CannPal signalled to the market that it was 'in play', but given the timetable outlined for the Scheme, only for a limited period. At the date of this report, no other party has signalled an interest in CannPal.

In our view, the existence of a break fee payable under certain circumstances if an alternative proposal is recommended by the Board, is not of a sufficient quantum to dampen the interest of another interested party. As a result, if CannPal Shareholders do not approve the Scheme, they are unlikely to benefit from an alternative control transaction in the near term.

³ As at 30 September 2020

⁴ As at 30 September 2020

⁵ As at 31 December 2020.

3.3 Other considerations

In forming our opinion, we have also considered a number of other factors, as detailed below, which we do not consider impacts our assessment of the reasonableness of the Scheme, but we consider it necessary for CannPal Shareholders to be aware of.

The current business initiatives being pursued by CannPal and AusCann are not without risk

As demonstrated by the underlying share price performance of CannPal since its listing in 2017, the process of identifying, developing and commercialising pharmaceutical animal health care products is uncertain from a timing, cost and profitability perspective. Whilst the Board considers the Proposed Transaction places the Combined Group in a more favourable position to achieve the desired product success than if CannPal and AusCann continued to operate on a stand-alone basis, there continues to be significant risk associated with the Combined Group.

Further, the expected synergy benefits and business improvements are uncertain and subject to risks as to the timing and quantum of the benefits realised.

The Board have indicated they will vote to approve the Scheme

The Board has unanimously recommended that CannPal Shareholders vote in favour of the Scheme in the absence of a superior offer and in the event the Independent Expert concludes the Scheme is in the best interests of CannPal Shareholders. The Board has also indicated they will vote the CannPal shares they hold or control in favour of the Scheme.

The exact value of the Scheme Consideration upon implementation of the Scheme is not certain

The Scheme Consideration is fixed at a ratio of 1.3 New AusCann Shares for every CannPal Share held. This means that the actual number of shares received as Scheme Consideration is known. However, given the market trading value of those shares is unknown until the day of issue, the exact value of the Scheme Consideration to be realised by CannPal Shareholders upon implementation of the Scheme is not certain.

There will be tax consequences for CannPal Shareholders if the Scheme is approved

If the Scheme is implemented, CannPal Shareholders will be treated as having disposed of their CannPal shares, which will trigger a taxation event for CannPal Shareholders and result in either a capital gain or capital loss arising.

CannPal Shareholders may be eligible for scrip rollover relief, which defers the capital gain if the CannPal shareholder chooses to obtain the relief. Section 11 of the Scheme Booklet sets out further details of the tax consequences of the Scheme for CannPal Shareholders, which will differ depending on each CannPal Shareholders' individual circumstances.

CannPal Shareholders should consider their individual circumstances and where necessary, seek the advice of their own professional adviser in assessing the taxation implications of the Scheme.

One-off transaction costs

CannPal has estimated total one-off transaction costs in relation to the Scheme to be approximately \$0.36 million on a pre-tax basis, all of which have been paid or committed, prior to the Scheme Meeting.

One-off transaction costs associated with the Scheme primarily relate to legal and expert fees, as well as other costs associated with the Scheme.

The Scheme is subject to the satisfaction of a number of conditions

There are a number of conditions which if not satisfied will result in the Scheme not being implemented. As it is possible that all conditions may not be satisfied or waived prior to the meeting for CannPal Shareholders to approve the Scheme, the Scheme may not be implemented even if CannPal Shareholders vote to approve it where a condition cannot ultimately be satisfied and is not otherwise waived.

If the Scheme is not implemented, CannPal Shareholders would continue to hold their existing shareholding in CannPal.

COVID-19 pandemic

The timing of the Scheme corresponds with a period of unprecedented social and community disruption, as governments around the world seek to counter the global COVID-19 pandemic. The continued global spread of COVID-19 has led to concerns regarding the sustainability of global economic activity and sparked major sell offs in global equity markets. Although equity markets have recovered from the lows experienced in early 2020, significant market uncertainty continues

Whilst the prevailing market conditions may influence certain economic parameters, we expect the impact on value to be consistent across both parties involved in the Scheme. Consequently, the current market conditions do not impact on our overall conclusion in relation to the fairness of the Proposed Transaction.

3.4 *Consequences if the Scheme is not approved*

In the event that the Scheme is not approved or any conditions precedent prevent the Scheme from being implemented, CannPal will continue to operate in its current form and remain listed on the ASX. As a consequence:

- CannPal will continue to execute on its strategy as set out in Section 7.2 of this report. As CannPal continues the development of CPAT-01D and DermaCann, further funding would likely be required in the near future



- CannPal Shareholders will not receive the Scheme Consideration and the implications of the Scheme, as summarised above, will not occur, other than with respect to the one-off transaction costs incurred, or committed to, prior to the Scheme Meeting. CannPal is not liable to pay a break fee if the Scheme fails to be approved by CannPal Shareholders
- CannPal Shareholders will continue to be exposed to the benefits and risks associated with an investment in CannPal, and
- CannPal's share price will likely fall. The current share price of CannPal reflects the terms of the Scheme and therefore includes expectation of a control premium. As such, in the absence of the Scheme, an alternative proposal or speculation concerning an alternative proposal, the CannPal share price is likely to fall to levels consistent with trading prices prior to the announcement of the Scheme.

4 Other matters

In forming our opinion, we have considered the interests of CannPal Shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual shareholders. It is not practical or possible to assess the implications of the Proposed Transaction on individual shareholders as their financial circumstances are not known. The decision of CannPal Shareholders as to whether or not to approve the Proposed Transaction is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the proposed resolutions may be influenced by his or her particular circumstances, we recommend that individual shareholders including residents of foreign jurisdictions seek their own independent professional advice.

Our IER has also been prepared in accordance with the relevant provisions of the Act and other applicable Australian regulatory requirements. This IER has been prepared solely for the purpose of assisting CannPal Shareholders in considering the Proposed Transaction. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

All currency amounts in this IER are denominated in Australian dollars (\$) unless otherwise stated.

Neither the whole nor any part of this IER or its attachments or any reference thereto may be included in or attached to any document, other than the Scheme Booklet to be sent to CannPal Shareholders in relation to the Proposed Transaction, without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears. KPMG Corporate Finance consents to the inclusion of this IER in the form and context in which it appears in the Scheme Booklet.

The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this IER, including the appendices.

Yours faithfully



Joanne Lupton
Authorised Representative



Sean Collins
Authorised Representative

5 The Proposed Transaction

On 16 November 2020, CannPal announced that it had entered into the SID with AusCann, which will result in AusCann acquiring 100% of the issued shares of CannPal. The Proposed Transaction is proposed to be implemented by way of a scheme of arrangement and will result in CannPal Shares being delisted from the ASX.

5.1 Terms of the Scheme

Under the terms of the Scheme, CannPal Shareholders will receive the Scheme Consideration, which comprises 1.3 shares in AusCann for every share held in CannPal on the Scheme Record Date.

The Scheme further notes that CannPal must use all reasonable endeavours to obtain written agreement of each person holding options in CannPal, to cancel those options and be issued with a reasonably equivalent value of options in AusCann. Where such written agreement is not forthcoming, AusCann intends to initiate after the Implementation Date, the compulsory acquisition of all CannPal options under Part 6A.2 (Div 2) of the Corporations Act.

5.2 Conditions of the Scheme

The Scheme will not proceed unless each of the conditions precedent set out in the SID is satisfied or waived (if applicable). The notable conditions precedent include:

- Regulatory approvals: receipt of approvals, consents or relief from regulatory authorities or relevant government agency is received, including the Foreign Investment Review Board
- Shareholder approval: CannPal Shareholders approve the Scheme at the Scheme Meeting by the requisite majorities
- Court approval: the Court approves the Scheme in accordance with section 411(4)(b) of the Act
- No restraints: no Court, ASX or government agency issues or takes steps to issue a restraining order, preliminary or permanent injunction or other material legal restraint or prohibition preventing the Scheme or requiring material change to the terms of the Scheme
- No material changes: no Material Adverse Change, such as a reduction in net assets by 20% or an adverse effect on the status of any licence, permits or authorisations from any government agency, has occurred
- No prescribed event: no CannPal Prescribed Occurrence (which includes changes to share capital, declaration of dividends, disposal of business or property, amongst other things), has occurred
- Representations and warranties: the representations and warranties given by CannPal are true and correct in all material respects as at the date those representations and warranties are given.

As at the date of this report, CannPal is not aware of any reason why the conditions precedent will not be satisfied.

5.3 Transaction costs

Management of CannPal (**Management**) has estimated total one-off transaction costs in relation to the Scheme to be approximately \$0.36 million on a pre-tax basis, which will have been paid, or committed, prior to the Scheme Meeting.

One-off transaction costs associated with the Scheme primarily relate to legal fees, expert fees, and other costs associated with the Scheme.

5.4 Break fees

In the case that there is a material non remedied breach of the SID by AusCann or the Scheme becomes effective but AusCann does not provide the Scheme Consideration accordingly, a break fee of \$150,000 would be payable by AusCann to CannPal.

Should the Scheme not proceed due to CannPal accepting or implementing an alternative proposal, the Board or a director of CannPal (**Director**) recommending an alternative proposal or a director of CannPal withdrawing or adversely modifying their recommendation or voting intention, a break fee of \$150,000 would be payable by CannPal to AusCann. The break fee represents compensation for expected advisory costs, costs of management and directors' time, out-of-pocket expenses, reasonable opportunity costs and costs related to any damage to AusCann's reputation incurred by AusCann in pursuing the Scheme.

5.5 Other terms

The SID also contains customary exclusivity provisions, including no shop, no talk and no diligence restrictions, a notification obligation and a matching right. The no talk and no due diligence restrictions are subject to CannPal Directors' fiduciary obligations.

6 Scope of the report

6.1 Purpose

The Board has requested KPMG Corporate Finance to prepare a report in accordance with Section 412 of the Act and the guidance provided by ASIC.

Section 412(1) of the Act requires that an explanatory statement issued in relation to a proposed scheme of arrangement under Section 411 of the Act include information that is material to the making of a decision by a creditor or member as to whether or not to agree with the relevant proposal.

Part 3 of Schedule 8 of the Corporations Regulations specifies that the information to be lodged with ASIC must include a report prepared by an expert:

- if the other party to a reconstruction in a scheme of arrangement holds at least 30% of the company, or
- where the parties to the reconstruction have common directors.

The report prepared by the expert must state whether, in the expert's opinion, the proposed scheme of arrangement is in the best interests of the members of the body as a whole and set out the expert's reason(s) for forming that opinion.

Even where an independent expert's report is not strictly required by the law (as is the situation with respect to the Scheme), it is not uncommon for directors to commission one to ensure they are providing the information that is material to the making of a decision by a creditor or member.

This IER is to be included in the Scheme Booklet to be sent to CannPal Shareholders and has been prepared for the purpose of assisting CannPal Shareholders in their consideration of the Proposed Transaction and their approval of the Scheme.

6.2 Basis of assessment

Regulatory Guide (RG) 111 "Content of expert reports", issued by ASIC, indicates the principles and matters which it expects a person preparing an independent expert report to consider. RG 111 distinguishes between the analysis required for control transactions and other transactions.

RG 111.18 states that where a scheme of arrangement is used as an alternative to a takeover bid, the form of analysis undertaken by the expert to determine whether the scheme is 'in the best interests of the members of the company' should be substantially the same as for a takeover bid. That form of analysis considers whether the transaction is "fair and reasonable" and, as such, incorporates issues as to value. In particular:

- 'fair and reasonable' is not regarded as a compound phrase
- an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities subject to the offer

- an offer is 'reasonable' if it is 'fair', and
- an offer might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111 provides that an offer is fair if the value of the consideration is equal to or greater than the value of the shares subject to the offer. It is a requirement of RG 111 that the comparison be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash and without regard to the percentage holding of the bidder or its associates in the target prior to the bid. That is, RG 111 requires the value of the target to be assessed as if the bidder was acquiring 100% of the issued equity (i.e. on a controlling interest basis). In addition to the points noted above, RG 111 notes that the weight of judicial authority is that an expert should not reflect 'special value' that might accrue to the acquirer.

Accordingly, when assessing the full underlying value of CannPal, we have considered those synergies and benefits which would be available to more than one potential purchaser (or a pool of potential purchasers) of CannPal. As such, we have not included the value of special benefits that may be unique to AusCann. Accordingly, our valuation of CannPal has been determined without regard to the specific bidder, and any special benefits have been considered separately.

Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer, such as:

- the bidder's pre-existing shareholding in the target
- other significant shareholdings in the target
- the liquidity and volatility of the market in the target's shares
- any special value of the target to the bidder
- the likely market price of the target's shares in the absence of the offer
- the likelihood of an alternative offer being made, and
- any other advantages, disadvantages and risks associated with accepting the offer.

RG 111.20 states that if an expert would conclude that a proposal was 'fair and reasonable' if it was in the form of a takeover bid, it will also be able to conclude that the scheme is 'in the best interests' of the members of the company. Further, RG 111.21 states that if an expert would conclude that the proposal was 'not fair but reasonable' it is still open to the expert to also conclude that the scheme is 'in the best interests of the members of the company'.

In forming our opinion, we have considered the interests of CannPal Shareholders as a whole. As an individual shareholder's decision to vote for or against the proposed resolutions may be influenced by their particular circumstances, we recommend they each consult their own financial advisor.

6.3 Limitations and reliance on information

In preparing this IER and arriving at our opinion, we have considered the information detailed in Appendix 2 of this IER. In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying it. Nothing in this IER should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of CannPal or AusCann for the purposes of this IER.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of management. In addition, we have also had discussions with CannPal's Management in relation to the nature of the Company's business operations, its specific risks and opportunities, its historical results and its prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

CannPal has been responsible for ensuring that information provided by it or its representatives is not false or misleading or incomplete. Complete information is deemed to be information which at the time of completing this report should have been made available to KPMG Corporate Finance and would have reasonably been expected to have been made available to KPMG Corporate Finance to enable us to form our opinion.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG Corporate Finance included forecasts/projections and other statements and assumptions about future matters (forward-looking financial information) prepared by the Management of CannPal. Whilst KPMG Corporate Finance has relied upon this forward-looking financial information in preparing this report, CannPal remains responsible for all aspects of this forward-looking financial information. The forecasts and projections as supplied to us are based upon assumptions about events and circumstances which have not yet transpired. We have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any forward-looking financial information, however we have made sufficient enquiries to satisfy ourselves that such information has been prepared on a reasonable basis.

Notwithstanding the above, KPMG Corporate Finance cannot provide any assurance that the forward-looking financial information will be representative of the results which will actually be achieved during the forecast period. Any variations in the forward looking financial information may affect our valuation and opinion.



The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

6.4 Disclosure of information

In preparing this report, KPMG Corporate Finance has had access to all financial information considered necessary in order to provide the required opinion. CannPal has requested KPMG Corporate Finance limit the disclosure of some commercially sensitive information. This request has been made on the basis of the commercially sensitive and confidential nature of the operational and financial information of CannPal's business. As such the information in this report has been limited to the type of information that is regularly placed into the public domain by CannPal.

7 Profile of CannPal

7.1 Background

CannPal Animal Therapeutics Limited (ASX: CP1) is an animal health Company with a mission to provide pet owners and veterinarians with access to high quality, evidence based, plant derived therapeutic products to promote better health and well-being for animals.

Presently, the Company is focused on the development of pharmaceutical and nutraceutical products for dogs, for commercialisation in various markets around the world, using compounds derived from the hemp and cannabis plant. The company has operations in Australia, New Zealand and the US and a primary listing on the ASX, with a market capitalisation of \$11.6 million on 12 November 2020.⁶

CannPal is headquartered in Sydney and was incorporated in Canberra in June 2016. The company aims to launch its products in key markets such as the US, Australia and Europe, given the size of the pet markets in these regions, as well as the due diligence conducted on the regulatory framework in these countries by CannPal. The company aims to launch its products in other markets, including South Africa and New Zealand as well.

CannPal specialises in the development of regulatory approved medicines derived from compounds found in the hemp and cannabis plant to provide veterinarians with clinically validated and standardised therapeutics to treat animals. It currently has two lead products and a nutraceutical pipeline in the commercialisation phase for complementary revenue. As CannPal works with controlled substances which require consistent and high quality cultivation and manufacture, the company strategically partners with licensed cannabis oil suppliers, including Aphria Inc. (**Aphria**), for the supply of cannabis oils for the company's research and development. In addition to in-house R&D, CannPal has worked with various organisations including the Commonwealth Scientific and Industrial Research Organisation (**CSIRO**), Eurofins Scientific, University of Queensland and the University of Melbourne to scale the company's research projects and extend its reach of data access in order to accelerate its development and commercialisation pipeline. Recent key events in CannPal's corporate history include:

- on 22 September 2017, CannPal closed its initial public offering (**IPO**), raising the maximum subscription of \$6 million. The company had a market capitalisation of \$18.5 million based on the \$0.20 per share offer price, and was admitted to the official list of ASX on 23 October 2017 and commenced trading on 25 October 2017
- in June 2018, the company entered into an agreement with CSIRO to research the use of patented MicroMAX[®] drug delivery technology for cannabis-based animal health products. Subsequently, CannPal entered into an exclusive licensing agreement with CSIRO in January 2020 to commercialise MicroMAX[®] in the field of Animal Therapeutics

⁶ The last trading day on the ASX prior to the announcement of the Proposed Transaction.

- in CY19, CannPal achieved various milestones for its R&D projects, including but not limited to the following:
 - the filing of a provisional patent application for the formulation of CPAT-01, their lead pain and inflammation drug
 - the completion of a pilot stability program for their lead nutraceutical product, DermaCann®, which confirmed the stability of the formulation across various geographical locations, as well as the commencement of a safety and efficacy study for DermaCann®, the Company's lead nutraceutical for healthy skin and immune function for dogs
 - the commencement of Phase 1 studies for CPAT-01 on dogs recruited for the program
- in January 2020, CannPal entered into an exclusive licencing agreement with CSIRO for the global, exclusive rights to commercialise the MicroMAX® drug delivery technology for use in the field of Animal Therapeutics and filed a patent application for its hemp-derived anti-inflammatory oil formulation used along with the patented MicroMAX® drug delivery technology. Subsequently in August 2020, CannPal commenced a pilot launch of the product through the US Amazon.com platform
- in March 2020, the Food and Drug Administration (**FDA**), Centre for Veterinary Medicine (**FDA-CVM**) established the first Investigational New Animal Drug file (**INAD**) for CPAT-01 and CannPal advanced commercialisation discussions with animal health partners in various markets
- in October 2020, CannPal commenced product registration in South Africa for DermaCann®, to complement the company's Australian and New Zealand regulatory dossiers, which are presently being drafted for submission
- in CY20, CannPal achieved various milestones for its R&D projects, including but not limited to the following:
 - the completion of a randomised, placebo controlled, double-blind clinical study for DermaCann, confirming a significant reduction of symptoms associated with atopic dermatitis in dogs treated with the product for 8 weeks
 - the continued development of its Chemistry, Manufacturing and Controls (**CMC**) dossier for DermaCann®, including analytical method development, a stability program and securing a GMP manufacturer
 - the completion of a number of toxicological and safety studies on its key active ingredients for its lead products, including a 90-day Target Animal Safety (**TAS**) study in dogs and various genetic toxicology studies
 - the completion of Phase 1 studies, and the commencement of Phase 2 clinical trials for CPAT-01 in dogs recruited for the program.

7.2 Strategy

CannPal continues to seek regulatory approval of its developed pharmaceutical products following the success of clinical R&D activities, proving the safety and efficacy of its drugs. In addition, the company seeks to generate revenue through the sale of nutraceutical products, which contain the less restricted compounds from the industrial hemp plant, specifically for the treatment of conditions in pets shown to be responsive to that active ingredient. CannPal believes the early revenue generation strategy through nutraceuticals complements its ongoing pharmaceutical drug research.

The animal data collected through CannPal's R&D allows opportunity to potentially generate future revenue from the sale or licence of its intellectual property for use in human drug development. CannPal works with a number of organisations for research, manufacturing and supply purposes, including Aphria, CSIRO, Jaychem Industries Ltd, Vetio Animal Health, NutriPATH, Clinglobal Limited, Kingfisher (Canadian veterinary clinical research organisation), Cawthron Institute, Next Generation Pet Foods, Klifovet AG, as well as the Tetra-Q Research Infrastructure Centre (part of University of Queensland).

7.3 Business operations

CannPal has its head office in Australia and works with advisers, consultants, research organisations and manufacturers in a number of countries around the world. The core team of CannPal is the in-house management team, consisting of the Managing Director and the Head of R&D who are based in Sydney, key advisers based in Melbourne and Sydney, respectively, and consultants based in the US providing ongoing development support.

Since CannPal's IPO, the company has remained focused on the development and commercialisation of their lead nutraceutical product, DermaCann[®], as well as their lead pain and inflammation drug, CPAT-01. In addition, it has been focused on its third core research program, the patented MicroMAX[®] drug delivery technology, over the last two years.

DermaCann[®]

CannPal's lead nutraceutical product, DermaCann[®], is developed using active ingredients from the hemp plant to target dermatological skin conditions in dogs. Nutraceuticals are products developed for supporting healthy function and are often adopted in preventative care rather than treatment and are used as supportive therapies in multi-modal treatment regimens.

DermaCann[®] is a liquid oral oil containing a patent pending hemp-derived cannabidiol (**CBD**) formulation with no Tetrahydrocannabinol (**THC**), which is the principal psychoactive constituent of cannabis, and a proprietary blend of other phytonutrients designed to target inflammation and immune modulation pathways. The development of this product is a part of CannPal's early revenue generation strategy to develop over-the-counter (**OTC**) medicines and nutraceuticals using plant-compounds from the less regulated hemp plant to complement its ongoing pharmaceutical drug research.

In June 2019, CannPal completed an 8-week randomised, double-blind, placebo-controlled clinical trial (**RCT**) to research the effects of the oral liquid formulation in a cohort of dogs with Atopic Dermatitis. The results indicated that DermaCann® can reduce the symptoms associated with Atopic Dermatitis in dogs when compared to the placebo and is complementary to be used as part of a Canine Atopic Dermatitis therapy regime. The results of this study will be used to support the registration of DermaCann® as a veterinary medicine in a number of key markets and the company has leveraged this data to advance commercialisation discussions with a number of leading animal health partners to bring this product to market. DermaCann® is on track to be approved for legal veterinary sale in 2021.

CannPal has completed a robust manufacturing dossier, including analytical characterisation and an 18 month stability program for the product, as well as safety and efficacy studies. The company is progressing its manufacturing scale up/process validation in both New Zealand and the US, and has commenced preparations for a Target Animal Safety (**TAS**) study. It has commenced commercial evaluation in markets such as the US. The company expects the registration of DermaCann® to be submitted in at least three separate geographies by the end of FY21.

CPAT-01

CPAT-01 is the company's lead pain and inflammation drug for the large and growing veterinary pain market. It is a liquid, oral veterinary medicine containing standardised THC and CBD extracts in a proprietary ratio to target pain and inflammation in dogs.

In FY19, an extensive Phase 1 research program, including research in approximately 60 dogs spanning across pharmacokinetics, safety, inflammatory biomarkers, gene expression and early dose response data was completed. The drug has demonstrated positive influence on pain and inflammation pathways in dogs through program trials, and no safety concerns were resulted from the completed dose determination studies on dogs.

CannPal is progressing with further dose studies and has commenced its current Good Manufacturing Practices (**cGMP**) CMC program, whilst continuing to research the benefits of CPAT-01 in dogs with osteoarthritis. In August 2019, the first ever RCT (randomised, placebo-controlled trial) was conducted in client owned dogs with osteoarthritis for pain and inflammation, marking a significant milestone for CannPal.

During FY20, CannPal completed the live phases of its Phase 2 TAS study and efficacy study for CPAT-01, despite the interruptions in dog recruitment faced in light of COVID-19. This was complemented by the establishment of the company's first INAD (Investigational New Animal Drug) application, with the FDA-CVM⁷ for this key drug candidate to be commercialised as a regulatory approved veterinary medicine in the US and other key markets.

⁷ Food and Drug Administration, Centre for Veterinary Medicine

CannPal intends to leverage the data generated over the last two years to advance discussions with potential partners to continue with the development of CPAT-01 as an FDA-CVM approved medicine and commercialise it for the large and growing veterinary pain and inflammation market for dogs.

MicroMAX®

In June 2018, CannPal entered into an agreement with CSIRO under its Kick-Start initiative⁸ to research the use of CSIRO's patented microencapsulation technology platform, designed to encapsulate microscopic droplets of oil in a special food grade material, to protect bioactive ingredients from oxidation and help deliver them to the gastrointestinal tract. Developed through extensive R&D, MicroMAX® protects sensitive oils from oxidation and enables them to be incorporated into a wide range of end applications.

As part of the company's early revenue generation strategy to support its ongoing pharmaceutical R&D activities, CannPal commenced its evaluation process of the drug delivery technology with CSIRO to develop new product formats using less regulated compounds derived from hemp plant as the company's hemp-derived oil formulation has proven to have anti-inflammatory capability based on pre-clinical data.

In January 2020, CannPal successfully secured the global exclusive rights to the patented MicroMAX® drug delivery technology and entered into an exclusive licencing agreement with CSIRO to commercialise the technology for use in the field of Animal Therapeutics. Further, the company entered into a manufacturing agreement with Australian pet food manufacturer, Next Generation Pet Foods, to commence a small-scale commercial trial for a new Joint Health Supplement produced using the MicroMAX® technology.

Subsequently in August 2020, CannPal announced a cost-effective pilot launch for the supplement through the Amazon.com platform in the US with the expectation to broaden its distribution having received positive feedback from US consumers.

A summary of the industry in which CannPal operates is set out in Appendix 3.

⁸ CSIRO Kick-Start is an initiative for innovative Australian start-ups and small SMEs whereby CSIRO provides funding support and access to CSIRO's research expertise and capabilities to help grow and develop their business.

7.4 Financial summary

Financial performance

The financial performance of CannPal for FY18, FY19, and FY20 is summarised in the table below.

Table 3: Financial performance of CannPal

Period	FY18	FY19	FY20
\$ thousand unless otherwise stated	Audited	Audited	Audited
Revenue			
Research and Development tax refund	129.1	297.3	654.4
ATO cash flow boost	-	-	50.0
Interest income	76.8	103.6	60.8
Total income	205.9	400.9	765.3
Employee expenses	(110.2)	(107.8)	(110.9)
Legal and ASX fees	(232.3)	(52.4)	(58.5)
Research and Development	(661.3)	(1,558.3)	(1,775.0)
Corporate and Administration costs	(570.6)	(478.2)	(422.7)
Share based payments ¹	(325.8)	(211.6)	(101.7)
Total operating expenditures	(1,900.3)	(2,408.2)	(2,468.8)
Loss before income tax	(1,694.4)	(2,007.3)	(1,703.6)
Income tax benefit/(expense)	-	-	-
Loss for the period	(1,694.4)	(2,007.3)	(1,703.6)
Other comprehensive income, net of tax	-	-	-
Total comprehensive loss of the period	(1,694.4)	(2,007.3)	(1,703.6)
Statistics			
Weighted average number of ordinary shares ('000s) ²	83,973	93,125	93,125
Basic loss per share (cents per share)	(2.02)	(2.16)	(1.83)

Source: CannPal Annual Report for FY19 and FY20, and KPMG Corporate Finance analysis

Notes:

1. CannPal had 11,000,000 unlisted share options as at 30 June 2020.
2. Weighted average number of ordinary shares used in calculating basic earnings per share (EPS).

In relation to the historical financial performance of CannPal, we note:

- CannPal has not generated any product revenue to date. The company recognises interest income accrued on the carrying amount of its investment in financial assets i.e. cash. The primary cash inflow for the company is derived from R&D tax refund and government grants. In FY20, CannPal received their Australian Taxation Office (ATO) cash flow boost of \$50 thousand in light of the government's support during the economic downturn associated with COVID-19
- in FY20, the company received \$654.4 thousand (\$297.3 thousand in FY19) from the refundable R&D Tax Incentive. The increased refund was the result of an increase of R&D activities prior to commercialisation of CannPal's products

- as at 30 June 2020, CannPal has tax losses not brought to account as a deferred tax asset of \$511.1 thousand (\$602.2 thousand as at 30 June 2019)
- the largest component of CannPal's operating expenses is R&D expenses. R&D expenses incurred in FY19 were more than double the amount incurred in FY18, reflecting the completion of Phase 1 clinical studies for CPAT-01 and CannPal's accelerated development pathway. In FY20, R&D expenses increased by 13.9% compared to FY19
- the second and third largest components of CannPal's operational expenditures including corporate and administration costs, as well as employee expenses, which have been broadly consistent over the last three years
- in relation to other operational expenditure incurred by CannPal, we note that the company's employee expenses have remained relatively flat over the period FY18 to FY20, whilst the share-based payments have reduced as the share options expire over time. As at 30 June 2020, CannPal had 11,000,000 outstanding share options (12,500,000 as at 30 June 2019).

Financial position

The financial positions of CannPal as at 30 June 2018, 30 June 2019 and 30 June 2020 are summarised in the table below.

Table 4: Financial position of CannPal

As at	30 Jun 2018	30 Jun 2019	30 Jun 2020
\$ thousand unless otherwise stated	Audited	Audited	Audited
Cash and cash equivalents	5,114.2	3,304.9	1,915.7
Trade and other receivables	26.6	53.5	30.5
Current assets	5,140.9	3,358.4	1,946.1
Total assets	5,140.9	3,358.4	1,946.1
Trade and other payables	102.7	110.3	291.6
Employee benefits provisions	28.7	34.3	42.7
Current liabilities	131.4	144.6	334.2
Total liabilities	131.4	144.6	334.2
Net assets	5,009.5	3,213.8	1,611.9
Total equity	5,009.5	3,213.8	1,611.9
Statistics			
Shares on issue at period end ('000) ¹	93,125	93,125	93,125
Net asset value per share (cents per share) ²	5.38	3.45	1.73

Source: CannPal Annual Report for FY19 and FY20, and KPMG Corporate Finance analysis

Notes:

1. CannPal ordinary shares are as at period end.
2. Net asset value (NAV) per share is calculated as net asset value divided by the number of CannPal Shares as at period end.

In relation to the financial position of CannPal as at 30 June 2020, we note:

- cash and cash equivalents of CannPal have decreased from the balance at 30 June 2019 mainly due to cash spent on R&D activities undertaken during the financial year

- trade and other receivables are primary composed of GST receivable, which had a balance of \$30.5 thousand as at 30 June 2020
- trade and other payables are made up of trade creditors, followed by audit fees, Directors' fees, and payroll accruals
- NAV per share decreased from 5.38 cents at 30 June 2018 to 1.73 cents at 30 June 2020, predominantly due to a reduction in cash as a result of the R&D initiatives undertaken by CannPal and its investments in new projects since its IPO
- CannPal does not have any interest-bearing debt as at the date of this report and over the period from FY18 to FY20
- as at 30 June 2020, CannPal has a commitment of US\$45,000 under a manufacturing agreement with US-based Vetio Animal Health for the commercialisation of DermaCann®.

Statement of cash flows

The cash flow statements for CannPal for the periods FY18 to FY20, and the quarter ending 30 September 2020 (1QFY21) are summarised in the table below.

Table 5: Cash flow statement of CannPal

Period	FY18	FY19	FY20	1QFY21
\$ thousand unless otherwise stated	Audited	Audited	Audited	Reviewed
Receipts from customers	-	-	-	6.0
Payments to suppliers and employees	(1,485.9)	(2,210.2)	(2,154.5)	(682.0)
Research and Development tax refund	129.1	297.3	654.4	686.0
ATO cash flow boost	-	-	50.0	37.0
Interest received	76.8	103.6	60.8	2.0
Operating cash flows	(1,279.9)	(1,809.4)	(1,389.2)	49.0
Proceeds from issue of ordinary shares	6,000.0	-	-	-
Payment of share issue costs	(360.0)	-	-	-
Financing cash flows	5,640.0	-	-	-
Net cash generated/(used)	4,360.1	(1,809.4)	(1,389.2)	49.0
Cash and cash equivalents - opening balance	754.2	5,114.2	3,304.9	1,915.7
Cash and cash equivalents - closing balance	5,114.2	3,304.9	1,915.7	1,964.7

Source: CannPal Annual Report for FY19 and FY20, Quarterly Cash Flow Report Market Update 30 September 2020 and KPMG Corporate Finance analysis

CannPal was listed on the ASX on 23 October 2017, receiving \$6.0 million from the issue of new ordinary shares via a prospectus. The funds raised and received in FY18 were used to fund the company's research projects and accelerate its development pathway.

As at 30 September 2020, CannPal generated \$6,000 from the pilot launch of MicroMAX® Hip and Joint Supplement on the Amazon.com platform, which commenced in July 2020, and had a closing cash balance of \$1.96 million.

Based on the cashflow forecasts provided by Management, the Board expected the business to be sufficiently funded to execute its current strategies for at least the next twelve months from 30 June 2020, with a number of significant commercialisation catalysts on the horizon.

7.5 **Key risks and outlook**

Key risks

The key risks to CannPal's business strategy include the following:

- **uncertainty of clinical trials:** the lead products of CannPal are in R&D stage with further studies and clinical trials to be conducted. The results of these research programs are inherently uncertain, and the process is often subject to delays and uncertainty regarding product uptake and market competition
- **cashflow risks:** resulting from the lack of cash inflow and no existing revenue streams, given the business is in its early R&D stage, imposing a restriction on funds available for the execution of Management's strategies. Furthermore, the company may not be able to source suppliers at the estimated expenditure, whilst R&D and other expenditures remain high until a product is successfully developed, registered and commercialised. As such, for CannPal to continue operating as a going concern company, a considerable cash balance has to be maintained and capital raisings may often be required
- **regulatory risks:** CannPal's proposed pharmaceutical products contain active ingredients that are controlled substances i.e. CBD and THC. Their regulatory approval is subject to stringent evidence of the benefits and safety of the drug candidate and may generate public controversy. The requirements imposed by regulatory bodies on the registration of medical cannabis and cannabis-based products, either pharmaceutical or nutraceutical, are complex and varies across the countries and regions, and are subject to change in various jurisdictions over recent years. Any regulatory changes in any country that a strategic partner or CannPal are operating could significantly impact the company's business activities. Successful precedent with one regulatory body is not determinate of the decision reached by a different regulatory authority. Furthermore, the registration process is lengthy in certain jurisdictions and there is no guarantee that existing regulatory approval or registration will not be revoked in the future
- **supply risks:** in order to complete its clinical research and ensuring consistency of results, CannPal requires access to a consistent and high quality of medical cannabis oil, otherwise its trial results may be delayed or compromised. The company has existing non-binding memorandum of agreement (**MOU**) with Aphria in relation to the supply of cannabis oil for CannPal's clinical research purposes, however Aphria could withdraw its supply at any time and the company would need to identify another oil supplier or recommence its clinical trials on the basis of a different formulation of cannabis oil from a different supplier
- **intellectual property:** there is no guarantee that the company's patent and trademark applications will be granted and that the company's owned and licensed patent rights

comprise all the rights CannPal requires to freely use and commercialise its products. Further, potential legal challenge to any patent with the CannPal intellectual property portfolio could adversely impact its development and commercialisation activities

- **management risks:** CannPal currently employs, or engages as consultants and advisors, several key members of its management and R&D team. The potential loss of any of these key members may adversely affect the company and hinder the achievement of its research, product development and commercialisation objectives. In addition, poor management of financial budget and personnel may adversely impact the company's ability to execute its strategy.

Growth initiatives

CannPal's R&D team continues to identify opportunities to further develop CannPal's existing products and potential commercialisation pathways.

The following measures are currently being implemented by Management to accelerate the commercialisation of CPAT-01 and DermaCann®, as well as improve the growth of revenue generated from the MicroMAX® technology.

DermaCann®

- complete dossier submission in South Africa, Australia and New Zealand,
- seek additional regulatory markets for product registration and expand distribution channels,
- scale up manufacturing and commercialisation of the product in the US, through veterinary channels,
- commence veterinary distribution in regulated market such as South Africa, Australia and New Zealand, and
- commercial evaluation in other markets that can allow commercialisation without product registration.

CPAT-01

- continue the cGMP CMC program to ensure the robust manufacturing and controls for the production of GMP clinical trial material,
- commence pre-submission meeting conference with the FDA for Phase 2 Dose Confirmation study concurrence and Phase 3 Program,
- complete Phase 3 Pivotal studies to confirm the safety and effectiveness of the product, and submit approval dossiers in key markets,
- seek commercialisation partner for the launch of the company's lead anti-inflammatory drug in regulated markets, and

- commence and progress R&D for additional product indications and new pharmaceutical candidates, if cash flow allows.

MicroMAX®

- refine end-product, as well as the distribution and production processes for expansion in the US market,
- continue commercialisation and expand geographical distribution online and offline in other markets such as Asia Pacific,
- develop additional SKUs, and extend the product line beyond the current Hip & Joint supplement, if cash flow allows,
- build a complementary pet speciality and retail offering to the company’s veterinary products with the commercialisation of the MicroMAX® product line.

Outlook

CannPal has not publicly released specific earnings forecasts for FY21 or beyond. Further, KPMG Corporate Finance is not aware of any brokers who follow and/or issue reports on CannPal.

7.6 Board of Directors and senior management

CannPal’s current Board is comprised of three Non-Executive Directors and one Managing Director. Details of CannPal’s Board are summarised in the table below.

Table 6: CannPal Directors

Board members and senior management	
Geoff Starr (Non-Executive Chairman)	Layton Mills (CEO and Managing Director)
Robert Clifford (Non-Executive Director)	Baden Bowen (Company Secretary)
Dr Kathryn Adams (Non-Executive Director)	

Source: *CannPal Financial Statement for FY20*

7.7 Capital structure and ownership

Issued capital

As at 31 December 2020, CannPal had the following securities on issue:

- 93,125,000 fully paid ordinary shares,
- 8,000,000 unlisted options (**CannPal Options**), and
- 1,875,000 unlisted performance rights with various vesting conditions and expiry dates (**CannPal Performance Rights**).

In relation to the CannPal options, we note:

- 7,250,000 unlisted share options, with an exercise price of \$0.20 per option, will expire on 24 March 2022,
- 250,000 unlisted share options, with an exercise price of \$0.20 per option, will expire on 9 November 2022, and
- 500,000 unlisted share options, with an exercise price of \$0.20 per option, will expire on 31 December 2024.

CannPal has a total of 1,875,000 CannPal Performance Rights on issue, all held by CEO and Managing Director, Layton Mills.

The Scheme notes that CannPal must use all reasonable endeavours to have all existing CannPal Options cancelled in exchange for the grant of a reasonably equivalent value of options in AusCann, and that all existing CannPal Performance Rights must be converted into CannPal Shares so that the CannPal Shares issued on exercise will be exchanged for New AusCann Shares under the Scheme.

Substantial shareholders

The substantial shareholders of CannPal as at 31 December 2020 are set out in the table below.

Table 7: Substantial shareholders

Holders of Ordinary Fully Paid Shares	Number of Shares held	Percentage of issued capital
MERCHANT FUNDS MANAGEMENT PTY LTD	18,511,707	19.88%
LAYTON PATRICK MILLS ATF DJS FAMILY TRUST	7,765,179	8.38%
TANIA MAREE VIDOVIC ATF STAR V FAMILY TRUST	6,884,682	7.39%

Source: CannPal Management

Shareholder distribution

The profile of CannPal's shareholder base as at 29 November 2020 is set out in the table below.

Table 8: Number of ordinary shares on issue and distribution of holdings

Range	Number of Holders	% of Holders	Number of Shares	% of Shares
100,001 and Over	69	3.92%	73,472,912	78.90%
10,001 to 100,000	458	26.05%	14,100,695	15.14%
5,001 to 10,000	323	18.37%	2,668,932	2.87%
1,001 to 5,000	873	49.66%	2,871,257	3.08%
1 to 1,000	35	1.99%	11,204	0.01%
Total	1,758	100.00%	93,125,000	100.00%

Source: CannPal Management

As at 29 November 2020, approximately 78.90% of CannPal's shares were held by 3.92% of shareholders, and approximately 70.02% of CannPal's shareholders (by number of shareholders) held less than 6.00% of the total shares on issue.

Interests held internally

CannPal's Directors and Management hold interests in the company in the form of ordinary shares, unlisted share options, and unlisted performance rights. As at 31 December 2020, the Directors and Management of CannPal held the securities (either directly or indirectly) set out in the table below.

Table 9: Directors' and Management Shareholders' relevant interests in CannPal

Name	Position	Number of CannPal Shares	Number of CannPal Options	Number of CannPal Performance Rights
Geoff Starr	Non-executive Chairman	200,000	-	-
Robert Clifford	Non-executive Director	480,293	-	-
Dr. Kathryn Adams	Non-executive Director	-	-	-
Layton Mills	CEO	7,765,179	-	1,875,000

Source: CannPal Management

7.8 Share price performance

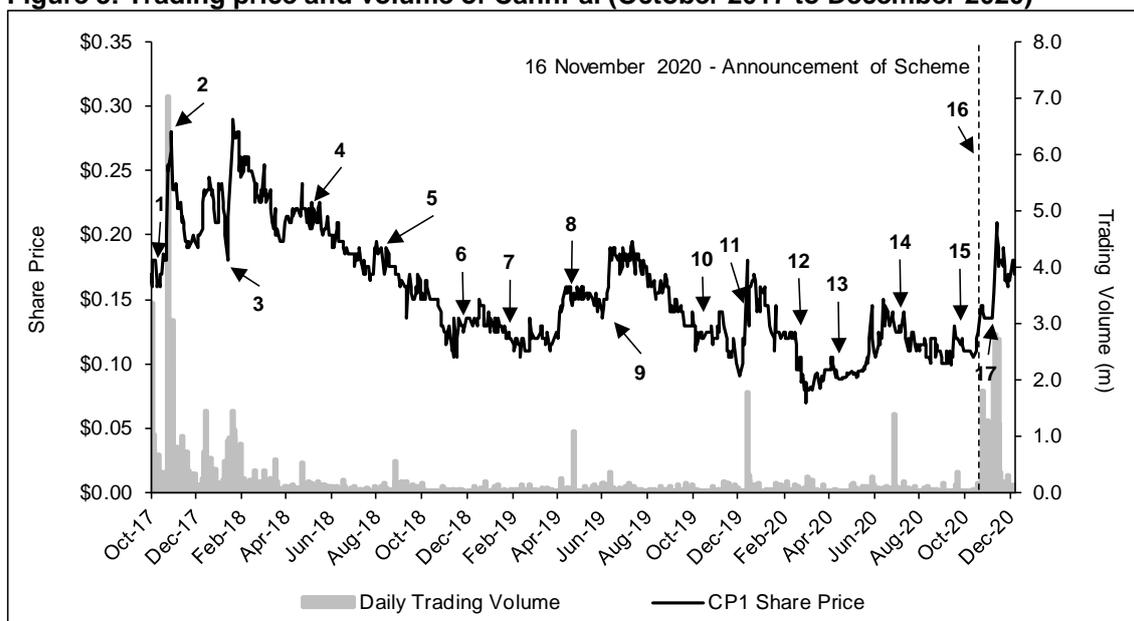
In assessing CannPal's share price performance, we have:

- analysed share price and trading volume since its listing on the ASX on 25 October 2017,
- compared the share price performance of CannPal to the S&P/ASX 200 Pharmaceuticals Biotechnology & Life Sciences (Industry Group) Index and the S&P/ASX Small Ordinaries Index, the most relevant indexes to CannPal, and
- analysed the trading liquidity of CannPal's Shares.

Share price and trading volume

CannPal's share price and trading volume since its listing on the ASX on 25 October 2017 is illustrated in the figure below.

Figure 3: Trading price and volume of CannPal (October 2017 to December 2020)



Source: S&P Capital IQ; KPMG Corporate Finance analysis

Since listing, CannPal's share price reached an intraday high of \$0.300 on 14 February 2020 and a low of \$0.069 on 25 March 2020. Key events which influenced the trading price and volume of CannPal's share over the observed period include:

- 1 On 25 October 2017, CannPal officially listed on the ASX at an issue price of \$0.200 per share and the first day of trading closed at \$0.170 per share.
- 2 On 10 November 2017, CannPal appointed Dr Margaret Curtis, as the company's Head of Clinical Development and R&D. She has a strong track record for leading global teams across Australia, US, Europe, Asia and Latin America, and has gained approval for over 20 drugs in over 100 countries. Following the announcement, CannPal's share price increased by 8.8% on the day and 35.1% over the following week.
- 3 On 31 January 2018, CannPal released its first Appendix 4C and Quarterly Cash Flow Report, which highlighted the significant progress made in the quarter, including receiving state, federal and animal health regulatory permits to allow the company to import, possess and supply medical cannabis oils for clinical R&D. Following the announcement, the company's daily trading volume increased by over 1,000%, although its share price declined

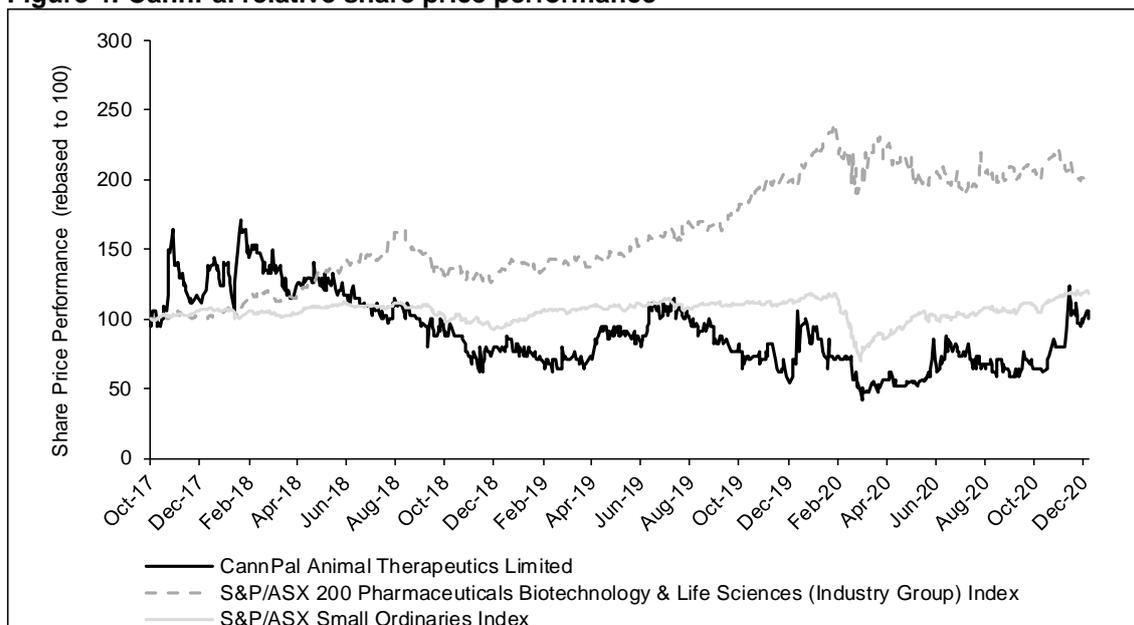
- by 2.2% on the day. Subsequently, the company's share price increased by approximately 31.8% over the following ten days before closing at a price of \$0.290 on 13 February 2018.
- 4 On 29 May 2018, CannPal announced that the company had entered into a manufacturing agreement with Jaychem Industries Limited, a New Zealand based veterinary contract manufacturing organisation for DermaCann[®]. The company's share price increase by 9.8% on the day and closed at \$0.225 per share.
 - 5 Over the period July to October 2018, 5.4% of the total volume of shares was traded, although the share price fluctuated and declined by 19.5% over the period. The relevant drivers include but are not limited to CannPal's announcement of its research agreements with Eurofins Scientific and University of Melbourne, its grant of FDA sponsor fee waiver and potentially US\$300 thousand of application fee, as well as the release of its Preliminary Final Report 30 June 2018 highlighting the major R&D milestones achieved by the company.
 - 6 On 12 December 2018, CannPal announced the completion of its Phase 1B Cannabinoid Study in dogs in relation to the DermaCann[®] research project. CannPal's share price increased by 4.3% to close at \$0.120 per share on the day.
 - 7 On 13 February 2019, CannPal received two key ethics approvals for CPAT-01 Phase 2 clinical study and DermaCann[®] safety and efficacy study, respectively. The recruitment of approximately 100 dogs for these studies would commence as a result. Following the announcement, CannPal's share price increased by 4.0% to close at \$0.130 per share on the day.
 - 8 On 6 May 2019, CannPal released the results presentation and research abstract in relation to the studies conducted on CPAT-01, highlighting the company's filing of a provisional patent application for the CPAT-01 formulation. Its share price increased by 6.7% to close at \$0.160 per share on the day.
 - 9 On 26 June 2019, CannPal announced its presentation at the 2019 Asian Cannabis Investment Summit, highlighting the company's R&D progress to date and the opportunity for CBD-based products in the animal health market in Asia. CannPal's share price increased by 7.4% following the release of its presentation.
 - 10 On 30 October 2019, CannPal released its 4C Quarterly Cash Flow Report for the first quarter of FY20 and the market update, highlighting the completion of a six month stability program for DermaCann[®] which confirmed the stability of the formulation across various geographical locations, as well as the commencement of CPAT-01 studies on 27 dogs. The company's share price increased by 13.6% on the day as a result.
 - 11 On 6 January 2020, CannPal entered into an exclusive licencing agreement with CSIRO to commercialise the product for use in the field of Animal Therapeutics. The company filed a patent application for its hemp-derived anti-inflammatory oil formulation used along with the

- patented MicroMAX[®] drug delivery technology. Following the announcement, the company's share price increased by 56.5% to close at \$0.180 per share on the day.
- 12 On 11 March 2020, the FDA established the first INAD for CPAT-01 and CannPal received a waiver for the annual sponsor fee associated with it. The company's share price increased by 4.2% on the day following the announcement.
 - 13 On 29 April 2020, CannPal released its 4C Quarterly Cash Flow Report and market update as at 31 March 2020, highlighting the completion of CPAT-01's live phase of its TAS study in Canada, and impacts of COVID-19 on the recruitment of dogs for the DermaCann[®] pilot field study. Following the announcement, the company's daily trading volume increased by over 80%, although its share price declined by 4.8% on the day.
 - 14 On 21 July 2020, CannPal announced the positive impact of DermaCann[®] on important skin inflammatory biomarkers in blood plasma with no adverse events reported on dogs that received treatment. Further, the company announced its discussion with animal health partners regarding the commercialisation of DermaCann[®] in various regulatory and non-regulatory markets. Following the announcement, the company's daily trading volume increased by over 27,400% compared to the previous day, although its share price declined by 3.6% on the day.
 - 15 On 12 October 2020, CannPal announced the commencement of its product registration process in South Africa for DermaCann[®] as a herbal supplement and the agreement to commence manufacturing activities in the US for the commercialisation of DermaCann[®] in early 2021. The company's share price increased by 18.2% and its daily trading volume increased by more than 300% on the day following the announcement.
 - 16 On 16 November 2020, CannPal announced the Proposed Transaction and the Scheme, whereby AusCann will acquire all CannPal Shares. The last trading price prior to the announcement of the Scheme was \$0.130 per share on 12 November 2020 before a trading halt. Following the announcement, CannPal's share price increased by 16.0% (reaching a high of \$0.170) on 17 November 2020 and closed at \$0.150 per share, and its daily trading volume increased by more than 1,500%.
 - 17 On 5 December 2020, the US House of Representatives passed the Marijuana Opportunity Reinvestment and Expungement (**MORE**) Act to remove marijuana from the federal Controlled Substances Act. The MORE Act decriminalises cannabis and creates pathway for additional research and ownership opportunities in the emerging industry. The last trading price prior to this announcement was \$0.155 on 4 December 2020. On 7 December 2020, CannPal's share price increased by 35.5% and closed at \$0.210 per share.

Relative share price performance

The trading performance of CannPal Shares over the period October 2017 to December 2020 relative to the S&P/ASX 200 Pharmaceuticals Biotechnology & Life Sciences (Industry Group) Index and the S&P/ASX Small Ordinaries Index is illustrated in the figure below.

Figure 4: CannPal relative share price performance



Source: S&P Capital IQ; KPMG Corporate Finance analysis

In relation to the figure above, we note that:

- the biotechnology sector (S&P/ASX 200 Pharmaceuticals Biotechnology & Life Sciences (Industry Group) Index) has consistently outperformed the small cap market (S&P/ASX Small Ordinaries Index) since February 2018, reflecting the strong investor sentiment for the biotechnology sector.
- CannPal's share price has underperformed both indexes since July 2018.

As stated in the previous section, CannPal's share price performance has been driven by the company's ongoing research and development process, capital position, and specific events. The company's share price over the past three years has been in a consistent downward trend as a result of ongoing pre-commercialisation phase of their products. This trend is opposite to the upward trend observed in the S&P/ASX 200 Pharmaceuticals Biotechnology & Life Sciences (Industry Group) Index over the same period.



Liquidity and volume weighted average price

The trading liquidity and VWAP of CannPal Shares for various periods ending 31 December 2020 is summarised in the table below.

Table 10: Liquidity and VWAP

Period	Price (low) \$	Price (high) \$	Price VWAP \$	Cumulative value \$m	Cumulative volume m	% of issued capital
1 day	0.17	0.18	0.17	0.0	0.1	0.1
1 week	0.17	0.18	0.18	0.0	0.3	0.3
1 month	0.14	0.25	0.18	2.5	14.3	15.3
3 months	0.10	0.25	0.16	3.7	22.6	24.2
6 months	0.10	0.25	0.16	4.2	26.4	28.3
12 months	0.07	0.25	0.15	5.3	34.6	37.2

Source: S&P Capital IQ; KPMG Corporate Finance analysis

During the 12-month period to 31 December 2020, 37.2% of CannPal's issued shares were traded. We consider this level of trading is insufficient to indicate CannPal Shares are liquid.

7.9 Dividends

CannPal has paid no dividends in the last three financial years.

8 Profile of AusCann

8.1 Background

AusCann Group Holdings Ltd is a publicly listed Australian-based pharmaceutical company focused on the development, production, and distribution of cannabinoid-based medicines within Australia and internationally. The company is headquartered in a purpose-built facility in Perth, Australia. AusCann has a primary listing on the ASX, with the code AC8 and a market capitalisation of \$44.4 million on 12 November 2020.⁹

Formerly known as TW Holdings Limited (**TWH**) (ASX:TWH) and operating in the wine operations industry, TWH announced the completion of its acquisition of 100% of the issued capital of AusCann on 20 January 2017. Subsequently, the company changed its company name, ASX code, and commenced trading on the ASX on 3 February 2017 following a successful \$5 million capital raise. As a result of the public transaction, 25 million shares were issued to new shareholders at an issue price of \$0.20 per share.

Prior to its listing, AusCann was an Australian unlisted public company incorporated in September 2014 with a focus of producing clinically validated cannabis medicines in Australia for Australian patients and for export.

Key achievements and events in AusCann's corporate history include:

- in FY16, TWH announced a strategic partnership between AusCann and Canopy Growth Corporation (**Canopy**) where Canopy received a 15% stake in AusCann's shares
- in FY17, AusCann formed a 50:50 joint venture (**JV**) called DayaCann with Fundacion Daya and as part of the JV, DayaCann's first medicinal cannabis crop in Chile was harvested. The crop comprised of 400 plants across eight strains that were grown at a 30-hectare facility
- in FY17, AusCann raised \$12 million via a placement to institutional and high net worth investors following the strategic partnership with Tasmanian Alkaloids.
- in FY17, AusCann was granted an Australian medicinal cannabis licence from the Office of Drug Control under the Narcotic Drugs Act 1967. In FY18, AusCann was granted an Australian manufacture licence from the Office of Drug Control under the Commonwealth Narcotic Drugs Act 1967. AusCann also welcomed the Federal Government's decision to allow manufactured cannabinoid medicines to be exported from Australia
- in FY19, AusCann raised \$33.4 million via a share placement to institutional and sophisticated investors from North America and Australia, followed by a Share Purchase Plan (**AusCann SPP**) which raised \$1.9 million and issued 1.8 million new shares

⁹ The last trading day prior to the announcement of the Proposed Transaction.

- in FY19, the JV with AusCann and Fundacion Daya commenced its first third party cannabis cultivation activity with Khiron Life Sciences Corp and AusCann entered into an agreement to purchase cannabis resin from MediPharm Labs Corporation which was primarily used in the development and production of AusCann's hard-shell capsules
- in 1H20, Canopy exited its shareholding in AusCann for \$6.3 million. Merchant Funds Management Pty Ltd became AusCann's largest shareholder, acquiring 11.43%
- in 2H20, AusCann's Neuvis® hard shell capsules were made available for prescription in Australia
- in 1H21, AusCann's phase 1 clinical trial results were positive in evaluating the pharmacokinetics and safety of the Neuvis®-based hard-shell capsules and AusCann's second product began formulation development with the expected launch to be in 2H21. Neuvis® is a proprietary technology to administer cannabinoids in an oral solid dosage form utilising a self-emulsifying powder
- in 1H21, AusCann entered into an agreement with GrowForChile SpA and Telor International Limited in relation to the sale of AusCann's right, title and interest in its 50% owned JV, DayaCann.

8.2 Strategy

AusCann's primary strategic objective is to focus on developing and commercialising reliable, stable and well characterised cannabinoid-based pharmaceutical products across a differentiated product portfolio and further to collaborate with healthcare professionals to personalise treatment outcomes for their patients. In the near-term, AusCann's emphasis is the continued development and commercialisation of products based on the company's proprietary Neuvis® self-emulsifying powder technology to administer cannabinoids in an oral solid dosage form.

AusCann has increased its scientific team to accelerate and further develop proprietary cannabinoid-based pharmaceutical pipelines. Current collaborators of AusCann include MediPharm Labs Corporation, Tasmanian Alkaloids Pty Ltd, PCI Pharma Services, Aspen Pharmacare Australia and Clifford Hallam Healthcare.

8.3 Business operations

AusCann operates in Perth. The construction of the R&D facility was completed in FY20 and provides AusCann the opportunity to conduct in-house R&D activities. AusCann's facility is designed to comply with the standards required for Office of Drug Control (Australia) licensing.

Neuvis® platform

AusCann launched its first products in April 2020 under its Neuvis® platform. This product is a 50:50 ratio THC:CBD in 2.5:2.5mg and 10:10mg format and is a proprietary dry powder technology that is administered in a hard-shell capsule. AusCann's products provide healthcare



professionals with a means to provide their patients with dosage-controlled medicine in a familiar pharmaceutical form.

In support of AusCann's launched products, in September 2020, AusCann announced the successful completion of a Phase 1 clinical trial of the pharmacokinetics and safety of the hard-shell capsules. The open-label, cross-over study evidenced that AusCann's Neuvis® technology drug exposure was similar to the TGA-registered oromucosal spray, Sativex, however with a lower peak concentration, resulting in fewer side-effects.

During FY21, AusCann aims to optimise its value chain with process improvements and new service level agreements to reduce the cost of manufacturing. Furthermore, AusCann is focused on collecting further evidence on its products and clinical data from investigator-initiated studies in order to increase the market's adoption of its products.

AusCann holds trademarks in various countries including Australia, France, Germany New Zealand, Italy, Chile, and Canada, for the AusCann brand and for Neuvis® additionally in the United Kingdom (**UK**) and the US. For further detail, please see Section 8.3 of the Scheme Booklet.

8.4 Financial summary

Financial performance

The financial performance of AusCann for FY18, FY19 and FY20 is summarised in the table below.

Table 11: Financial performance of AusCann

Period \$ thousand unless otherwise stated	FY18 Audited	FY19 Audited	FY20 Audited
Revenue			
Interest revenue	235.1	861.8	385.3
Other income	53.8	670.6	1,324.7
Net sales	-	-	1.0
Total revenue	288.9	1,532.4	1,711.0
Employee benefits expense ¹	(4,339.7)	(2,012.9)	(2,700.8)
Consulting fees	(1,922.1)	(975.3)	(555.9)
R&D - direct expenses	-	(1,941.4)	(2,707.1)
Joint venture expenses	-	(2,014.4)	(219.9)
Depreciation expense	(30.8)	(56.2)	(94.8)
Corporate and administration expenses	-	(1,179.2)	(1,370.0)
Impairment of asset held for resale	-	-	(406.4)
Other expenses	(1,703.4)	(1,002.2)	(732.2)
Share of profit/(loss) of DayaCann	38.9	-	-
Total expenses	(7,957.2)	(9,181.6)	(8,787.2)
Loss before income tax	(7,668.3)	(7,649.2)	(7,076.2)
Income tax expense	-	-	-
Loss for the period	(7,668.3)	(7,649.2)	(7,076.2)
Other comprehensive income, net of tax	99.3	(29.4)	-
Total comprehensive loss of the period	(7,569.0)	(7,678.6)	(7,076.2)
Statistics			
Weighted average number of ordinary shares ('000s) ²	272,431	308,342	317,044
Basic earnings per share (cents per share)	(2.81)	(2.48)	(2.23)

Source: AusCann Annual Report for FY19 and FY20 and KPMG Corporate Finance analysis

Notes:

1. Employee benefits expense includes share-based payments
2. Weighted average number of ordinary shares used in calculating basic and diluted earnings per share (EPS).

In relation to the historical financial performance of AusCann, we note:

- AusCann has generated minor product revenue to date for its recently launched Neuvis® product
- Other income includes R&D grant incentives, government cash flow boost and Western Australia payroll tax grants



- the largest component of AusCann's operating expenses in FY20 was direct R&D expenses which comprises of raw materials, contract manufacturing R&D, R&D consultants, analytics, site costs and other costs
- other significant components of AusCann's operating expenses in FY20 were employee benefits, which reflect the remuneration of AusCann's core operating team, as well as corporate and administration expenses
- other comprehensive income is primarily comprised of foreign currency translation.

Financial position

The statements of financial position of AusCann as at 30 June 2018, 30 June 2019 and 30 June 2020 are summarised in the table below.

Table 12: Financial position of AusCann

As at	30 Jun 2018	30 Jun 2019	30 Jun 2020
\$ thousand unless otherwise stated	Audited	Audited	Audited
Cash and cash equivalents	12,878.3	35,307.3	19,165.7
Inventories	-	-	3,607.6
Assets held for resale	-	-	400.0
Other current assets	1,027.6	367.3	469.1
Current assets	13,905.9	35,674.5	23,642.3
Investment in DayaCann	696.5	-	-
Right of use asset	-	-	84.8
Property, plant and equipment	109.8	7,193.2	11,738.1
Non-current assets	806.3	7,193.2	11,822.9
Total assets	14,712.2	42,867.8	35,465.2
Trade and other payables	534.3	1,110.0	595.1
Employee entitlements	65.8	89.4	139.8
Lease liabilities	-	-	39.9
Current liabilities	600.1	1,199.4	774.8
Lease liabilities	-	-	54.4
Non-current liabilities	-	-	54.4
Total liabilities	600.1	1,199.4	829.2
Net assets	14,112.0	41,668.3	34,636.0
Equity			
Issued capital	39,328.1	75,452.5	75,468.6
Reserves	2,155.9	1,237.1	1,273.3
Accumulated losses	(27,372.0)	(35,021.2)	(42,106.0)
Total equity	14,112.0	41,668.3	34,636.0
Statistics			
Shares on issue at period end ('000) ¹	276,873	316,997	317,047
Net asset value per share (cents per share) ²	5.10	13.14	10.93

Source: AusCann Annual Report for FY19 and FY20 and KPMG Corporate Finance analysis

Notes:

1. AusCann ordinary shares are as at period end
2. Net asset value (NAV) per share is calculated as net asset value divided by the number of AusCann Shares as at period end. NAV excludes right of use assets and lease liabilities.

In relation to the financial position of AusCann, we note:

- cash and cash equivalents represent cash at bank and in hand. Cash as at 30 June 2020 decreased from 30 June 2019 primarily as a result of an increase in payments to suppliers and employees and payments for buildings and building improvements



- inventories as at 30 June 2020 primarily comprises of raw materials, followed by work in progress and finished goods, being the Neuvis® product
- the \$0.4 million plant and equipment held for resale as at 30 June 2020 relates to plant and equipment that the company initially acquired for use in relation to an activity that had subsequently scaled down
- investments in DayaCann represents AusCann's 50% interest in DayaCann which is a for-profit JV established to grow medicinal cannabis in Chile. An independent valuation as at 30 June 2018 was undertaken of the biological assets, being inventory, mother plants, and plant and equipment. Independent valuations were not performed as at 30 June 2019 and 30 June 2020 as the potential for disposal of existing inventory produced by DayaCann is limited due to the government restrictions on the ability to export the product out of Chile. Until restrictions ease, the company has impaired the value of the inventory in DayaCann
- due to the adoption of AASB 16 Leases from 1 July 2019, AusCann has recognised a 'right of use asset' on the balance sheet of \$84.8 thousand, as well as the corresponding lease liability. Right of use asset as at 30 June 2020 represents the old office rented before moving into the new facility
- NAV per share increased from \$5.10 at 30 June 2018 to \$10.93 at 30 June 2020, predominantly as a result of an increase in net assets and the successful completion of capital raising initiatives over the period FY18 to FY20.



Statement of cash flows

The cash flow statements for AusCann for the periods FY18 to FY20 are summarised in the table below as well as the Q1FY21.

Table 13: Cash flow statement of AusCann

Period	FY18	FY19	FY20	1QFY21
\$ thousand unless otherwise stated	Audited	Audited	Audited	Reviewed
Receipts from customers	-	-	-	5.0
Interest received	213.3	848.6	387.5	32.0
Government grants and incentives	53.8	670.6	1,274.7	5.0
Payments to suppliers and employees	(5,052.1)	(6,487.6)	(12,212.8)	(2,351.0)
Operating cash flows	(4,785.0)	(4,968.4)	(10,550.6)	(2,309.0)
Payments for loans to DayaCann	(766.3)	(639.9)	(219.9)	-
Payments for investments in DayaCann	(338.3)	-	-	-
Payments for land & buildings	-	(5,541.3)	-	-
Payments for buildings & building improvements	-	(473.5)	(5,158.2)	-
Payments for assets held for resale	-	-	(36.0)	-
Payments for term deposits	(122.7)	-	-	-
Payments for plant and equipment	(140.3)	(1,124.9)	(145.2)	(14.0)
Cash flows from loans to other entities	-	-	-	(46.0)
Investing cash flows	(1,367.6)	(7,779.5)	(5,559.3)	(60.0)
Proceeds from issue of shares and exercise of options	3,954.0	36,903.1	10.5	-
Payments for capital raising costs	-	(1,726.1)	-	-
Repayment of lease liabilities	-	-	(42.3)	-
Financing cash flows	3,954.0	35,177.0	(31.8)	-
Net cash generated/(used)	(2,198.6)	22,429.0	(16,141.7)	(2,369.0)
Net foreign exchange difference	-	-	-	-
Cash and cash equivalents - opening balance	15,076.9	12,878.3	35,307.3	19,166.0
Cash and cash equivalents - closing balance	12,878.3	35,307.3	19,165.6	16,797.0

Source: AusCann Annual Report for FY19 and FY20 and KPMG Corporate Finance analysis

Formerly known as TWH, AusCann listed on the ASX on 3 February 2017 following a successful \$5 million capital raise. In relation to the capital raise, 25 million shares were issued to new shareholders under the public offer at an issue price of \$0.20 per share.

During FY18, there were 4,150,000 share options that were exercised and in FY19, there was an exercise of 50,000 share options.

In FY19, AusCann raised \$33.4 million via a share placement to institutional and sophisticated investors from North American and Australia, including AusCann's major shareholder at the time, Canopy Growth Corporation Inc. The issue price per share under the placement was \$1.10, which represented an 11.7% discount to the VWAP of the company's shares on the ASX over the 15 trading days prior to the date the placement price was agreed. The proceeds were used to fund cannabinoid pharmaceutical R&D and clinical studies, expansion of its operations in Chile and Australia, medical outreach programs in international markets and working capital. Furthermore, in FY19 AusCann raised an additional \$1.9 million via an AusCann SPP and

issued approximately 1.8 million new shares. Under the AusCann SPP, existing eligible shareholders were offered new fully paid ordinary shares at an issue price of \$1.05 per share.

During FY19, AusCann received \$1.2 million as a refund from the Australian Government R&D Tax Incentive program in relation to the research and development work undertaken on the development of new-to-world formulations.

8.5 Key risks and outlook

Key risks

The key risks to AusCann's business include the following:

- **development and commercialisation prospects:** AusCann's Neuvis® hard-shell products became commercially available for prescription in FY20, with a second product based on the Neuvis® platform currently in development stage. There is risk that the development and studies required may not achieve the company's commercial goals, and if these commercial goals are achieved, the risk of not being able to commercialise the products and generate enough revenue to fund the development of future products is present
- **clinical trials risks:** AusCann is in the process of designing additional clinical trials for Neuvis® hard-shell products which are subject to clinical trial risks including long lead-in times, can be expensive to conduct, and are uncertain as to the outcome
- **cashflow risks:** given that AusCann's products have only recently been commercialised and are unregistered narcotics, AusCann has minimal product revenue and operating cash inflow, imposing an impact on funds available for the execution of management strategies. Furthermore, the company may not be able to meet its future capital requirements, especially for its R&D activities. The products are also subject to delays in progress and uncertainty regarding product uptake and market competition. As such, the company may need to structure capital raisings around key development milestones
- **regulatory risks:** AusCann's pharmaceutical products contain active ingredients that are controlled substances, i.e. cannabis. Their regulatory approval is subject to stringent evidence of the benefits and safety of the drug candidate and may generate public controversy. The requirements imposed by regulatory bodies on the supply of medical cannabis and cannabis-based products are complex and vary across countries and regions and are subject to change in various jurisdictions over recent years. Any regulatory changes in a country that impacts a strategic partner of AusCann could significantly impact the company's business activities. Successful precedent with one regulatory body is not determinate of the decision reached by a different regulatory authority. Furthermore, the registration process is lengthy in certain jurisdictions and there is no guarantee that existing regulatory approval or registration will not be revoked in the future
- **intellectual property:** AusCann currently has the Neuvis® registered trademark and PCT patent applications progressing through examination for the platform technology. There is

no guarantee that any future patent pending applications will be granted and that the company's owned and licensed patent rights comprise all the rights AusCann requires to freely use and commercialise its products. Further, potential legal challenge to any patent with AusCann's intellectual property could adversely impact its development and commercialisation activities

- **key personnel:** AusCann currently employs several key members of its team. The potential loss of any of these key members may adversely affect the company and hinder the achievement of its research, product development and commercialisation objectives. AusCann's future success depends on retaining key personnel and attracting additional suitably qualified management and scientific staff
- **key relationships risks:** given AusCann has numerous strategic partnerships, there is risk of loss of those strategic relationships if the relationship between AusCann and the third parties deteriorates or if the third parties with whom AusCann has arrangements with are acquired or enter in relationships with a competitor
- **agricultural risks:** the natural elements such as insects, plant diseases, storm, fire, frost, flood, drought, water availability and salinity which may have material adverse effects on AusCann's ability to source cannabis raw material
- **safety issues and adverse events risks:** AusCann is subject to regulatory scrutiny and there is a risk of being sued or held liable for harm caused to patients or reputational damage in the event its products sold cause serious or unexpected side effects, or are associated with misuse and abuse
- **key inputs and related costs risks:** in growing medical cannabis, AusCann is dependent on certain inputs and related costs including and not limited to raw material, supplies related to growing operation, electricity and water. Interruptions or negative changes in the availability of the economics of the supply chain for the inputs could have a negative impact on AusCann
- **market pricing risk:** as AusCann continues to commercialise its products, AusCann is subject to market pricing risk in relation to potential competing equivalent products well positioned in the market.

AusCann initiatives

AusCann plans to continue the development and commercialisation of products based on the company's proprietary Neuvis® self-emulsifying powder technology, advance its second pipeline product and enter overseas markets.

AusCann has implemented various initiatives during FY20 that are designed to boost traction with healthcare professionals, expand the pipeline and geography, and create value through strategic R&D.

Outlook

AusCann has not publicly released specific earnings forecasts for FY21 or beyond. Further, KPMG Corporate Finance is not aware of any brokers who currently follow and/or issue reports on AusCann.

8.6 Board of Directors and senior management

Details of AusCann’s Board, senior management and medical advisory board are summarised in the table below.

Table 14: AusCann directors and senior management

Board members	Senior management	Medical advisory board
Max Johnston (Non-Executive Chairman)	Nick Woolf (Chief Executive Officer)	Dr Marc Russo (Chief Medical Advisor)
Chris Mews (Non-Executive Director)	Susan Park (Company Secretary)	Dr Sachin Shetty (Expert)
Krista Bates (Non-Executive Director)		Dr Peter Georgius (Expert)
Bruce McHarrie (Non-Executive Director)		Associate Professor Peter Gonski (Expert)
		Anonymous (Palliative Care Specialist)

Source: Scheme Booklet and Annual General Meeting dated 20 November 2020

8.7 Capital structure and ownership

Issued capital

As at 27 November 2020, AusCann had the following securities on issue:

- 317,047,357 fully paid ordinary shares,
- 400,000 unlisted share options, and
- 1,636,400 performance right issued.

In relation to the unlisted share options, we note:

- 200,000 unlisted share options, with an exercise price of \$0.255 per option, will expire on 9 June 2023, and
- 200,000 unlisted share options, with an exercise price of \$0.255 per option, will expire on 9 June 2024.

Substantial shareholders

The substantial shareholders of AusCann as at 31 December 2020 are set out in the table below.

Table 15: Substantial shareholders

Holders of Ordinary Fully Paid Shares	Number of Shares held	Percentage of issued capital
Merchant Funds Management	42,570,578	13.43%

Source: Scheme Booklet

Shareholder distribution

The profile of AusCann's shareholder base as at 27 November 2020 is set out in the table below.

Table 16: Number of ordinary shares on issue and distribution of holdings

Range	Number of Holders	% of Holders	Number of Shares	% of Shares
100,001 and Over	341	2.49%	180,350,295	56.88%
10,001 to 100,000	3,330	24.34%	96,745,478	30.51%
5,001 to 10,000	2,999	21.92%	22,874,335	7.21%
1,001 to 5,000	4,970	36.33%	15,851,330	5.00%
1 to 1,000	2,040	14.91%	1,225,919	0.39%
Total	13,680	100.00%	317,047,357	100.00%

Source: Management of AusCann

In relation to the distribution of shares on issue, we note:

- approximately 56.9% of AusCann's shares were held by 2.5% of shareholders
- approximately 73.2% of AusCann's smallest shareholders (by percent of shareholders) held approximately 12.6% of the total shares on issue.

Interests held internally

AusCann's directors and management hold interests in the company in the form of ordinary shares. As at the date of the Scheme Booklet, the directors and management of AusCann held the securities (either directly or indirectly) set out in the table below.

Table 17: Directors' and management shareholders' relevant interests in AusCann

Name	Position	Number of Ordinary Shares
Ordinary fully paid shares		
Max Johnston	Non-Executive Chairman	500,000
Chris Mews ¹	Non-Executive Director	-
Krista Bates	Non-Executive Director	135,000
Bruce McHarrie	Non-Executive Director	114,286

Source: Scheme Booklet

Notes:

1. Chris Mews has no personal shareholdings in AusCann, however is a representative of Merchant Funds Management

8.8 Share price performance

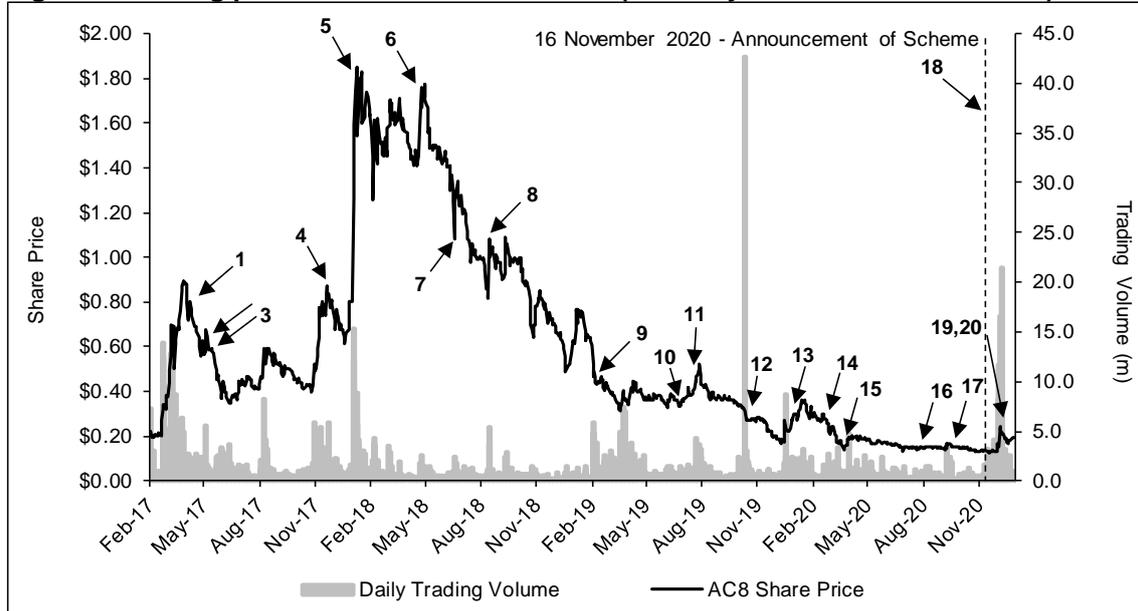
In assessing AusCann's share price performance, we have:

- analysed share price and trading volume since 3 February 2017,
- compared the share price performance of AusCann to the S&P/ASX 200 Pharmaceuticals Biotechnology & Life Sciences (Industry Group) Index and the S&P/ASX Small Ordinaries Index, the most relevant indexes to AusCann, and
- analysed the trading liquidity of AusCann Shares.

Share price and trading volume

AusCann's share price and trading volume since 3 February 2017 is illustrated in the figure below.

Figure 5: Trading price and volume of AusCann (February 2017 to December 2020)



Source: S&P Capital IQ; KPMG Corporate Finance analysis

Since 3 February 2017, AusCann's share price reached a high of \$1.850 on 9 January 2018 and a low of \$0.125 on 21 November 2020. Key events which influenced the trading price and volume of AusCann shares over the selected period include:

- 1 On 10 April 2017, the share price increased by approximately 4% following AusCann's announcement of its first harvest in Chile under its JV with DayaCann
- 2 On 5 May 2017, AusCann was awarded an Australian medicinal cannabis licence from the Office of Drug Control, under the Narcotic Drugs Act 1967. The share price increased approximately 17%
- 3 On 19 May 2017, AusCann raised \$12 million from new institutional investors both domestic and global. AusCann issued 24 million shares at 50 cents a share, representing a 16% discount to the five-day VWAP of 59.6 cents per share
- 4 On 22 November 2017, the share price increased approximately 18% to \$0.875 following AusCann's announcement that its JV with DayaCann secured its second cultivation licence for medical cannabis crops at its Chilean facility. This is the only licence granted in Chile to cultivate medical cannabis
- 5 On 4 January 2018, the Federal Government announcement that manufactured cannabinoid medicine is allowed to be exported from Australia. This resulted in a total increase in share price of approximately 96% from 4 January 2018 to 9 January 2018

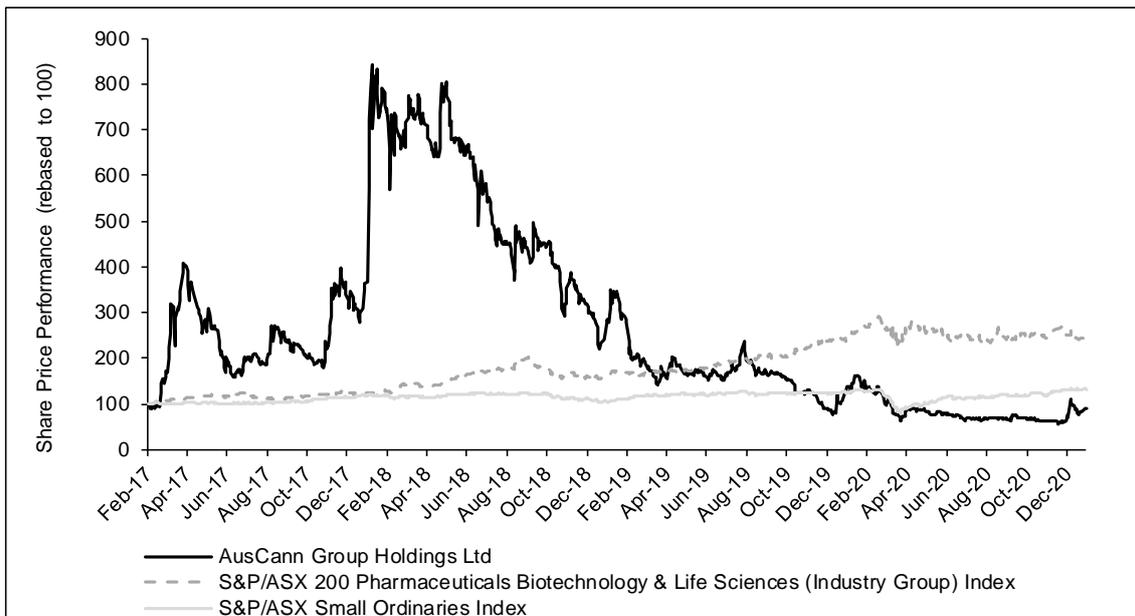
- 6 On 24 April 2018, AusCann announced that it had received an import permit under its existing import licence and would receive finished cannabis oils from its major shareholder, Canopy Growth Corporation. This resulted in an increase in share price of approximately 12% on the day, followed by approximately 9% on following trading day
- 7 On 20 June 2018, ASX queried AusCann on the significant increase in volume and fluctuation in the intra-day share price. AusCann responded to ASX confirming they were not aware of any information that had not been announced to the market or any other information concerning the companies' securities, resulting a reduction in share price of approximately 14% to \$1.08
- 8 On 16 August 2018, AusCann's share price increased approximately 33% to \$1.080 following the announcement of the completion of a successful pilot study of its final dose form for its cannabinoid medicines
- 9 On 5 February 2019, the share price increased approximately 5% to \$0.425 following the Board of AusCann announcement of the appointment of Mr. Ido Kanyon as Chief Executive Officer (**CEO**). Mr Ido Kanyon commenced position on 22 May 2019, which resulted in an increase of approximately 3% of the share price that day
- 10 On 1 July 2019, the share price increased approximately 8% to \$0.360 following AusCann's announcement that it had signed a new supply agreement for the purchase of cannabis resin from Tasmanian Alkaloids
- 11 On 24 July 2019, an application for quotation of additional securities and agreement was announced for the issuance of 50,000 shares issued at \$0.21 per share on exercise of 50,000 unlisted options expiring 19 January 2020. From 27 July 2019 to 30 July 2019, the share price increased 17%
- 12 On 14 October 2019, the share price declined approximately 5% subsequently followed by 13% on 15 October 2019 to \$0.270 following Canopy Growth Corporation selling its 13.2% interest in AusCann. The sale was conducted off market with the majority of the holding, 11.43%, acquired by Merchant Funds Management Pty Ltd
- 13 On 18 December 2019, AusCann announced the completion of the manufacturing and testing of its proprietary cannabinoid-based hard-shell capsules and released the hard-shell capsules for clinical evaluation. The share price increased by approximately 50%, closing to \$0.270, with daily trading volume increasing by more than 49%
- 14 On 18 February 2020, the share price increased approximately 11% following AusCann's announcement that it had completed the manufacturing and testing of the hard-shell capsules, at commercial scale
- 15 On 31 March 2020, the share price increased by approximately 19% to \$0.190 following the announcement that AusCann was ready to commence its first clinical evaluation at an

- independent clinical site – Nucleus Network. Furthermore, the hard-shell capsules became available for prescribing by authorised doctors in Australia
- 16 On 5 August 2020, the share price increased approximately 7% to \$0.155 following the announcement of the appointment of Nick Woolf as the new CEO effective immediately
 - 17 On 10 September 2020, AusCann announced its support of the interim decision of the TGA to amend the current classification of CBF to include a new Schedule 3 (pharmacy only medicine) listing. As a result of the announcement, AusCann's share price increase approximately 14%
 - 18 On 16 November 2020, AusCann announced the Proposed Transaction and the Scheme, whereby AusCann will acquire all CannPal Shares. The last trading price prior to the announcement of the Scheme was \$0.140 per share on 12 November 2020 before a trading halt. Following the announcement, AusCann's share price increased by 4% on 17 November 2020
 - 19 On 5 December 2020, the US House of Representatives passed the MORE Act to remove marijuana from the federal Controlled Substances Act. The last trading price prior to this announcement was \$0.155 on 4 December 2020. On 7 December 2020, AusCann's share price increased by 58.1% and closed at \$0.245 per share
 - 20 On 16 December 2020, AusCann announced its support of TGA's final decision to amend the current classification of CBD to include a Schedule 3 entry effective 1 February 2021, removing the requirement for a doctor's prescription. As a result of the announcement, AusCann's share price increased approximately 2.6%.

Relative share price performance

The trading performance of AusCann's Shares over the period February 2017 to December 2020 relative to the S&P/ASX 200 Pharmaceuticals Biotechnology & Life Sciences (Industry Group) Index and S&P/ASX Small Ordinaries Index is illustrated in the figure below.

Figure 6: AusCann relative share price performance



Source: S&P Capital IQ; KPMG Corporate Finance analysis

In relation to the figure above, we note that:

- the S&P/ASX 200 Pharmaceuticals Biotechnology & Life Sciences (Industry Group) Index has consistently outperformed the S&P/ASX Small Ordinaries Index over the past three years, reflecting the positive long-term fundamentals of the biotechnology & life sciences industry
- AusCann's share price broadly has out-performed the S&P/ASX 200 Pharmaceuticals Biotechnology & Life Sciences (Industry Group) Index and the S&P/ASX Small Ordinaries Index over the past three years, although there was a period of underperformance during the calendar year 2020 which may be predominantly driven by the impacts of COVID-19.

As indicated in the preceding section, movements in AusCann's share price have largely been driven by a combination of company specific events (particularly announcements relating to its research, study outcomes and release of products), and its ongoing financial performance and capital position.

Liquidity and volume weighted average price

The trading liquidity and VWAP of AusCann Shares for various periods ending 31 December 2020 is summarised in the table below.

Table 18: Liquidity and VWAP

Period	Price (low) \$	Price (high) \$	Price VWAP \$	Cumulative value \$m	Cumulative volume m	% of issued capital
1 day	0.19	0.20	0.20	0.0	0.2	0.1
1 week	0.19	0.20	0.19	0.3	1.7	0.5
1 month	0.13	0.30	0.21	20.0	94.8	29.9
3 months	0.13	0.30	0.20	23.8	121.8	38.4
6 months	0.13	0.30	0.19	29.5	158.6	50.0
12 months	0.13	0.39	0.20	56.3	275.4	86.9

Source: S&P Capital IQ; KPMG Corporate Finance analysis

During the 12 month period to 31 December 2020, 86.9% of AusCann's issued shares were traded. This level of trading is sufficient to indicate that AusCann shares are liquid.

8.9 Dividends

AusCann has paid no dividends in the last three financial years.

9 Profile of Combined Group

9.1 Background

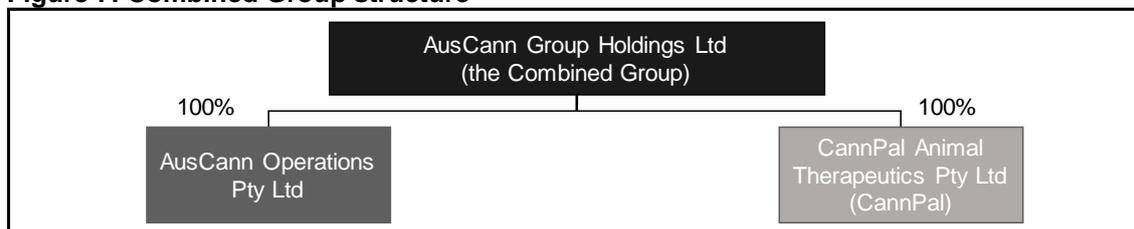
The combined businesses of CannPal and AusCann (**Combined Group**) will operate under the name of 'AusCann Group Holdings Ltd'. The Combined Group will be a larger, Australian medical technology company focused on the development and commercialisation of cannabinoid-derived products for people and animals. The Combined Group will be incorporated in Australia with its primary listing on the ASX, and its principal R&D activities undertaken in Australia. It will leverage a strong management team, combined infrastructure, and core competencies to create a portfolio of products that will provide a stronger path to increased revenue and long-term sustainable growth.

Relative to CannPal on a stand-alone basis, the Combined Group will have approximately \$18.8 million of pro forma cash at 30 September 2020 and \$2.5 million of pro forma income (compared to CannPal's stand-alone income of \$0.765 million) in FY20. The pro forma financials of the Combined Group are detailed in Section 9.3.

9.2 Business operations

As a result of the Proposed Transaction, CannPal will be delisted from the ASX and former CannPal shareholders will become shareholders of the Combined Group. CannPal will become a direct, wholly-owned subsidiary of the Combined Group as illustrated in the following figure.

Figure 7: Combined Group structure



Source: Scheme Booklet

The Combined Group will conduct analysis of its ongoing resourcing requirements, and where duplication of employee roles is identified, AusCann intends to seek alternative responsibilities to the affected employees. Where it is not possible for AusCann to offer alternative roles, those employees will receive payments and other benefits to which they are entitled on departure under the terms of their employment. It is the intention of AusCann however, to continue the current employment of employees of CannPal.

The merger of CannPal and AusCann is expected to create a leading Australian-based cannabis-based pharmaceutical company with a global focus, supported by an experienced leadership team and strong balance sheet. It will include an expanded product portfolio including two products in the market, two products expected to be launched within 12 months, a

medium-term product pipeline, stronger IP position and R&D synergies, operational benefits and a larger and well capitalised company with enhanced liquidity.

The Combined Group will progress commercial development that may potentially generate significant new product and licensing revenues in the following key programs:

- **Neuvis**[®]: this product targets chronic pain in a 50:50 ratio THC:CBD proprietary dry powder technology that is administered in a hard-shell capsule
- **DermaCann**[®]: this nutraceutical product is developed using active ingredients from the hemp plant to target dermatological skin conditions in dogs
- **CPAT-01**: this product is a liquid, oral veterinary medicine containing THC and CBD whole plant extracts to target pain and inflammation in dogs
- **MicroMAX**[®]: this patented microencapsulation technology is used for the enhancement of the delivery of hemp and cannabis derived animal health products.

The Combined Group will seek to leverage synergies across both companies to maximise R&D. There is potential to leverage animal research for supporting registration of AusCann pipeline products, and cross-functional product development to maximise current and future product offerings across both human and animal health. There will also be a strengthened leadership team with significant know-how, as well as shared staff and administration expenses, and corporate cost reductions. Furthermore, the Combined Group will seek to capitalise on growth opportunities and to attract institutional investors.

9.3 Pro forma financials

Financial performance

The pro forma statements of financial performance of the Combined Group for FY20 are summarised in the table below.

Table 19: Pro forma financial performance of the Combined Group

Period	FY20
\$ thousand unless otherwise stated	Audited
Revenue	
Interest income	446.2
R&D grant incentive	1,861.6
Government cashflow boost	150.0
Other income	17.5
Net sales	1.0
Total income	2,476.3
Employee benefits expense ¹	(2,913.5)
R&D - direct expenses	(4,482.1)
Joint venture expenses	(219.9)
Depreciation expense	(94.8)
Corporate and administration expenses	(1,792.7)
Impairment of asset held for resale	(406.4)
Other expenses	(1,346.6)
Total operating expenditures	(11,256.0)
Loss before income tax	(8,779.8)
Income tax expense	-
Loss for the period	(8,779.8)
Other comprehensive income, net of tax	-
Total comprehensive loss of the period	(8,779.8)
Statistics	
Weighted average number of ordinary shares ('000s) ²	440,547
Basic earnings per share (cents per share)	(1.99)

Source: CannPal and AusCann Annual Report for FY20 and KPMG Corporate Finance analysis

Notes:

1. AusCann adopted AASB 16 from 1 July 2019 using the modified retrospective method, therefore no adjustments were made to comparative balances.
2. Weighted average number of ordinary shares used in calculating basic earnings per share (EPS) has been assumed to be the total number of New AusCann shares post-merger

In relation to the Combined Group pro forma statements of financial performance, we note:

- the pro forma product revenue reflects revenue generated from the sales of Neuvis®. CannPal has not generated any product revenue to date
- other income represents AusCann's payroll tax grant
- the Combined Group will have pro forma income of \$2.5 million in FY20, including product revenue, interest income, other income, R&D grant incentives and government cashflow boosts. This compares to the stand-alone income of \$1.7 million for AusCann and \$0.8 million for CannPal in FY20
- the Combined Group will have pro forma R&D expenses of approximately \$4.5 million in FY20, compared the stand-alone R&D expense of \$2.7 million for AusCann and \$1.8 million for CannPal in FY20

- the Combined Group will have pro forma employee costs of \$2.9 million in FY20, primarily comprising of employee benefits expense and share based payment expenses. On a standalone basis for AusCann, employee expenses and share based payment expenses are \$2.7 million and \$42 thousand, respectively in FY20. For CannPal, the employee expenses and share based payments are \$0.1 million and \$0.1 million, respectively
- other expenses comprise of a variety of expenses, including and not limited to consulting expenses, legal and ASX expenses.

Financial position

The pro forma statement of financial position of the Combined Group as at 30 June 2020 is summarised in the table below.

Table 20: Pro forma financial position of the Combined Group

As at	FY20	FY20	FY20	FY20
\$ thousand unless otherwise stated	AusCann	CannPal	Adjustments	Combined Group
Cash and cash equivalents	19,165.7	1,915.7	-	21,081.3
Inventories	3,607.6	-	-	3,607.6
Assets held for resale	400.0	-	-	400.0
Other current assets	469.1	-	-	469.1
Trade and other receivables	-	30.5	-	30.5
Current assets	23,642.3	1,946.1	-	25,588.4
Investment in DayaCann	-	-	-	-
Right of use asset ¹	84.8	-	-	84.8
Property, plant and equipment	11,738.1	-	-	11,738.1
Intangibles and goodwill	-	-	16,150.6	16,150.6
Non-current assets	11,822.9	-	16,150.6	27,973.5
Total assets	35,465.2	1,946.1	16,150.6	53,561.9
Trade and other payables	595.1	291.6	1,202.6	2,089.3
Employee entitlements	139.8	42.7	-	182.4
Lease liabilities	39.9	-	-	39.9
Current liabilities	774.8	334.2	1,202.6	2,311.6
Lease liabilities	54.4	-	-	54.4
Total non-current liabilities	54.4	-	-	54.4
Total liabilities	829.2	334.2	1,202.6	2,366.1
Net assets	34,636.0	1,611.9	14,948.0	51,195.9
Total equity	34,636.0	1,611.9	14,948.0	51,195.9

Statistics

Shares on issue at period end ('000)² 440,547

Net asset value per share (cents per share)³ 11.62

Source: CannPal and AusCann FY20 Annual Report, the Scheme Booklet and KPMG Corporate Finance analysis

Notes:

1. AusCann adopted AASB 16 from 1 July 2019
2. Ordinary shares as at period end have been assumed to be the total number of AusCann shares post-merger.
3. Net asset value (NAV) per share is calculated as net asset value divided by the number of AusCann Shares as at period end. NAV excludes right of use assets and lease liabilities.

In regard to the Combined Group pro forma statements of financial position, we note the following:

- due to AusCann's adoption of AASB 16 Leases from 1 July 2019, the Combined Group will have a 'right of use asset' on the balance sheet of \$84.8 thousand, as well as the corresponding lease liability
- the pro forma inventories balance as at 30 June 2020 reflects AusCann's standalone inventory balance of \$3.6 million
- the \$16.2 million intangibles and goodwill adjustment as set out in Section 9 of the Scheme Booklet relates to the sum of the share consideration of \$17.1 million and the consideration for the transfer of options of \$616.9 thousand less CannPal's net assets of \$1.6 million
- the \$1.2 million trade and other payables adjustment as set out in Section 9 of the Scheme Booklet relates to transaction costs that have been included as an increase in trade and other payables. This comprises of \$842.6 thousand of transaction costs expected to be incurred by AusCann and \$360.0 thousand of transaction costs expected to be incurred by CannPal
- the \$15.0 million equity adjustment as set out in Section 9 of the Scheme Booklet comprises of issued capital which has increased for the Scheme Consideration of \$17.1 million offset by the elimination of CannPal's issued capital of \$7.0 million, share based payment reserve adjustment of \$968.4 thousand, and an accumulated losses adjustment of \$5.7 million
- the Combined Group had pro forma net assets of \$51.2 million as at 30 June 2020, compared to \$34.6 million for AusCann and \$1.6 million for CannPal as stand-alone entities.

As per the Scheme Booklet there were no material events impacting the financial position recorded post 30 June 2020. As at 30 September 2020 the Combined Group had cash and cash equivalents of \$18.8 million which was allocated \$16.8 million for AusCann and \$2.0 million for CannPal.

9.4 Strategy and outlook

The Combined Group's strategy will be complementary to CannPal's growth strategy. CannPal's Board and management expect the Proposed Transaction will enhance its ability to meet CannPal's strategic objectives as set out in the following sections.

Expanded product pipeline

The Combined Group will be committed to expanding the already commercialised products as well as commercialising its existing technologies, increasing the level of R&D investment, and developing new products for business growth. In particular, the Combined Group will:

- keep supporting as well as focus on expanding and growing the Neuvis® range

- work on advancing DermaCann® development and focus on commercialising the product to the market. It is expected that registration of the product is to be submitted in at least three separate geographies with successful commercialisation by the end of FY21
- continuing to develop CPAT-01 as an FDA-CVM approved medicine, so that it can be commercialised as a regulatory approved veterinary medicine in the US
- keep supporting the MicroMAX® technology with a focus on broadening its online distribution channels, building a complementary online offering to the company's offline veterinary products, and expanding geographically.

Comprehensive global footprint

CannPal operates in Australia, New Zealand and the US and has appointed partners across Australia, New Zealand, South Africa and Canada.

The Combined Group will continue to work with existing distribution and strategic partners and establish new partnerships with experienced distributors in new regions to drive the company's geographic expansion and increase market access across the globe.

Cost improvement

The Combined Group will further streamline operations, increase efficiency and remove or reduce duplicated corporate costs to realise identified synergies.

Greater depth of management talent

The Combined Group is expected to have a greater depth of management talent and a strengthened leadership team by bringing together the strengths, significant know-how and experiences of the workforces across both CannPal and AusCann.

9.5 Key risks

Risk management is fundamental to the viability of early stage businesses and the Combined Group will seek to actively manage a variety of risks as identified in Section 10 of the Scheme Booklet. The key specific business risks of the Combined Group identified are:

- ***Market price volatility risk:*** The market price of the shares of the Combined Group may be volatile and affect the ability of shareholders to sell the shares of the Combined Group at an advantageous price. Should the Proposed Transaction occur, a number of New AusCann shares will be available for trading in the public market which may lead to sales of such shares or the perception that such sales may occur, either of which may adversely affect the market price
- ***Capital raising risk:*** Although there is no current need for funding, the Combined Group may require additional financial resources to fund the development of the Combined Group's global operations. As a result, there is a risk that such additional financing may not be available. Raising capital through the issue of new shares or convertible debt securities

may dilute the interest of existing shareholders. If additional funding cannot be raised, the Combined Group's ability to continue to support business growth and respond to business challenges could be significantly impaired. The Combined Group, with an improved cash position and higher liquidity, will help in mitigating this risk

- **Business relationships risk:** CannPal and AusCann's current or future business relationships may be affected due to the uncertainty associated with the Proposed Transaction
- **Contract risk:** The Combined Group's financial performance could materially be affected if the counterparty to any contract to CannPal, AusCann or their subsidiaries under their contracts allows the review or termination of the contract as a result in the change or the issue of shares by AusCann
- **Growth and operations risk:** Due to the Combined Group being grown by acquisitions, the Combined Group in the future could experience rapid growth and development in a short time period. Management of such growth will require effective integration and continued development of the Combined Group's financial and management controls and information systems, cost controls, and the ability to attract and retain qualified management personnel. The inability to successfully manage the Combined Group's possible growth and development could have adverse effects on the business
- **Intellectual property risk:** In the event the Combined Group is forced to litigate to enforce or defend its intellectual property rights, the Combined Group's intellectual property may be put at risk of being invalidated, unenforceable, or limited in scope. There is also risk that an adverse result in any litigation or defence proceedings may cause pending applications at risk of non-issuance. In the event the Combined Group was able to enforce or defend its intellectual property rights, it may negatively affect its ability to develop and commercialise its products and prevent competitors from utilising competing products. Furthermore, as the Combined Group's intellectual property largely concerns cannabis and other activities that are not legal in certain jurisdictions, there is risk of additional difficulties in defending its intellectual property rights
- **Laws and regulations risk:** The Combined Group's operations are subject to a variety of laws, regulations and guidelines. Due to the medicinal cannabis industry rapidly evolving in Australia and worldwide, the Combined Group is at risk of changing law enforcement and government regulation as governments internationally continue to explore medical cannabis
- **Clinical trial risks:** Clinical trials have long lead-in times, may be expensive to conduct, and are uncertain by nature. In undertaking clinical trials involving cannabis extracts/derivatives, the Combined Group is required to receive various approvals, licences and/or permits. The Combined Group could be subject to delays in obtaining all necessary authorisations which may negatively impact downstream activities and scheduling. It is also possible that clinical trials once commenced may be subject to delays, suspension or termination by regulatory bodies due to possible revocation of licences/permits

- **Safety issues and adverse events risks:** The Combined Group could be subject to regulatory scrutiny, sued or held liable for harm caused to patients or reputational damage in the event any of the Combined Group's products sold cause serious or unexpected side effects, or are associated with misuse and abuse
- **Agricultural risk:** Although the Combined Group plans to conduct the operations of growing medical cannabis both indoor and outdoor, the Combined Group is subject to risks inherent in the agricultural industry including and not limited to insects, plant diseases, fire, frost, storm, flood, drought, water availability and salinity, pests, bird damage and force majeure events
- **Key inputs and related costs risks:** In growing medical cannabis, the Combined Group will be dependent on certain inputs and related costs including and not limited to raw material, supplies related to growing operation, electricity and water. Interruptions or negative changes in the availability of the economics of the supply chain for the inputs could have a negative impact on the Combined Group
- **Product liability and insured risks:** The Combined Group will be exposed to potential product liability risks which are inherent in undertaking research into clinical efficacy of, and the manufacture and supply medicinal cannabis products, and as a result, it will be necessary for the Combined Group to secure insurance to help manage such risks.

Section 10 of the Scheme Booklet sets out further general risks common to an investment in CannPal, AusCann and the Combined Group.

10 Valuation of CannPal

10.1 Summary

We have assessed the value of 100% of the equity of CannPal to lie in the range of \$17.0 million to \$21.0 million, which equates to an assessed value per CannPal share of between \$0.143 and \$0.176. Our range of assessed values represents the value of a 100% interest in CannPal and includes a premium for control. As the valuation includes a control premium, it exceeds the price at which we expect CannPal shares would trade on the ASX in the absence of the Proposed Transaction.

The value of CannPal has been assessed on the basis of market value, that is, the value that should be negotiated between a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious seller, acting in an arm's length transaction, where both buyer and seller are fully informed. Our range of assessed values for a CannPal share excludes the value attributable to cost savings and other benefits that AusCann may realise in completing the acquisition of CannPal which are unique to AusCann, however, it takes into consideration the synergies and benefits available to a pool of potential purchasers (refer to Section 10.2 of this report).

KPMG Corporate Finance has determined the value of CannPal's operating business by applying a discounted cash flow (**DCF**) methodology to forecast cash flows that reflect CannPal's current commercialised product, MicroMAX[®], as well as DermaCann[®] which is nearing commercialisation and CPAT-01 for which CannPal is currently in discussions with potential partners.

CannPal's other products in its commercialisation pipeline, such as other stock keeping units (**SKU**) DermaCann[®] SKU2, MicroMAX[®] SKU2 and SKU3, have been based on CannPal's business plan and Management assumptions.

CannPal does not currently hold any other assets considered to be surplus to the operating business. Further, we have not made any adjustment for net borrowings or non-trading liabilities, as CannPal does not have any bank debt and the cash amounts reflected in the balance sheet are required to provide liquidity to the business until operating cash flows can support the operating business.

Our rationale for the selection of the DCF methodology is set out in Section 10.2 of this report.

Set out below is a summary of our assessed range of values for CannPal.

Table 21: Summary of assessed value of CannPal

\$ million unless otherwise stated	Section reference	Valuation range	
		Low	High
Value of CannPal operating business	10.3	17.00	21.00
Other assets/(liabilities) (net)	10.4	0.00	0.00
CannPal enterprise value (control basis)		17.00	21.00
Adjusted net debt	10.5	0.00	0.00
Value of CannPal equity (control basis)		17.00	21.00
Number of shares outstanding (million) ¹		119.04	119.04
Value per CannPal share on a control stand-alone basis (\$)		0.143	0.176
Trading price per CannPal share pre-announcement		0.125	0.125

Source: KPMG Corporate Finance Analysis

Notes:

1. The number of shares outstanding reflects the dilution resulting from an assumed capital raising of \$2.5 million, the approximate amount required by CannPal in the short term to fund business operations in the absence of the Proposed Transaction.
2. Table may not sum due to rounding.

Our valuation range of \$0.143 to \$0.176 per share reflects a premium over the closing price of CannPal shares immediately prior to the announcement of the Proposed Transaction of between 14% and 41%. This premium, in part, reflects the valuation of 100% of CannPal inclusive of a control premium, as opposed to the valuation of a portfolio interest in the company as reflected in trading on the ASX.

10.2 Valuation methodology

Overview

Our valuation of CannPal has been prepared on the basis of 'market value'. The generally accepted definition of market value (and that applied by us in forming our opinion) is the value likely to be agreed in a hypothetical transaction between a knowledgeable, willing, but not anxious buyer and a knowledgeable, willing, but not anxious seller, acting at arm's length.

Market value excludes 'special value', which is the value over and above market value that a particular buyer, who can achieve synergistic or other benefits from the acquisition, may be prepared to pay.

Market value is commonly derived by applying one or more of the following valuation methodologies:

- the capitalisation of a sustainable level of earnings (**Capitalised Earnings**)
- the discounting of expected future cash flows to present value (**DCF**)
- the estimation of the net proceeds from an orderly realisation of assets (**Net Assets**)
- utilisation of share market data of the company (**Share Price**).

These methodologies are discussed in greater detail in Appendix 5 of this report. Ultimately, the validity of each methodology adopted is dependent on the nature of the underlying business and the availability of suitably robust information. A secondary methodology is often adopted as a cross-check to ensure reasonableness of outcome, with the valuation conclusion ultimately being a judgement derived through an iterative process.

For businesses that aim to achieve a profit over the long-term, methodologies such as Capitalised Earnings and DCF are commonly used as they reflect 'going concern' values which typically incorporate some element of goodwill over and above the value of the underlying assets. For businesses that are either not-for-profit, non-tradable or asset rich, Net Assets is typically adopted as there tends to be minimal goodwill, if any. For listed companies, the trading price typically provides an indication of the value of a minority interest where trading is liquid, volatility is not excessive, and no takeover or transaction speculation is evident.

Selection of methodology

In assessing the value of CannPal's business operations, we have considered all of the above approaches. We note the following in relation to each of the valuation approaches:

- a Capitalised Earnings approach is a commonly used method for stable and profitable businesses, specifically those with a long operating history and an earnings trend that is sufficiently stable to be indicative of ongoing earnings potential, which is not the case for CannPal. The company has been loss making at an EBITDA, EBIT and net profit level in the previous years, which is common for a company at its current stage of product development in the animal health industry. Further, we have considered the limited availability of sufficient market evidence, as well as of recent transactions involving companies operating in the same industry and at the same stage of product development, from which a meaningful earnings multiple could be derived. Due to the limited data available and the related inadequacies of any analysis, we have not applied a Capitalised Earnings approach
- a DCF approach is commonly used in the valuation of early stage businesses, where a product is already commercialised or close to commercialisation, as it is likely that such businesses have value over, and above net assets employed. CannPal has prepared a medium-term revenue forecast for its products, MicroMAX[®] (including SKU2 and SKU3), DermaCann[®] (including SKU2), and CPAT-01, based on estimates of the addressable markets and target market share. On this basis, we have developed a high-level financial model that allows the key drivers of value to be modelled and sensitised over a forecast period. We have utilised information provided by CannPal as a basis for our DCF analysis and made adjustments to reflect our judgement on certain matters based on discussions with Management
- a Net Asset approach is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business. Such an approach does not capture the growth potential and intangible assets associated with a business, particularly for a business that has a considerable amount of self-created intangible assets

like CannPal. Therefore, CannPal's net asset position has only been referenced to indicate the intangible value inherent in the business

- as CannPal is listed on the ASX, the traded price provides a strong indicator of the value of the company. However, the liquidity analysis set out in Section 7.8 of this report indicates that trading in CannPal shares over the last 12 months has been insufficient to be considered liquid. Thus, we have not based our value considerations on the trading prices of CannPal shares
- as CannPal is currently not followed by any broker analysts we have not considered broker valuations in our valuation analysis.

Control premium

We have considered 100% ownership in determining the value of CannPal as our DCF analysis is undertaken on a whole of asset base basis. Therefore, the valuation is inclusive of a control premium.

Share prices on an exchange are usually reflective of the trades of small parcels of shares. As such, they generally reflect prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing. They may also be impacted by the level of liquidity in trading of the particular stock. Thus, we have included a premium for control when assessing the value of CannPal implied by its trading prices of shares.

Observations from transaction evidence indicate that takeover premiums concentrate around a range between 25% and 40% for completed takeovers depending on the individual circumstances. In transactions where it was estimated that the combined entity would be able to achieve significant synergies, the takeover premium was frequently estimated to be in excess of this range. Takeover premiums can vary significantly between individual transactions as the final price paid will reflect to varying degrees:

- pure control premium in respect of the acquirer's ability to utilise full control over the strategy and cash flows of the target entity
- the level of synergies available to all acquirers, such as the removal of costs associated with the target being a listed entity and/or costs related to duplicated head office functions
- the expected costs to integrate and the uncertainties associated with timing of realising the targeted synergies
- synergistic or special value that may be unique to a specific acquirer
- the nature of the bidder, i.e. financial investor vs trade participant
- the stake acquired in the transaction and the bidder's pre-existing shareholding in the target
- the stage of the market cycle and the prevailing conditions of the economy and capital markets at the time of the transaction

- desire (or anxiety) for the acquirer to complete the transaction
- whether the acquisition is competitive
- the extent the target company's share price already reflects a degree of takeover speculation.

In assessing an appropriate premium for control in our valuation analysis, we have only considered those synergies and benefits which would be available to more than one potential purchaser (or a pool of potential purchasers) of CannPal. As such, we have not included the value of special benefits that may be unique to a potential purchaser. Accordingly, our valuation of CannPal has been determined without regard to a specific bidder.

10.3 Valuation of CannPal's operating business

CannPal has provided a medium-term revenue forecast for its product pipeline, MicroMAX[®] (including SKU2 and SKU3), DermaCann[®] (including SKU2), and CPAT-01, based on estimates of the addressable markets and target market share over a five-year period from FY21 to FY25 (**Explicit Forecast Period**).

We have developed a high-level financial model that allows the key drivers of value to be modelled and sensitised over an extended forecast period of five years after the Explicit Forecast Period. The model is based on a number of key assumptions and is subject to significant uncertainty and contingencies, many of which are outside the control of CannPal.

The key assumptions underpinning the base case of our DCF analysis include:

- the Explicit Forecast Period is based on FY19 and FY20 actuals and the revenue and gross profit forecast prepared by Management until FY26, which we have extrapolated over an additional period of five years based on the assumptions detailed further below. A terminal value, based on the Gordon Growth Model, has been applied after the extended forecast period where appropriate
- the revenue forecast for MicroMAX[®] provided by Management is based on the global market forecast for hip and joint treated cases for dogs, with the product being sold primarily via the Amazon.com platform. Management expects the market share for CannPal products to increase from approximately 0.1% in FY22 to 2.0% in FY26. As per CannPal's business plan, the second product to be launched under the MicroMAX[®] product line, MicroMAX[®] SKU2, will target skin immunity for pets, leveraging on the R&D completed for DermaCann[®], and is expected to be commercialised in FY22. Further, Management expects R&D for the third product under the MicroMAX[®] product line, MicroMAX[®] SKU3, to commence in FY22 and commercialise in FY23
- the revenue forecast for DermaCann[®] provided by Management is based on the global market forecast for Atopic Dermatitis treated cases in dogs, with the main target markets being the US, South Africa, Australia and New Zealand. Management has assumed that

CannPal's testing market share in these four regions to increase from approximately 0.1% in FY22 to 4.2% in FY26 and that the product will be sold directly through animal health partners. Management further noted that DermaCann® SKU2 is included in the business plan with a launch expected in FY23. As such, we have considered the increased penetration rate forecast by Management and included the revenue generated from this product in our valuation assessment

- Management's forecast cashflows for CPAT-01 are driven by the global market forecast for Osteoarthritis cases in dogs, the annual population growth and the estimated market penetration of CannPal. As per Management estimates, CannPal's forecast revenue includes a future royalty stream calculated based on a 2.0% royalty rate and milestone payments over FY22 to FY24 calculated based on a risk adjusted project value
- over the full 11-year forecast period from FY22 to FY32, total revenue of CannPal is assumed to grow at a compounded annual growth rate (**CAGR**) of approximately 57.7%, which does not appear unreasonable given the current stage of the business and its low revenue base
- gross profit margins are assumed to be relatively stable over the Explicit Forecast Period for DermaCann® and MicroMAX®. Over the extended forecast period, the margins for both products are assumed to increase driven by economies of scale and customer loyalty observed in the pet pharmaceutical industry
- operating expenditures, which mainly represent payroll and administration costs, have been assumed to increase by 12% p.a. from FY20 and reach approximately 10% of net revenue in the long run, whilst marketing expenditures are expected to reach 25% of net revenue in the long run
- R&D expenditures are estimated based on the R&D activities planned for DermaCann® and CPAT-01, some of which have already commenced as at the date of this report. Forecast R&D expenditures also include the estimated cost required to commercialise DermaCann® SKU2 and MicroMAX® SKU2 and SKU3
- synergies and benefits which would be available to more than one potential purchaser (or a pool of potential purchasers) of CannPal have been included in our DCF analysis and have been estimated by Management at approximately \$575 thousand (pre-tax) in FY22 for corporate and governance related expenditures. We have indexed these cost synergies at 2.5% p.a. over the forecast period from FY22
- capital expenditure is not a major requirement for a business like CannPal as production facilities can be provided via contract manufacturing companies. As such, we have assumed that the capital expenditure requirement of the company is nil and have further assumed that there will be no depreciation charges over the forecast period
- an assumed effective corporate tax rate of 30% for CannPal on an EBIT basis. In our DCF analysis we have considered the tax loss available to CannPal as at 30 June 2020 of \$511.1

thousand. The currently available and expected future tax losses have been utilised to reduce the tax basis of CannPal until FY23

- working capital requirements are expected to increase as the development and commercialisation of CannPal's products advance, with net working capital as a percentage of sales for CannPal assumed to reach -5.0% in FY26 and then to remain at this level for the extended forecast period
- a terminal growth rate of 2.5% has been applied considering that the cash flows over the Explicit Forecast Period are based on CannPal's current operations and any advantages that are expected to be realised as a result of the Proposed Transaction (please refer to Section 9.4) have not been reflected in the cash flow forecast. Therefore, the terminal growth rate reflects a stand-alone business and has been set based on current long-term inflation expectations
- a discount rate (**WACC**) in the range of 27.5% to 32.5% as detailed in Appendix 4.

Our DCF analysis assumes that the business operates on an "as is" basis, with no major changes to the competitive and regulatory environment.

Scenario analysis

Given the range of potential financial outcomes of the CannPal business, we have considered a number of different scenarios to reflect the impact on value of various key assumptions relating to long term revenue growth, operating margins, operating expenditure and other factors. It should be noted that given the nature of the CannPal business, there is a wide range of other potential outcomes outside of these scenarios. The scenarios developed by KPMG Corporate Finance are as follows.

Table 22: CannPal scenario analysis

Scenario	Description
Scenario A	Base Case assumptions as set out above.
Scenario B	Scenario A, with a better than base case success of DermaCann [®] and MicroMAX [®] , leading to an achievement of 105% of its aspired market share targets over the 12-year forecast period, as well as higher than base case royalty revenue calculated at the royalty rate range of 4% to 5%
Scenario C	Scenario A, with assumed increased competition, resulting in CannPal only achieving 90% of its aspired market share targets over the 12-year forecast period, and a lower sustainable gross profit margin for DermaCann [®] and MicroMAX [®] . Cost reduction measures are assumed to result in a lower operating expenditures growth rate of 8.0% p.a and long-term marketing expenditure being 20% of net revenue.
Scenario D	Scenario A, with the launch of DermaCann [®] SKU2 and MicroMAX [®] SKU3 postponed from FY23 to FY24 as a result of delays in the development and commercialisation process
Scenario E	Scenario A, except with CannPal only achieving 75% of its aspired market share targets over the 12-year forecast period and a terminal value growth rate of 0%. The WACC range applied to this scenario is 25% to 30%, which is 25 bps lower than the selected 27.5% to 32.5%.

Source: KPMG Corporate Finance analysis.

The output of the DCF analysis for a range of discount rates is summarised below.

Table 23: Net present value (NPV) outcomes

Scenario	NPV Outcomes (\$ million) - WACC Sensitivity					
	37.50%	35.00%	32.50%	27.50%	25.00%	22.50%
Scenario A	12,395	14,329	16,703	23,402	28,221	34,570
Scenario B	13,393	15,485	18,054	25,357	30,596	37,493
Scenario C	11,086	12,708	14,682	22,005	26,289	31,883
Scenario D	11,368	13,184	15,423	21,768	26,357	32,423
Scenario E	8,377	9,890	11,766	17,128	21,034	26,223

Source: KPMG Corporate Finance analysis.

Scenario A is based on a successful commercialisation of DermaCann[®], CPAT-01 and MicroMAX[®] and reflects current price expectations for the commercialised products. The forecast cost structure of the business is based on the current structure and business plan and is expected to approach similar levels to those of comparable companies in the sector, with a sustainable net profit margin of approximately 25%.

Scenario B assumes higher than base case long term revenues of DermaCann[®] and MicroMAX[®] due to effective marketing campaigns and better than expected product uptake, leading to an achievement of 105% of its aspired market share targets over the 12-year forecast period. The royalty rate range of 4% to 5% is assumed for the royalty income generated from CPAT-01, which is in line with the royalty rates for premium products in the market as observed by Management.

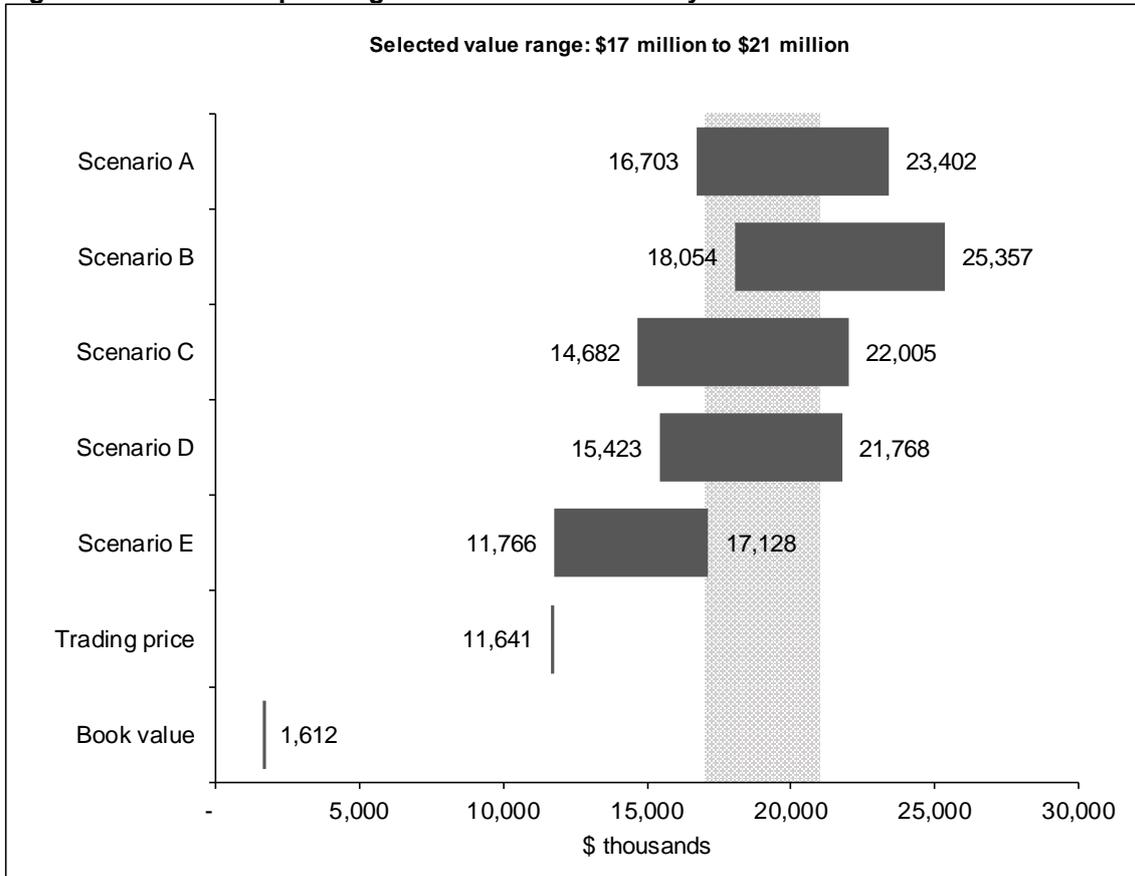
Scenario C assumes increased competition in the market for CBD based animal health products with a resulting pressure uptake of CannPal's commercialised products. As such, we have assumed the revenue forecast to be 90% achievability of market forecasts, and a lower sustainable gross profit margin for DermaCann[®] and MicroMAX[®]. Resulting cost reduction measures are assumed to successfully reduce the operating expenditures growth rate over the forecast period to 8.0% p.a. and the net working capital ratio to sales of -10.0%. The NPV is slightly lower than under Scenario A as expected, due to increased competition leading to lower profitability of the business over the long term.

Scenario D is a variation of Scenario A, reflecting the postponement of the launch of DermaCann[®] SKU2 and MicroMAX[®] SKU3 from FY23 to FY24 as a result of delays in the development and commercialisation process.

Scenario E presents a downside scenario based on Scenario A and assumes that only 75% of the revenue forecast will be achieved, either as a result of lower than expected market volume or market share, and the terminal value growth rate is assumed to be 0%. This scenario assumes that there is no counteraction from CannPal as a result of lower than expected growth in revenues and as such the scenario should also be considered cautiously.

The range of values for each scenario at the selected WACC range of 27.5% to 32.5%, except scenario E where 25% to 30% is adopted, is illustrated in the chart below.

Figure 8: CannPal’s operating business scenario analysis



Source: KPMG Corporate Finance analysis

Notes:

1. Trading price based on last trading day prior to the announcement of the Proposed Transaction.

NPV conclusion

Analysis of the scenarios above indicates that there is a reasonable balance between upside and downside potential compared to the base case. However, there are generally significant uncertainties regarding the underlying assumptions, e.g. market volume, market share, gross profit margins, operating expenditure and required capital expenditure, which is reflected in our assessment of the discount rate, as detailed in Appendix 4. As such, any additional earnings potential is likely matched by an increase in risk, i.e. discount rate and vice versa. There is potential value upside that could result from external drivers such as a greater market volume, compared to current forecasts, however this is mirrored through a potential value downside due to a lower than expected market potential as current products may not receive the required approvals from regulatory bodies or a negative sentiment against CBD based products. There is also additional value potential due to CannPal’s products having potentially further, currently

undeveloped applications, which is mirrored by the potential of substitution in relation to CannPal's products through advanced technologies.

Whilst we acknowledge valuing early stage pharmaceutical companies requires significant judgement given the uncertainties of the research and commercialisation processes, overall we are of the opinion that Scenario A presents a balanced view in relation to risks and opportunities, with Scenario B and C, resulting in overlapping valuation ranges representing additional upside and downside potential. Scenario D presents a potential downside case due to a delay in the commercialisation process of two nutraceutical products. Scenario E presents a downside scenario resulting from a lower than expected product uptake, again in such a case it would be likely that CannPal would take countermeasures to increase the uptake of its products in the market and therefore the scenario is also considered to be less likely.

The value for the operating business of CannPal therefore has been assessed (after consideration of the various Scenarios and the various factors impacting each of them) to be in the range of \$17.0 million and \$21.0 million. We consider the selected value range appropriately takes into consideration the risks inherent in the CannPal business and the underlying cash flow forecast.

10.4 Other assets and liabilities

Other assets and liabilities represent those assets and non-trading liabilities that are not required in order for CannPal to continue its business operations. As at the date of this report, CannPal does not have any other assets, requiring adjustment.

10.5 Adjusted net debt

In order to arrive at the value of equity, it is necessary to deduct the market value of existing net debt from the ungeared value of CannPal. Consistent with market practice in the early stage biotechnology or pet pharmaceutical industry, cash and cash equivalents have been considered as operating in nature. As at the date of this report, CannPal does not have any interest-bearing debt, consequently no adjustment was required to reflect net debt when determining the value of equity of CannPal.

10.6 Cross-check

Ordinarily, our preference is to select a secondary approach which allows us to cross-check the valuation range determined using our primary approach. However, due to the characteristics of CannPal's operations and the industry in which it operates, no suitable alternative methodology was identified. The net asset value of CannPal as at 30 June 2020 was \$1.6 million, as presented in Section 7.4 of this report. Based on our assessed equity value of CannPal of between \$17.0 million and \$21.0 million, this is resulting in an intangible value inherent in CannPal of between \$15.4 million to \$19.4 million, reflecting the potential value of the CannPal's significant investment in R&D until today.

11 Assessment of Scheme Consideration

11.1 Implied valuation

The Scheme Consideration to be received by CannPal Shareholders comprises new ordinary shares in the Combined Group. Accordingly, RG 111 requires the value of the scrip consideration to be assessed on a minority interest basis. It is common practice in these circumstances to utilise the post announcement market price as a basis for estimating the value of an offer with a scrip component, as this is the price at which shareholders can monetise the Scheme Consideration. Neither the theoretical value of the Combined Group as a stand-alone entity nor considerations of control premia are relevant to portfolio shareholders in the Combined Group in the short term, except in the event of an offer for the Combined Group itself.

Accordingly, adopting the recent market prices of AusCann shares is an appropriate reference point for estimating the realisable value of the consideration offered. However, in doing so we have considered the depth of the market for those securities and the volatility of the share price.

Given the liquidity analysis, as set out in Section 8.8 of this report, indicates that trading in AusCann shares has been sufficient for the shares to be considered liquid, we consider the trading price of AusCann shares provides a strong indicator of the value of a minority interest in the company to CannPal Shareholders. Therefore, performing a fundamental valuation of AusCann is not required.

Under the Proposed Transaction, CannPal Shareholders will receive 1.3 New AusCann ordinary shares for every CannPal share held on the Scheme Record Date.

We have assessed the estimated value of a CannPal share, based on the above considerations, to lie in the range of \$0.143 to \$0.176, which, based on the terms of the Proposed Transaction, implies a value of an AusCann share, to be in the range of \$0.110 to \$0.136 per share, as set out in the table below.

Table 24: Assessment of the Scheme Consideration

\$ unless otherwise stated	Valuation range	
	Low	High
Value per CannPal share on a control stand-alone basis	0.143	0.176
Number of AusCann shares in merger ratio	1.30	1.30
Implied value of AusCann share based on merger ratio	0.110	0.136

Source: KPMG Corporate Finance analysis

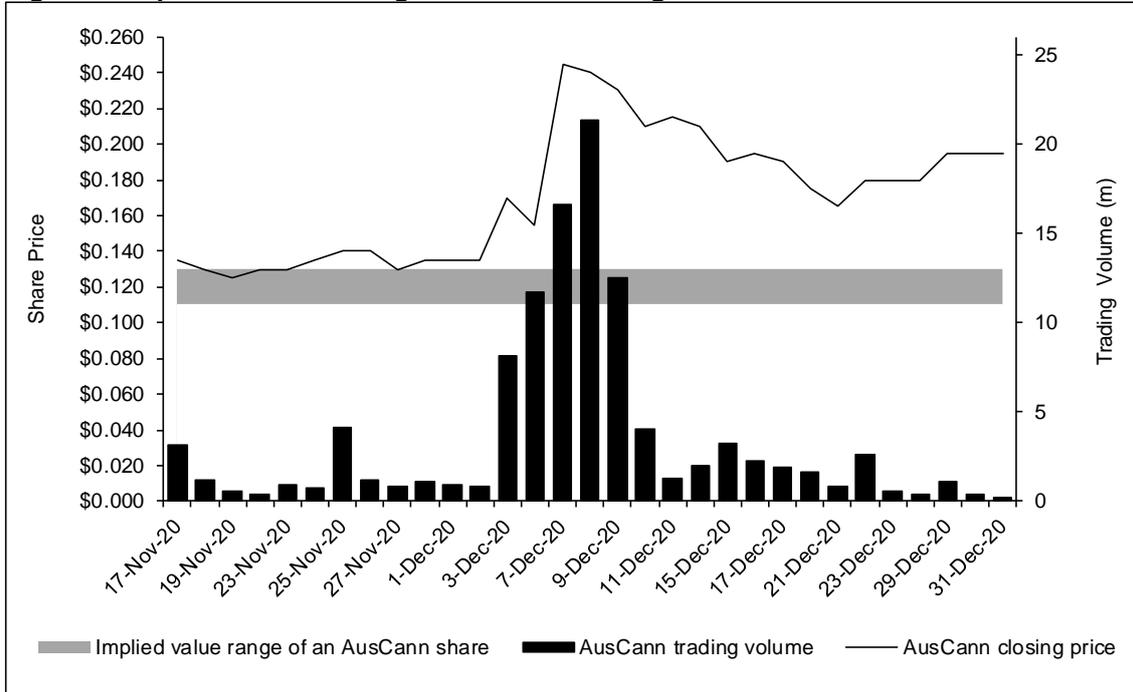
In assessing the fairness of the Scheme, we have compared the implied value of an AusCann share based on our valuation of CannPal and the merger ratio, against the recent traded prices of an AusCann share on the ASX. In making this assessment, we have considered the following:

- the trading price of AusCann shares reflects the value of portfolio interests as required by RG111

- AusCann is a publicly listed company and is required to comply with ASX Listing Rules in relation to continuous disclosure, including in particular the release of price sensitive information
- AusCann is currently not followed by any broking houses, which arguably reduces the ability of shareholders to make informed decisions regarding the prospects of the company and industry more generally and prices at which AusCann shares should trade
- there has been sufficient time and information available, including the information contained in the announcement of the Proposed Transaction released to the market on 16 November 2020, for the market to assess the Scheme and its implications for AusCann should the Scheme be successful. Therefore, trading in AusCann shares subsequent 16 November 2020 should reflect the market's assessment of the Scheme, albeit the market may also take into account the implementation and integration risks associated with the Scheme, including the required approvals and the type, timing and quantum of any positive and/or negative cost savings and synergies that may be realised
- whilst trading in AusCann shares is not deep in the context of the number of shares on issue and its market capitalisation, its shares were traded on the ASX on each of the available trading days over the 12 months prior to the announcement of the Proposed Transaction and also in the subsequent period and average daily trading volumes have been sufficient for portfolio shareholders who wanted to realise their investment, to do so.

A summary of the trading activity in AusCann shares from 16 November 2020 to 31 December 2020 and the implied value of an AusCann share based on our assessed value of a CannPal share and the merger ratio, is set out in the chart below.

Figure 9: Implied valuation range and recent trading in AusCann shares



Source: KPMG Corporate Finance analysis

As the figure above indicates, the recent trading performance of AusCann shares is above the value range of an AusCann share implied by our assessment of the control value of CannPal and the merger ratio. The increase in AusCann share price since 5 December 2020 is underpinned by the passing of the MORE Act in the US and AusCann’s announcement regarding TGA’s final decision to amend the current classification of CBD, removing the requirement for a doctor’s prescription as a result.

11.2 Cross-check

As a cross-check of the implied value range approach set out above, we have further considered the position of a CannPal Shareholder pre and post the Proposed Transaction, as summarised in the table below.

Table 25: Assessed position of a CannPal Shareholder pre and post

\$ million unless otherwise stated	Valuation range	
	Low	High
Value per CannPal share on a control stand-alone basis (\$)	0.143	0.176
Number of CannPal shares in merger ratio	1.00	1.00
Value of 1 CannPal share (\$) pre-merger	0.143	0.176
Value of AusCann equity (minority basis) pre-merger	44.39	44.39
Value of CannPal equity (minority basis)	13.60	15.00
Value of Combined Group equity (minority basis) post-merger	57.99	59.39
Number of Combined Group shares post-merger (million)	440.55	440.55
Value per Combined Group share (minority basis) post-merger	0.132	0.135
Number of Combined Group shares in merger ratio	1.30	1.30
Value of 1.3 Combined Group shares (\$) post-merger	0.171	0.175

Source: KPMG Corporate Finance analysis

Key factors reflected in our assessment include:

- the position of a CannPal Shareholder pre-merger has been determined on the basis of our value assessment of CannPal (as detailed in Section 10) on a control and stand-alone basis
- the position of a CannPal Shareholder post-merger has been determined on the basis of the hypothetical value of the Combined Group on a minority basis, including:
 - the VWAP of AusCann shares in the period after the announcement of the Proposed Transaction, reflecting a value per AusCann share of \$0.20
 - the value of CannPal's business as reflected in our value assessment of CannPal (as detailed in Section 10) for a minority shareholder, i.e. the control value of CannPal has been reduced by a minority discount of 20.0% to 28.6%¹⁰
- the number of shares of the Combined Group of 440.55 million.

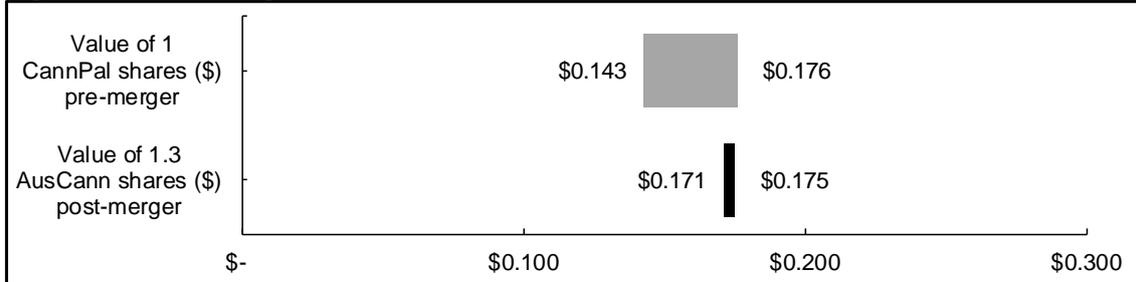
We note that the above assessment does not include any incremental cost synergies and benefits that are only available to AusCann as a specific acquirer¹¹ and therefore provide upside potential to shareholders in the Combined Group. On the basis of the above considerations, we conclude that the position of a CannPal shareholder post-merger of \$0.171 to \$0.175 (being the value of 1.3 AusCann shares on a minority basis) is at the upper end of the value range of the position of a CannPal Shareholder pre-merger of \$0.143 to \$0.176 on a control basis.

¹⁰ A 25.0% to 40.0% control premium translates into a 20.0% to 28.6% minority discount

¹¹ These synergies are cost related synergies and do not reflect significant market synergies which are expected to be realised

A comparison of our assessed value ranges based on the Scheme Consideration is illustrated in the figure below.

Figure 10: Value ranges based on Scheme Consideration



Source: KPMG Corporate Finance analysis



Appendix 1 – KPMG Corporate Finance Disclosures

Qualifications

The individuals responsible for preparing this report on behalf of KPMG Corporate Finance are Joanne Lupton and Sean Collins. Joanne is a Member of Chartered Accountants Australia and New Zealand, a Fellow of Financial Securities Institute of Australasia and holds a Bachelor of Commerce from the University of New South Wales. Sean is a Fellow of Chartered Accountants Australia and New Zealand, a Fellow of the Chartered Institute for Securities and Investments in the United Kingdom and holds a Bachelor of Commerce from the University of Queensland. Each has a significant number of years' experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports. Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to whether the Proposed Transaction is in the best interests of CannPal Shareholders. KPMG Corporate Finance expressly disclaims any liability to any CannPal Shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Scheme Booklet or any other document prepared in respect of the Scheme. Accordingly, we take no responsibility for the content of the Scheme Booklet as a whole or other documents prepared in respect of the Scheme.

Independence

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to Management of CannPal for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report.

Consent

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Scheme Booklet to be issued to the shareholders of CannPal. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.

Appendix 2 – Sources of information

In preparing this report we have been provided with and considered the following sources of information:

Publicly available information:

- the Scheme Booklet (including the pro forma financial position of the Combined Group)
- the Scheme Implementation Deed released to the ASX on 16 November 2020
- the annual reports of CannPal for FY18, FY19, FY20 and 1Q20 quarterly cash flow report for CannPal, and corresponding results presentations
- the annual reports of AusCann for FY18, FY19, FY20 and 1Q20 quarterly cash flow report for AusCann, and corresponding results presentations
- press releases, public announcements, media and analyst presentations material and other public filings by CannPal and AusCann, including information available on each company's website
- recent press articles on CannPal and AusCann
- various press and articles on medical cannabis and the animal health industry including those from the American Pet Products Association and the Therapeutic Goods Administration, and
- financial information from S&P Capital IQ, Bloomberg, ThomsonONE and Connect4.

Non-public information:

- Board papers, presentations, working papers and other confidential documents of CannPal and AusCann

In addition, we have had discussions with, and obtained information from, the senior Management of CannPal, and obtained information from AusCann.

Appendix 3 – Industry summary

CannPal operates in the animal health industry specifically in Australia and the US, with a specialisation in the development of regulatory approved medicines derived from the hemp and cannabis plant to provide veterinarians with clinically validated and standardised therapeutics to treat animals. Revenue potentially targeted by the company is underpinned by the expected growth of the global pet health and veterinary industry, specifically for the treatment of pain and inflammation in pets as well as skin treatments for pets.

As at October 2020, the Australia pet market has seen that over 60% of Australian households own at least one pet, with nearly nine million dogs and cats kept as pets.¹² The pet and pet supplies industry revenue within Australia is expected to increase at an annualised 3.0% over the five years through 2025-26, to \$3.4 billion, with forecast annual growth of 3% from 2021 to 2026.¹³ The US pet industry has shown consistent year-on-year (YoY) growth for over 20 years with approximately 85 million homes in the US currently owning a pet.¹⁴ In 2019, the US pet industry had actual sales of USD 95.7 billion.¹⁵ USD 29.3 billion of these total sales represented vet care and vet product sales, and USD 19.2 billion represented supplies, live animals and over the counter (OTC) medicine. Despite the general challenges associated with COVID-19, it is expected that the market is to grow approximately 3.4% in 2020.¹⁶

The general pet care market globally is resilient and underpinned by key trends around the world, including and not limited to an increase in pet spending (with surgical vet visits being the largest expense for dogs),¹⁷ increase in pet ownership levels, rising middle class in countries such as India and China, increase pet lifespan and high prevalence of arthritis and obesity in pets and therefore higher spending by owners for surgery and dietary products. Collectively, these key drivers ensure further growth of the industry.

The Australian veterinary pharmaceutical manufacturing industry is forecast to grow at an annualised 3.2% over the five years through 2025-26, to a total of \$996.6 million,¹⁸ largely as a result of increased expenditure on companion animals and with pet owners increasingly demanding more healthcare products for their animals in line with ongoing pet humanisation trends.

In line with ongoing pet humanisation trends, there has been an increasingly growing interest for cannabinoid derived therapeutic products for pets, with a strong focus on clinically validated

¹² IBISWorld Pets and Pet Supplies Retailers in Australia, October 2020

¹³ IBISWorld Pets and Pet Supplies Retailers in Australia, October 2020

¹⁴ American Pet Products Association, 2019-2020 APPA National Pet Owners Survey

¹⁵ American Pet Products Association, Pet Industry Market Size and Ownership Statistics

¹⁶ American Pet Products Association, Pet Industry Market Size and Ownership Statistics

¹⁷ American Pet Products Association, 2019-2020 APPA National Pet Owners Survey

¹⁸ IBISWorld Veterinary Pharma Manufacturing in Australia, August 2020

medicines through veterinary channels. Companies operating in the cannabis-derived compound industry are subject to an evolving regulatory landscape across various jurisdictions.¹⁹

The Australian Pesticides and Veterinary Medicines Authority is responsible for the regulation of all agricultural and veterinary chemical products in Australia, and the TGA is responsible for ensuring that human therapeutic goods available for supply in Australia are safe and fit for their intended purposes. Most human medicinal cannabis products are categorised as unapproved therapeutic goods, where they have not been assessed by the TGA for safety, quality or effectiveness. However, medicinal cannabis products are permitted to be supplied into Australia under Special Access Scheme (**SAS**), Authorised Prescriber scheme, and clinical trial schemes.²⁰

Currently, medical cannabis containing CBD for human use is only available through TGA's SAS as a Schedule 4 drug, which requires a several week application process. On 15 December 2020, the TGA announced its final decision to down-schedule certain low dose CBD preparations from Schedule 4. The change in scheduling means that cannabis medications with low doses of CBD will be rescheduled to Schedule 3 drugs, which will allow these medications to be sold OTC in pharmacies and this would increase the accessibility of CBD²¹.

Internationally, the approval of cannabis and cannabis-based products for human and animal use are set by different regulators and therefore subject to different regulatory standards and guidelines. Examples of different international regulators for human use include the FDA in the US and the UK's Home Office. In the UK, the Veterinary Medicines Directorate is responsible for the regulation of animal health products, whereas the FDA-CVM regulates animal health products in the US.

In September 2020, the UK Home Office rejected the European Commission's preliminary view that hemp flower-derived CBD should be regulated as a narcotic. If the preliminary view is made official, this could lead to a ban on flower-derived CBD in foods and supplements on the European Union (**EU**) common market, which currently serves more than 450 consumers.²² Currently, British authorities mirror requirements set out by the EU Novel Food Regulation and the European Food Safety Authority, however recently announced, the UK does not agree with the EU's position. As a result, the UK announced that CBD products already on the market will be required to have a validated novel food application in order to remain in the market beyond 31 March 2021.

¹⁹ CannPal FY20 Annual Report

²⁰ Therapeutic Goods Administration, 5 November 2020

²¹ Australian Government Department of Health – Therapeutic Goods Administration

²² Hemp Industry Daily, September 2020

In November 2020, the court of justice of the EU ruled that the French ban on the marketing of hemp-derived CBD products contradicted the current EU law on the free movement of goods, emphasising that there was no scientific evidence to suggest CBD is harmful to the body. It is believed that this decision will make it for the European Commission to pursue their proposed classification of CBD as a narcotic.²³

Furthermore, in December 2020, the United Nations (**UN**) voted to remove cannabis for medicinal purposes from a category of the world's most dangerous drugs which is expected to expand marijuana R&D and medical use. The vote will have no immediate impact on easing international controls as each government will still have jurisdiction over how to classify cannabis, however the recognition by the UN provides a positive impact to the industry.²⁴

²³ The Guardian – 20 November 2020

²⁴ The New York Times – 2 December 2020

Appendix 4 – Discount rate

We have assessed a nominal, post-tax WACC for CannPal in the range of 27.5% to 32.5%.

The selection of the appropriate discount rate to apply to the forecast cash flows of any asset or operating business is fundamentally a matter of judgement. Whilst there is a body of theory that may provide a framework for the derivation of an appropriate discount rate, it is important to recognise that given the level of subjectivity involved in selecting various inputs to the theoretical framework there is no absolute “correct” discount rate.

Given the current stage of CannPal’s operations, we have considered different rates of return required by investors depending on the stage of development of early start-up companies.²⁵ The table below details the investor returns analysis.

Table 26: Investor return analysis

Stage of development	Plummer	Scherlis and Sahlman	Sahlman, Stevenson and Bhide
Startup	50% - 70%	50% - 70%	50% - 100%
First stage or 'early development'	40% - 60%	40% - 60%	40% - 60%
Second stage or 'expansion'	35% - 50%	30% - 50%	30% - 40%
Bridge/Initial Public Offering	25% - 35%	20% - 35%	20% - 30%

Source: American Institute of CPA’s Equity Securities Task Force

In general, investors in animal health industries often apply higher discount rates than those derived by applying a build-up Capital Asset Pricing Method (**CAPM**) approach when investing in early-stage companies. This is primarily due to the fact that these investments need to cover additional risks unaccounted for in the CAPM, such as the forecasting risk associated with estimating the ultimate market size for a product that is currently not successfully commercialised. It is therefore typical, e.g. for venture capitalists to apply discount rates of 20% to 40% to these cash flows depending on the current stage of the products under development.

The adopted WACC range of 27.5% to 32.5% is in the middle of the range adopted for companies at the early IPO stage of development. We consider this range to represent a reasonable discount rate range that purchasers would use in the current market when assessing the business of CannPal given the commercial, operational and technical risks of CannPal’s assets and its current stage of development.

In assessing an appropriate discount rate, the following considerations, inter alia, specific to CannPal include:

- the size of CannPal and the risks around the high growth and operational risk factors of small companies

²⁵ American Institute of CPA’s Equity Securities Task Force

- the niche market of CBD based animal products in which CannPal operates
- potential delay in the commercialisation process for CannPal's products and the reduction in cash balance resulting in a requirement for capital raising in the short term to fund operations
- uncertainties around the timing and the potential success of the commercialisation of the MicroMAX[®], DermaCann[®], and CPAT-01 products and the subsequent uptake in the market and revenue growth
- the impact of the market's assessment of the effects of COVID-19 on the broader economy and the potential for subsequent impact on the business performance of CannPal
- risks associated with potential competitors and new technologies, which could develop and potentially substitute CannPal's products in the long term.

Based on the above and considering the stage in the business lifecycle CannPal is currently in, the future investment required to achieve growth projections and the risk in achieving the growth assumed, we have adopted a WACC of 27.5% to 32.5% in order to determine the value of CannPal's operating business.

Appendix 5 – Overview of valuation methodologies

Capitalisation of earnings

An earnings based approach estimates a sustainable level of future earnings for a business (maintainable earnings) and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include revenue, EBITDA, EBIT and NPAT.

In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of development, or when significant changes occur in the operating environment, or the underlying business is cyclical.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued. The multiples derived for comparable quoted companies are generally based on security prices reflective of the trades of small parcels of securities. As such, multiples are generally reflective of the prices at which portfolio interests change hands. That is there is no premium for control incorporated within such pricing. They may also be impacted by illiquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (100%) we would also reference the multiples achieved in recent mergers and acquisitions, where a control premium and breadth of purchaser interest are reflected.

An earnings approach is typically used to provide a cross-check to the conclusions reached under a theoretical DCF approach or where the entity subject to valuation operates a mature business in a mature industry or where there is insufficient forecast data to utilise the DCF methodology.

Discounted cash flow

Under a DCF approach, forecast cash flows are discounted back to the Valuation Date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the Valuation Date to give an overall value for the business.

In a DCF analysis, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

The rate at which the future cash flows are discounted (the Discount Rate) should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a DCF to produce a value that can be relied on as a primary approach, the importance of the quality of the underlying cash flow forecasts is fundamental.

The Discount Rate most generally employed is the WACC, reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged cash flows and results in an Enterprise Value for the business. Alternatively, for some sectors it is more appropriate to apply an equity approach instead, applying a cost of equity to leveraged cash flows to determine equity value.

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. This can be calculated using either a capitalisation of earnings methodology or the 'constant growth model', which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity.

Net assets or cost based

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

Net asset value is determined by marking every asset and liability on (and off) the entity's balance sheet to current market values.

A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, positioning and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the 'book' net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross-check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

Enterprise or equity value

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. revenue, EBITDA, EBITA or EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. NPAT) or free cash flow, post debt servicing.

Appendix 6 – Glossary

Abbreviation	Description
\$	Australian dollars
ABS	Australian Bureau of Statistics
Act	The Corporations Act 2001 (Cth)
AFSL	Australian Financial Services Licence issued by ASIC under section 913B of the Corporations Act
Aphria	Aphria Inc.
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
AusCann or Bidder	AusCann Group Holdings Ltd
AusCann SPP	Share Purchase Plan
Board	The Board of Directors of CannPal
CAGR	Compounded annual growth rate
CannPal	CannPal Animal Therapeutics Limited
CannPal Options	8,000,000 unlisted options
CannPal Performance Rights	1,875,000 unlisted performance rights with various vesting conditions and expiry dates
CannPal Shareholder	A holder of a CannPal Share
Canopy	Canopy Growth Corporation
Capitalised Earnings	The capitalisation of a sustainable level of earnings
CAPM	Capital Asset Pricing Method
CBD	Hemp-derived cannabidiol
CEO	Chief Executive Officer
cGMP	Current Good Manufacturing Practices
CMC	Chemistry, Manufacturing and Controls
Combined Group	The combined entity formed by CannPal and AusCann
Corporations Act, the Act	The Corporations Act 2001 (Cth)
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DCF	Discounted cash flow
Directors	Directors of CannPal
EPS	Earnings per share
EU	European Union
Explicit Forecast Period	The five-year period from FY21 to FY25
FDA	Food and Drug Administration
FDA-CVM	FDA, Centre for Veterinary Medicine
FSG	Financial Services Guide
IER	Independent Expert's Report
Implementation Date	The date the Proposal is implemented
INAD	Investigational New Animal Drug



Abbreviation	Description
IPO	Initial Public Offering
JV	Joint venture
KPMG Corporate Finance	KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division)
Management	Management of CannPal
MORE	Marijuana Opportunity Reinvestment and Expungement
MOU	Memorandum of agreement
NAV	Net asset value excluding right of use assets and lease liabilities
Net Assets	The estimation of the net proceeds from an orderly realisation of assets
NPV	Net present value
OTC	Over the counter
Proposed Transaction	On 16 November 2020, CannPal announced that it had entered into a SID with AusCann which will result in AusCann acquiring 100% of the issued shares of CannPal
R&D	Research and development
RCT	Randomised, double-blind, placebo-controlled clinical trial
RG	Regulatory Guide
SAS	Special Access Scheme
Scheme	The scheme of arrangement via which the Proposed Transaction will be implemented
Scheme Consideration	CannPal Shareholders to receive 1.3 shares in AusCann for every CannPal share held on the Scheme Record Date
Share Price	The utilisation of share market data of the company
SID	Scheme Implementation Deed
SKU	Stock keeping unit
TAS	Target Animal Safety
TGA	Therapeutic Goods Administration
THC	Tetrahydrocannabinol
TWH	TW Holdings Limited
UK	United Kingdom
UN	United Nation
US	United States of America
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
YoY	Year-on-year



KPMG Corporate Finance
A division of KPMG Financial Advisory Services
(Australia) Pty Ltd
Australian Financial Services Licence No. 246901
Level 38 Tower Three
300 Barangaroo Avenue
Sydney NSW 2000

ABN: 43 007 363 215
Telephone: +61 2 9335 7000
Facsimile: +61 2 9335 7001
DX: 1056 Sydney
www.kpmg.com.au

P O Box H67 Australia Square
Sydney NSW 1213
Australia

PART TWO – FINANCIAL SERVICES GUIDE

Dated 1 February 2021

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215, Australian Financial Services Licence Number 246901 (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) and Mrs Joanne Lupton as an authorised representative of KPMG Corporate Finance, authorised representative number 449593 and Mr Sean Collins as an authorised representative of KPMG Corporate Finance, authorised representative number 404189 (Authorised Representative).

This FSG includes information about:

- KPMG Corporate Finance and its Authorised Representative and how they can be contacted
- the services KPMG Corporate Finance and its Authorised Representative are authorised to provide
- how KPMG Corporate Finance and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and the compensation arrangements that KPMG Corporate Finance has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Corporate Finance.

This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Corporate Finance and the Authorised Representative are authorised to provide

KPMG Corporate Finance holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investment schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Corporate Finance to provide financial product advice on KPMG Corporate Finance's behalf.

KPMG Corporate Finance and the Authorised Representative's responsibility to you

KPMG Corporate Finance has been engaged by CannPal Animal Therapeutics Limited (Client) to provide general financial product advice in the form of a Report to be included in the Scheme Booklet (Document) prepared by the Client in relation to the scheme of arrangement involving AusCann Group Holdings Ltd (Transaction).

You have not engaged KPMG Corporate Finance or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Corporate Finance nor the Authorised Representative are acting for any person other than the Client.

KPMG Corporate Finance and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Corporate Finance has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

© 2021 KPMG Financial Advisory Services (Australia) Pty Ltd, an affiliate of KPMG. KPMG is an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation. Liability limited by a scheme approved under Professional Standards Legislation.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives

KPMG Corporate Finance charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Corporate Finance \$95,000 for preparing the Report. KPMG Corporate Finance and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report. KPMG Corporate Finance officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Corporate Finance's representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report. Further details may be provided on request.

Referrals

Neither KPMG Corporate Finance nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Corporate Finance is controlled by and operates as part of the KPMG Partnership. KPMG Corporate Finance's directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Corporate Finance and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Corporate Finance, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses. Over the past two years no professional fees have been received from the Client. None of those services have related to the Transaction or alternatives to the Transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the Transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint. Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Corporate Finance or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:
Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001
Telephone: 1800 367 287
Facsimile: (03) 9613 6399 Email: info@fos.org.au.
The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Corporate Finance has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Corporate Finance or the Authorised Representative using the contact details:

KPMG Corporate Finance
A division of KPMG Financial Advisory Services (Australia) Pty Ltd
Level 38 Tower Three
300 Barangaroo Avenue
Sydney NSW 2000

P O Box H67 Australia Square
Sydney NSW 1213
Australia
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7200

Joanne Lupton
C/O KPMG
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7200

Annexure B – Scheme of Arrangement



Scheme of Arrangement

CannPal Animal Therapeutics Limited ACN 612 791 518

—

Scheme Shareholders

—

Scheme of Arrangement

CannPal Animal Therapeutics Limited ACN 612 791 518

Details	4
Agreed terms	5
1. Defined terms & interpretation	5
1.1 Definitions	5
1.2 Interpretation	7
1.3 Business Day	8
1.4 Listing requirements included as law	8
2. Preliminary	8
2.1 CannPal	8
2.2 AusCann	8
2.3 General	8
2.4 Consequence of this Scheme becoming Effective	8
3. Conditions	9
4. Implementation	9
4.1 Lodgement of Court orders	9
4.2 Transfer of Scheme Shares	9
5. Scheme Consideration	10
5.1 Amount of Scheme Consideration	10
5.2 Foreign Scheme Shareholders	10
5.3 Provision of Scheme Consideration	10
5.4 Foreign resident capital gains withholding	11
5.5 Joint holders	12
5.6 Fractional entitlements	12
5.7 Unclaimed monies	12
5.8 Status of AusCann Consideration Shares	13
5.9 Order of a court or Regulatory Authority	13
5.10 Definition of <i>sending</i>	13
6. Dealings in CannPal Shares	13
6.1 Determination of Scheme Shareholders	13
6.2 Register	14
7. Suspension and delisting	14
8. General Scheme provisions	15
8.1 Consent to amendments to this Scheme	15
8.2 Binding effect of Scheme	15
8.3 Scheme Shareholders' agreements and acknowledgment	15
8.4 Warranties by Scheme Shareholders	15
8.5 Title to and rights in Scheme Shares	16
8.6 Authority given to CannPal	16
8.7 Appointment of sole proxy	16
8.8 Instructions	17
9. General	17
9.1 Stamp duty	17
9.2 Notices	17
9.3 Further assurances	17
9.4 Governing law and jurisdiction	17

Details

This scheme of arrangement is made under section 411 of the *Corporations Act 2001* (Cth).

Between the parties

CannPal Animal Therapeutics Limited ACN 612 791 518 of Level 3, 45A Bay Street, Double Bay, NSW 2028 (**CannPal**)

and

Each Scheme Shareholder

Agreed terms

1. Defined terms & interpretation

1.1 Definitions

In this Scheme, unless the context requires otherwise:

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ACN 008 624 691, or as the context requires or permits, the financial market known as the Australian Securities Exchange operated by it.

AusCann means AusCann Group Holdings Ltd ACN 008 095 207.

AusCann Consideration Share means an AusCann Share to be issued under the terms of this Scheme as Scheme Consideration.

AusCann Share means an issued fully paid ordinary share in the capital of AusCann.

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

CannPal Registry means Computershare Investor Services Pty Limited or any replacement provider of share registry services to CannPal.

CannPal Share means an issued fully paid ordinary share in the capital of CannPal.

CannPal Shareholder means a person who is registered in the Share Register as a holder of one or more CannPal Shares.

CHESS means the clearing house electronic subregister system of share transfers operated by ASX Settlement Pty Limited ABN 49 008 504 532.

CHESS Holding has the meaning given in the Settlement Rules.

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

Court means the Supreme Court of Western Australia or such other court of competent jurisdiction under the Corporations Act agreed in writing between CannPal and AusCann.

Deed Poll means the Deed Poll to be executed by AusCann under which AusCann among other things covenants in favour of the Scheme Shareholders to perform the actions attributed to it under this Scheme.

Delivery Time means, in relation to the Second Court Date, two hours before the commencement of the hearing or, if the commencement of the hearing is adjourned, two hours before the commencement of the adjourned hearing, of the Court to approve this Scheme in accordance with section 411(4)(b) of the Corporations Act.

Effective means the coming into effect under section 411(10) of the Corporations Act of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme.

Effective Date means the date on which this Scheme becomes Effective.

End Date means the 'End Date' determined in accordance with the Scheme Implementation Deed.

Foreign Scheme Shareholder means a Scheme Shareholder whose Registered Address is a place outside of:

- (a) Australia or its external territories;

- (b) New Zealand; and
 - (c) any other jurisdictions as may be agreed in writing by CannPal and AusCann,
- (unless AusCann determines (in its absolute discretion), that AusCann is permitted to allot and issue AusCann Consideration Shares to that Scheme Shareholder under this Scheme by the laws of that place either unconditionally or after compliance with conditions that AusCann considers are not unduly onerous or impracticable).

Implementation Date means the fifth Business Day after the Record Date or such other Business Day after the Record Date agreed to in writing between the relevant parties to the Scheme Implementation Deed.

Issuer Sponsored Holding has the meaning given in the Settlement Rules.

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

Market Integrity Rules means any rules made by ASIC under section 798G of the Corporations Act that apply to ASX or any other prescribed financial market on which CannPal Shares are quoted.

Record Date means 7.00pm on the second Business Day after the Effective Date or such other time and date agreed to in writing between CannPal and AusCann.

Registered Address means, in relation to a CannPal Shareholder, the address shown in the Share Register as at the Record Date.

Regulatory Authority means:

- (a) any government or governmental, semi-governmental, administrative, monetary, fiscal or judicial body, tribunal, agency or entity;
 - (b) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; or
 - (c) any regulatory organisation established under statute,
- in Australia whether federal, state, territorial or local.

Sale Agent means a person appointed by AusCann, in consultation with CannPal, to sell the Sale Shares under clause 7.2(b).

Sale Proceeds means the gross proceeds of sale of the Sale Shares under clause 7.2(b), less any applicable taxes and charges incurred by AusCann or the Sale Agent in connection with the sale.

Sale Shares means the AusCann Shares to which Foreign Scheme Shareholders would have been entitled under this Scheme but for the operation of clause 7.2.

Scheme means this scheme of arrangement under Part 5.1 of the Corporations Act between CannPal and the Scheme Shareholders, subject to any alterations or conditions that are:

- (a) agreed to in writing by CannPal and AusCann and approved by the Court; or
- (b) made or required by the Court under section 411(6) of the Corporations Act and agreed to by CannPal and AusCann.

Scheme Consideration means 1.3 AusCann Consideration Share(s) per one Scheme Share, subject in the case of Foreign Scheme Shareholders to the operation of clauses 7.2 and 7.3.

Scheme Implementation Deed means the Scheme Implementation Deed dated 14 November 2020 between CannPal and AusCann.

Scheme Meeting means the meeting of CannPal Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on this Scheme and includes any meeting convened following any adjournment or postponement of that meeting.

Scheme Share means a Share on issue as at the Record Date.

Scheme Shareholder means a person who holds one or more Scheme Shares.

Second Court Date means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving this Scheme is heard or scheduled to be heard or, if the application is adjourned for any reason, means the date on which the adjourned application is heard or scheduled to be heard.

Settlement Rules means the ASX Settlement Operating Rules.

Share Register means the register of members of CannPal maintained in accordance with the Corporations Act.

Trust Account means an Australian dollar denominated trust account operated by CannPal as trustee for the benefit of Scheme Shareholders.

1.2 Interpretation

Headings are for convenience only and do not affect interpretation. The following rules apply unless the context requires otherwise.

- (a) The singular includes the plural, and the converse also applies.
- (b) A gender includes all genders.
- (c) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (d) A reference to a person, corporation, trust, partnership, unincorporated body or other entity includes any of them.
- (e) A reference to a clause or schedule is a reference to a clause of or schedule to this Scheme.
- (f) A reference to an **agreement** or **document** (including a reference to this Scheme) is to the agreement or document as amended, supplemented, novated or replaced, except to the extent prohibited by this Scheme or that other agreement or document, and includes, except to the extent this Scheme expressly provides otherwise the recitals, schedules and annexures to that agreement or document.
- (g) A reference to a party to this Scheme or an agreement or document includes the party's executors, administrators, successors, permitted substitutes and permitted assigns (and, where applicable, the party's legal personal representatives).
- (h) A reference to legislation or to a provision of legislation includes a modification or re-enactment of it, a legislative provision substituted for it and a regulation or statutory instrument issued under it.
- (i) A reference to conduct includes an omission, statement or undertaking, whether or not in writing.
- (j) A reference to an agreement includes any undertaking, deed, agreement and legally enforceable arrangement, whether or not in writing, and a reference to a document includes an agreement (as so defined) in writing and any certificate, notice, instrument and document of any kind.
- (k) A reference to **dollars** or **\$** is to Australian currency.
- (l) All references to time are to Perth, Western Australia time.
- (m) Mentioning anything after *includes*, *including*, *for example*, or similar expressions, does not limit what else might be included.

- (n) Unless otherwise defined, a word or expression defined in the Corporations Act has the meaning given to it in the Corporations Act.
- (o) A reference to a person includes a natural person, partnership, body corporate, association, governmental or local authority or agency or other entity.

1.3 Business Day

Where the day on or by which any act, matter or thing under this Scheme is to be done is not a Business Day, that act, matter or thing must be done on or by the next Business Day.

1.4 Listing requirements included as law

A listing rule or operating rule of a financial market and a Market Integrity Rule will be regarded as a law and a reference to legislation (as appropriate), and a reference to such a rule is to be taken to be subject to any waiver or exemption granted to the compliance of those rules by a party.

2. Preliminary

2.1 CannPal

- (a) CannPal is a public company limited by shares, registered in the Australian Capital Territory and admitted to the official list of ASX.
- (b) The CannPal Shares are officially quoted on ASX. As at the date of the Scheme Implementation Deed:
 - (i) 93,125,000 CannPal Shares were on issue which are officially quoted on ASX; and
 - (ii) there are 8,000,000 options to acquire CannPal Shares and 1,875,000 performance rights convertible into CannPal Shares on issue.

2.2 AusCann

AusCann is a public company limited by shares, registered in Western Australia and admitted to the official list of ASX.

2.3 General

- (a) CannPal and AusCann have agreed by executing the Scheme Implementation Deed to implement this Scheme subject to the terms and conditions of this Scheme.
- (b) This Scheme attributes actions to AusCann but does not itself impose an obligation on it to perform those actions, as AusCann is not a party to this Scheme. AusCann has agreed, by executing the Deed Poll, to perform the actions attributed to it under this Scheme (including the provision of the Scheme Consideration to the Scheme Shareholders subject to the terms and conditions of this Scheme).

2.4 Consequence of this Scheme becoming Effective

If this Scheme becomes Effective:

- (a) AusCann will apply for all new AusCann Shares to be quoted on ASX;
- (b) AusCann will provide or procure the provision of the Scheme Consideration to Scheme Shareholders in accordance with this Scheme; and
- (c) all the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares at the Implementation Date, will be transferred to AusCann, and CannPal will enter AusCann in the Share Register as the holder of the Scheme Shares with the result that CannPal will become a wholly-owned subsidiary of AusCann.

3. Conditions

- (a) This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:
- (i) all the conditions precedent in clause 3.1 of the Scheme Implementation Deed (other than the condition in clause 3.1(h) of the Scheme Implementation Deed (Court approval)) having been satisfied or waived in accordance with the terms of the Scheme Implementation Deed by no later than the Delivery Time on the Second Court Date;
 - (ii) neither the Scheme Implementation Deed nor the Deed Poll having been terminated in accordance with their terms by no later than the Delivery Time on the Second Court Date;
 - (iii) approval of this Scheme by the Court under section 411(4)(b) of the Corporations Act, including with any alterations made or required by the Court under section 411(6) of the Corporations Act as are agreed to in writing by CannPal and AusCann;
 - (iv) such other conditions imposed by the Court under section 411(6) of the Corporations Act, as are agreed to in writing by CannPal and AusCann, having been satisfied; and
 - (v) the orders of the Court made under section 411(4)(b) (and if applicable section 411(6)) of the Corporations Act approving this Scheme coming into effect, pursuant to section 411(10) of the Corporations Act, on or before the End Date (or any later date CannPal and AusCann agree in writing).
- (b) The satisfaction of the conditions referred to in clause 3(a) of this document is a condition precedent to the operation of clauses 6.2 and 7.

4. End Date

This Scheme will lapse and be of no further force or effect if the Effective Date has not occurred on or before the End Date.

5. Termination

Without limiting any rights under the Scheme Implementation Deed, if the Scheme Implementation Deed is terminated in accordance with its terms before this Scheme becomes Effective, each of CannPal and AusCann are released from:

- (a) any further obligation to take steps to implement this Scheme; and
- (b) any liability with respect to this Scheme.

6. Implementation

6.1 Lodgement of Court orders

Subject to the Listing Rules, CannPal must lodge with ASIC office copies of any Court orders under section 411(4)(b) (and if applicable section 411(6)) of the Corporations Act approving this Scheme as soon as reasonably practicable after the Court approves this Scheme and in any event no later than by 5.00pm on the first Business Day after the Court approves this Scheme.

6.2 Transfer of Scheme Shares

On the Implementation Date:

- (a) subject to AusCann confirming in writing to CannPal by no later than 12 noon (or such later time as AusCann and CannPal may agree) on the Implementation Date that the

Scheme Consideration has been provided in the manner contemplated by clause 7.3(a), the provision of the Scheme Consideration in the manner contemplated by clause 7, the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares at the Implementation Date, will be transferred to AusCann, without the need for any further act by any Scheme Shareholder (other than acts performed by CannPal or its officers as agent and attorney of the Scheme Shareholders under clause 10.6 or otherwise), by:

- (i) CannPal delivering to AusCann a duly completed and executed share transfer form to transfer all the Scheme Shares to AusCann, executed on behalf of the Scheme Shareholders by CannPal; and
 - (ii) AusCann duly executing such transfer form and delivering it to CannPal for registration; and
- (b) immediately after receipt of the transfer form in accordance with clause 6.2(a)(ii), CannPal must enter, or procure the entry of, the name of AusCann in the Share Register in respect of the Scheme Shares transferred to AusCann in accordance with this Scheme.

7. Scheme Consideration

7.1 Amount of Scheme Consideration

Each Scheme Shareholder is entitled to receive the Scheme Consideration.

7.2 Foreign Scheme Shareholders

- (a) AusCann will be under no obligation to issue, and must not issue, any AusCann Shares under this Scheme to Foreign Scheme Shareholders
- (b) Instead, AusCann must procure that:
 - (i) the Sale Shares are issued by AusCann to the Sale Agent on the Implementation Date (rounded down, if necessary, to the nearest whole number);
 - (ii) as soon as practicable and, in any event, not more than 15 Business Days after the Implementation Date, the Sale Agent sells the Sale Shares in such manner, at such price or prices and on such other terms as the Sale Agent determines in good faith; and
 - (iii) promptly after the last sale of Sale Shares in accordance with clause 7.2(b)(ii), the Sale Agent pays the Sale Proceeds into the Trust Account (for payment by CannPal to the Foreign Scheme Shareholders in accordance with clauses 7.3(c) to 7.3(e) (inclusive) and 7.9 of this Scheme).
- (c) None of AusCann, CannPal or the Sale Agent gives any assurance as to the price that will be achieved for the sale of Sale Shares by the Sale Agent. The sale of Sale Shares by the Sale Agent will be at the risk of the Foreign Scheme Shareholders.
- (d) Each Foreign Scheme Shareholder appoints CannPal as its agent to receive on its behalf any financial services guide or other notices (including any updates of those documents) that the Sale Agent is required to provide to Foreign Scheme Shareholders under the Corporations Act.

7.3 Provision of Scheme Consideration

- (a) AusCann must before 12.00 noon on the Implementation Date:
 - (i) procure the issue of all of the AusCann Shares which it is obliged to issue to Scheme Shareholders under this Scheme and provide CannPal with written confirmation that AusCann has done so;

- (ii) procure that the name of each Scheme Shareholder entitled to receive AusCann Shares under this Scheme is entered in AusCann's register of members as the holder of those AusCann Shares (in holdings having the same holding name and address and other details as the holding of the relevant Scheme Shares, and in CHESS Holdings if the relevant Scheme Shares were held in the CHESS Holdings and in Issuer Sponsored Holdings if the relevant Scheme Shares were held in Issuer Sponsored Holdings); and
 - (iii) procure that the name of the Sale Agent is entered in AusCann's register of members as the holder of the Sale Shares (with such holding details as the Sale Agent notifies).
- (b) On or before the date that is 5 Business Days after the Implementation Date, AusCann must send or procure the sending of an allotment advice or holding statement (or equivalent document) to each Scheme Shareholder entitled to receive AusCann Shares under this Scheme, reflecting the issue of such AusCann Shares in accordance with clause 7.3(a)(iii).
- (c) As soon as practicable following payment into the Trust Account of the Sale Proceeds, CannPal must pay from the Trust Account to each Foreign Scheme Shareholder such amount of cash as is due to that Scheme Shareholder as Scheme Consideration in respect of their Scheme Shares, being in the case of each such person the amount they would have received had they:
- (i) received the AusCann Shares to which they would have been entitled under this Scheme but for the operation of clause 7.2; and
 - (ii) sold them for an amount per AusCann Share equal to that part of the Sale Proceeds which is attributable to the sale of AusCann Shares divided by the total number of AusCann Shares included in the Sale Shares, provided that for the purposes of the foregoing the total cash amount payable to a Foreign Scheme Shareholder in respect of its parcel of Scheme Shares shall be rounded down to the nearest whole cent.
- (d) The amount referred to in clause 7.3(c) must be paid by CannPal doing any of the following at its election:
- (i) sending (or procuring the CannPal Registry to send) it to the Scheme Shareholder's Registered Address by cheque in Australian currency drawn out of the Trust Account; or
 - (ii) depositing (or procuring the CannPal Registry to deposit) it into an account with any Australian ADI (as defined in the Corporations Act) notified to CannPal (or the CannPal Registry) by an appropriate authority from the Scheme Shareholders.
- (e) If there is any surplus in the amount held by CannPal in the Trust Account, that surplus must be paid by CannPal to AusCann following the satisfaction of CannPal's obligations under this clause. Any interest on the amounts deposited in the Trust Account (less bank fees and other charges) will be to AusCann's account.

7.4 Foreign resident capital gains withholding

- (a) If AusCann determines, having regard to legal advice, that AusCann is either:
- (i) required by law to withhold an issue of AusCann Consideration Shares to a Scheme Shareholder; or
 - (ii) liable to pay an amount to the Commissioner of Taxation under Subdivision 14-D of Schedule 1 to the *Taxation Administration Act 1953* (Cth) in respect of the acquisition of Scheme Shares from a Scheme Shareholder,
- (either of the above being the **Relevant Amount**), then AusCann is entitled to:
- (iii) withhold the Relevant Amount before issuing the AusCann Consideration Shares to the Scheme Shareholder; and

- (iv) reduce the number of AusCann Consideration Shares issued by a number calculated by the following factor, RA/VS, rounded up to the nearest whole number of AusCann Consideration Shares, where:
 - (A) RA means the Relevant Amount; and
 - (B) VS means the value (as reasonably assessed by AusCann) of one AusCann Consideration Share,

and the issue of the reduced number of AusCann Consideration Shares and the payment of the Relevant Amount to the relevant taxation authority pursuant to paragraph (b) below will be taken to be full payment of the Relevant Amount for the purposes of this Scheme, including clause 7.3.

- (b) AusCann must pay any Relevant Amount so withheld to the relevant taxation authority within the time permitted by law, and, if requested in writing by the relevant Scheme Shareholder, provide a receipt or other appropriate evidence (or procure the provision of such receipt or other evidence) of such payment to the relevant Scheme Shareholder.

7.5 Joint holders

In the case of Scheme Shares held in joint names:

- (a) any AusCann Consideration Shares comprising the Scheme Consideration are to be registered in the names of the joint holders;
- (b) any cheque required to be sent under this Scheme will be made payable to the joint holders and sent at the sole discretion of CannPal, either to the holder whose name appears first in the Share Register as at the Record Date or to the joint holders; and
- (c) any other document required to be sent under this Scheme, will be forwarded, at the sole discretion of CannPal, either to the holder whose name appears first in the Share Register as at the Record Date or to the joint holders.

7.6 Fractional entitlements

Where the calculation of the Scheme Consideration to be provided to a Scheme Shareholder would result in the Scheme Shareholder becoming entitled to a fraction of a AusCann Consideration Share, that fractional entitlement will be rounded down to the nearest whole AusCann Consideration Share.

7.7 Unclaimed monies

- (a) CannPal may cancel a cheque sent under this clause 7 if the cheque:
 - (i) is returned to CannPal; or
 - (ii) has not been presented for payment within six months after the date on which the cheque was sent.
- (b) During the period of 11 months commencing on the Implementation Date, on request in writing from a Scheme Shareholder to CannPal (or the CannPal Registry) (which request may not be made until the date which is 20 Business Days after the Implementation Date), CannPal must reissue a cheque that was previously cancelled under clause 7.7(a).
- (c) The *Unclaimed Money Act 1995* (NSW) will apply in relation to any Scheme Consideration which becomes “unclaimed money” (as defined in section 7 of the *Unclaimed Money Act 1995* (NSW)).
- (d) Any interest or other benefit accruing from unclaimed Scheme Consideration will be to the benefit of AusCann.

7.8 Status of AusCann Consideration Shares

Subject to this Scheme becoming Effective, AusCann must:

- (a) issue the AusCann Consideration Shares required to be issued under this Scheme on terms such that each such AusCann Consideration Shares will rank equally in all respects with each other AusCann Share then on issue; and
- (b) ensure that each AusCann Consideration Shares required to be issued under this Scheme is duly issued and is fully paid and free from any mortgage, charge, lien, encumbrance or other security interest (except for any lien arising under the constitution of AusCann); and
- (c) use all reasonable endeavours to ensure that such AusCann Consideration Shares are, from the Business Day following the date this Scheme becomes Effective (or such later date as ASX requires), quoted for trading on the ASX initially on a deferred settlement basis and thereafter on an ordinary settlement basis.

7.9 Order of a court or Regulatory Authority

If:

- (a) written notice is given to CannPal (or the CannPal Registry) of an order or direction made by a court of competent jurisdiction or by another Regulatory Authority that requires payment to a third party of a sum in respect of Scheme Shares held by a particular Scheme Shareholder, which would otherwise be payable to that Scheme Shareholder by CannPal in accordance with this clause 7, then CannPal may procure that payment is made in accordance with that order or direction; or
- (b) written notice is given to CannPal (or the CannPal Registry) of an order or direction made by a court of competent jurisdiction or by another Regulatory Authority that prevents CannPal from making a payment to any particular Scheme Shareholder in accordance with clause 7.3(c), or such payment is otherwise prohibited by applicable law, CannPal may retain an amount equal to the number of Scheme Shares held by that Scheme Shareholder multiplied by the Scheme Consideration until such time as payment in accordance with this clause 7 is permitted by that order or direction or otherwise by law,

and the payment or retention by CannPal (or the CannPal Registry) will constitute the full discharge of CannPal's obligations under this clause with respect of the amount so paid or retained until, in the case of clause 7.9(b), it is no longer required to be retained.

7.10 Definition of *sending*

For the purposes of clause 7, the expression *sending* means, in relation to each Scheme Shareholder:

- (a) sending by ordinary pre-paid post or courier to the Registered Address of that Scheme Shareholder as at the Record Date; or
- (b) delivery to the Registered Address of that Scheme Shareholder as at the Record Date by any other means at no cost to the recipient.

8. Dealings in CannPal Shares

8.1 Determination of Scheme Shareholders

To establish the identity of the Scheme Shareholders, dealings in CannPal Shares or other alterations to the Share Register will only be recognised if:

- (a) in the case of dealings of the type to be effected using CHES, the transferee is registered in the Share Register as the holder of the relevant CannPal Shares on or before 7.00pm on the Record Date; and

- (b) in all other cases, registrable transmission applications or transfers in respect of those dealings are received on or before 5.00pm on the day on which the Record Date occurs at the place where the Share Register is kept,

and CannPal will not accept for registration, nor recognise for any purpose (except a transfer to AusCann under this Scheme and any subsequent transfer by AusCann or its successors in title), any transfer or transmission application or other request received after such times, or received prior to such times but not in registrable or actionable form, as appropriate.

8.2 Register

- (a) **(Registration of transfers)** CannPal must register registrable transmission applications or transfers of the kind referred to in clause 8.1(b) by or as soon as reasonably practicable after the Record Date (provided that for the avoidance of doubt nothing in this clause 8.2 requires CannPal to register a transfer that would result in a CannPal Shareholder holding a parcel of CannPal Shares that is less than a 'marketable parcel' (as defined in the Settlement Rules)).
- (b) **(No registration after Record Date)** CannPal will not accept for registration or recognise for any purpose any transmission application or transfer in respect of CannPal Shares received after 5.00pm on the day on which the Record Date occurs, other than to AusCann in accordance with this Scheme and any subsequent transfer by AusCann or its successors in title.
- (c) **(Maintenance of Share Register)** For the purpose of determining entitlements to the Scheme Consideration, CannPal must maintain the Share Register in accordance with the provisions of this clause until the Scheme Consideration has been delivered to the Scheme Shareholders. The Share Register in this form will solely determine entitlements to the Scheme Consideration.
- (d) **(No disposal after Record Date)** From the Record Date until registration of AusCann in respect of all Scheme Shares under clause 4, no CannPal Shareholder may dispose or otherwise deal with CannPal Shares (or purport to do so) in any way except as set out in this Scheme and any attempt to do so will have no effect and CannPal shall be entitled to disregard any such disposal or dealing.
- (e) **(Statements of holding from Record Date)** All statements of holding for CannPal Shares will cease to have effect from the Record Date as documents of title in respect of those shares. As from the Record Date, each entry current at that date on the Share Register will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the CannPal Shares relating to that entry.
- (f) **(Provision of Scheme Shareholder details)** As soon as practicable on or after the Record Date and in any event within one Business Day after the Record Date, CannPal will ensure that details of the names, Registered Addresses and holdings of CannPal Shares for each Scheme Shareholder are available to AusCann in the form AusCann reasonably requires.

9. Suspension and delisting

- (a) CannPal will apply to ASX to suspend trading on the ASX in CannPal Shares with effect from the close of trading on the Effective Date.
- (b) On a date after the Implementation Date to be determined by AusCann, and to take effect only after the transfer of the Scheme Shares has been registered in accordance with clause 6.2(b), CannPal will apply:
 - (i) for termination of the official quotation of CannPal Shares on ASX; and

- (ii) to have itself removed from the official list of ASX.

10. General Scheme provisions

10.1 Consent to amendments to this Scheme

If the Court proposes to approve this Scheme subject to any alterations or conditions:

- (a) CannPal may, by its counsel or solicitors, consent on behalf of all persons concerned to those alterations or conditions to which AusCann has consented in writing; and
- (b) each Scheme Shareholder agrees to any such alterations or conditions to which counsel for CannPal has consented.

10.2 Binding effect of Scheme

This Scheme binds CannPal and all Scheme Shareholders (including those who did not attend the Scheme Meeting, those who did not vote at that meeting, or voted against this Scheme at that meeting) and, to the extent of any inconsistency, overrides the constitution of CannPal.

10.3 Scheme Shareholders' agreements and acknowledgment

Each Scheme Shareholder:

- (a) agrees to the transfer of their CannPal Shares together with all rights and entitlements attaching to those CannPal Shares in accordance with this Scheme;
- (b) who holds their CannPal Shares in a CHESS Holding agrees to the conversion of those CannPal Shares to an Issuer Sponsored Holding and irrevocably authorises CannPal to do anything necessary or expedient (whether required by the Settlement Rules or otherwise) to effect or facilitate such conversion;
- (c) agrees to any variation, cancellation or modification of the rights attached to their CannPal Shares constituted by or resulting from this Scheme;
- (d) agrees to, on the direction of AusCann, destroy any holding statements or share certificates relating to their CannPal Shares;
- (e) agrees to become a shareholder of AusCann, have, subject to clause 10.3(f), their name and address entered in AusCann's register of members (and other details as the holding of the relevant Scheme Shares), and to be bound by its constitution; and
- (f) acknowledges and agrees that this Scheme binds CannPal and all Scheme Shareholders (including those who did not attend the Scheme Meeting or did not vote at that meeting or voted against this Scheme at that Scheme Meeting).

10.4 Warranties by Scheme Shareholders

- (a) Each Scheme Shareholder is deemed to have warranted to CannPal, in its own right and for the benefit of AusCann, that as at the Implementation Date:
 - (i) all of its CannPal Shares which are transferred to AusCann under this Scheme, including any rights and entitlements attaching to those CannPal Shares, will, at the time of transfer, be free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any "security interests" within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind;
 - (ii) all of its CannPal Shares which are transferred to AusCann under this Scheme will, on the date on which they are transferred to AusCann, be fully paid;

- (iii) it has full power and capacity to transfer its CannPal Shares to AusCann together with any rights attaching to those shares; and
 - (iv) it has no existing right to be issued any CannPal Shares, options exercisable into CannPal Shares, CannPal convertible notes or any other CannPal securities.
- (b) CannPal undertakes that it will provide the warranties in clause 10.4(a) to AusCann as agent and attorney of each Scheme Shareholder.

10.5 Title to and rights in Scheme Shares

- (a) To the extent permitted by law, the Scheme Shares (including all rights and entitlements attached to Scheme Shares) transferred under this Scheme will be transferred free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any “security interests” within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind.
- (b) On and from the Implementation Date, subject to the provision of the Scheme Consideration to each Scheme Shareholder in the manner contemplated by clause 7.3, AusCann will be beneficially entitled to the Scheme Shares transferred to it under this Scheme pending registration by CannPal of AusCann in the Share Register as the holder of the Scheme Shares.

10.6 Authority given to CannPal

- (a) Scheme Shareholders will be deemed to have authorised CannPal to do and execute all acts, matters, things and documents on the part of each Scheme Shareholder necessary for or incidental to the implementation of this Scheme, including executing and delivering, as agent and attorney of each Scheme Shareholder:
- (i) a share transfer or transfers in relation to Scheme Shares as contemplated by clause 6.2; and
 - (ii) any deed or document required by CannPal or AusCann that causes each Scheme Shareholder entitled to AusCann Consideration Shares to be bound by the constitution of AusCann.
- (b) Each Scheme Shareholder, without the need for any further act, irrevocably appoints CannPal and all of its directors, secretaries and officers (jointly and severally) as its attorney and agent for the purpose of:
- (i) on the Effective Date, enforcing the Deed Poll against AusCann and CannPal accepts such appointment; and
 - (ii) on the Implementation Date, executing any document necessary to give effect to this Scheme including, a proper instrument of transfer of its Scheme Shares for the purposes of section 1071B of the Corporations Act which may be a master transfer of all the Scheme Shares and CannPal accepts such appointment.

10.7 Appointment of sole proxy

Immediately after the provision of the Scheme Consideration to each Scheme Shareholder in the manner contemplated by clause 7.3 until CannPal registers AusCann as the holder of all CannPal Shares in the Share Register, each Scheme Shareholder:

- (a) is deemed to have irrevocably appointed AusCann as its attorney and agent (and directed AusCann in such capacity) to appoint an officer or agent nominated by AusCann as its sole proxy and, where applicable, corporate representative to attend shareholders’ meetings of CannPal, exercise the votes attaching to the Scheme Shares registered in its name and sign any shareholders’ resolution;

- (b) undertakes not to otherwise attend CannPal Shareholders' meetings, exercise the votes attaching to Scheme Shares registered in their names or sign or vote on any resolutions (whether in person, by proxy or by corporate representative) other than pursuant to clause 10.7(a);
- (c) must take all other actions in the capacity of a registered holder of Scheme Shares as AusCann reasonably directs; and
- (d) acknowledges and agrees that in exercising the powers referred to in clause 10.7(a), AusCann and any officer or agent nominated by AusCann under clause 10.7(a) may act in the best interests of AusCann as the intended registered holder of the Scheme Shares.

10.8 Instructions

If not prohibited by law (and including where permitted or facilitated by relief granted by a Regulatory Authority), all instructions or notifications by a Scheme Shareholder to CannPal binding or deemed binding between the Scheme Shareholder and CannPal relating to CannPal or CannPal Shares (including any email addresses, instructions relating to communications from CannPal, whether dividends are to be paid by cheque or into a specific bank account, notices of meetings or other communications from CannPal) will be deemed from the Implementation Date (except to the extent determined otherwise by AusCann and in its sole discretion), by reason of this Scheme, to be made by the Scheme Shareholder to AusCann, and will be accepted by AusCann until that instruction or notification is revoked or amended in writing addressed to AusCann at the relevant registry, provided that any such instructions or notifications accepted by AusCann will apply to and in respect of the issue of AusCann Consideration Shares as part of the Scheme Consideration only to the extent that they are not inconsistent with the other provisions of the Scheme.

11. General

11.1 Stamp duty

AusCann must pay all stamp duty payable in connection with the transfer of the Scheme Shares to AusCann pursuant to this Scheme.

11.2 Notices

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this document is sent by post to CannPal, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at CannPal's registered office or at the office of the CannPal Registry.
- (b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such a notice by any CannPal Shareholder may not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

11.3 Further assurances

- (a) CannPal must do anything necessary (including executing agreements and documents) or incidental to give full effect to this Scheme and the transactions contemplated by it.
- (b) Each Scheme Shareholder consents to CannPal doing all things necessary or incidental to give full effect to this Scheme and the transactions contemplated by it.

11.4 Governing law and jurisdiction

- (a) This Scheme is governed by the laws of Western Australia.
- (b) The parties irrevocably submit to the non-exclusive jurisdiction of courts exercising jurisdiction in Western Australia and courts of appeal from them in respect of any proceedings arising out of or in connection with this Scheme.

11.5 No liability when acting in good faith

None of CannPal nor any of its respective directors, officers, secretaries or employees, will be liable for anything done or omitted to be done in the performance of this Scheme or the Deed Poll in good faith.

Annexure C – Deed Poll



Deed poll

—
AusCann Group Holdings Ltd (**AusCann**)
—

Deed poll

Details	3
Agreed terms	4
1. Defined terms & interpretation	4
1.1 Defined terms	4
1.2 Terms defined in Scheme Implementation Deed	4
1.3 Incorporation by reference	4
2. Nature of this deed poll	4
3. Conditions	4
3.1 Conditions	4
3.2 Termination	4
3.3 Consequences of termination	4
4. Performance of obligations	5
4.1 Generally	5
4.2 Provision of Scheme Consideration	5
5. Warranties	5
6. Continuing Obligations	6
6.1 Deed poll irrevocable	6
6.2 Variation	6
7. Notices	6
8. General Provisions	6
8.1 Assignment	6
8.2 Cumulative rights	7
8.3 No waiver	7
8.4 Stamp duty	7
8.5 Further assurances	7
8.6 Governing law and jurisdiction	7
Signing page	8

Details

Date 21 January 2021

Parties

Name	AusCann Group Holdings Ltd
ACN	008 095 207
Short form name	AusCann
Notice details	Level 5, 35 Havelock Street, West Perth WA 6005 Email: nick.woolf@auscann.com.au Attention: Nick Woolf

Background

- A On 14 November 2020, AusCann and CannPal entered into the Scheme Implementation Deed to provide for (among other matters) the implementation of the Scheme.
- B The effect of the Scheme will be to transfer all Scheme Shares to AusCann in return for the Scheme Consideration.
- C AusCann enters this deed poll to covenant in favour of Scheme Shareholders to:
 - (i) perform the actions attributed to it under the Scheme; and
 - (ii) provide the Scheme Consideration in accordance with the Scheme.

Agreed terms

1. Defined terms & interpretation

1.1 Defined terms

In this document:

CannPal means CannPal Animal Therapeutics Limited ACN 612 791 518 as trustee for the Scheme Shareholders.

Scheme Implementation Deed means the Scheme Implementation Deed dated 14 November 2020 between AusCann and CannPal

1.2 Terms defined in Scheme Implementation Deed

Words and phrases defined in the Scheme Implementation Deed have the same meaning in this deed poll unless the context requires otherwise.

1.3 Incorporation by reference

The provisions of clauses 1.2, 1.3 and 1.4 of the Scheme Implementation Deed form part of this deed poll as if set out at length in this deed poll but with *deed poll* substituted for *deed* and with any reference to *party* being taken to include the Scheme Shareholders.

2. Nature of this deed poll

AusCann agrees that this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not a party to it.

3. Conditions

3.1 Conditions

AusCann's obligations under this deed poll are subject to the Scheme becoming Effective.

3.2 Termination

This deed poll and the obligations of AusCann under this deed poll will automatically terminate and this deed poll will be of no further force or effect if:

- (a) the Scheme Implementation Deed is terminated in accordance with its terms; or
- (b) the Scheme is not Effective on or before the End Date or any later date as the Court, with the consent of AusCann and CannPal, may order,

unless AusCann and CannPal otherwise agree in writing.

3.3 Consequences of termination

If this deed poll terminates under clause 3.2, in addition and without prejudice to any other rights, powers or remedies available to them:

- (a) AusCann is released from its obligations to further perform this deed poll; and
- (b) each Scheme Shareholder retains the rights they have against AusCann in respect of any breach of this deed poll which occurred before it terminated.

4. Performance of obligations

4.1 Generally

Subject to clause 3, AusCann covenants in favour of Scheme Shareholders to perform the actions attributed to it under, and otherwise comply with, the Scheme as if AusCann was a party to the Scheme.

4.2 Provision of Scheme Consideration

- (a) Subject to clause 3, AusCann undertakes in favour of each Scheme Shareholder to provide or procure the provision of the Scheme Consideration to each Scheme Shareholder in accordance with the terms of the Scheme.
- (b) The obligations of AusCann under clause 4.2(a) will be satisfied if, in respect of the Scheme Consideration:
 - (i) no later than 12.00 noon (or such later time as AusCann and CannPal may agree) on the Implementation Date, AusCann issues all of the AusCann Consideration Shares which it is obliged to issue to Scheme Shareholders and to the Sale Agent under the Scheme, procures that the name of each Scheme Shareholder entitled to receive AusCann Consideration Shares under the Scheme is entered in AusCann's register of members as the holder of those AusCann Consideration Shares (having the same holding name and address and other details as the holding of the relevant Scheme Shares) and AusCann provides CannPal with written confirmation that AusCann has done so;
 - (ii) on or before the date that is five Business Days after the Implementation Date, AusCann sends or procures the sending of a share certificate or holding statement (or equivalent document) to each Scheme Shareholder entitled to receive AusCann Consideration Shares under the Scheme, reflecting the issue of such AusCann Consideration Shares; and
 - (iii) procuring, as soon as reasonably practicable that the Sale Agent sells any AusCann Consideration Shares issued to it and remits the proceeds to the relevant Foreign Scheme Shareholders, in accordance with the Share Scheme,in each case, in accordance with, and subject to, the provisions of the Scheme.

5. Warranties

AusCann represents and warrants to each Scheme Shareholder that:

- (a) **(status)** it is a corporation duly incorporated and validly existing under the laws of the place of its incorporation;
- (b) **(power)** it has the power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) **(corporate authorisations)** it has taken all necessary corporate action to authorise the entry into and performance of this deed poll and to carry out the transactions contemplated by this deed poll;
- (d) **(documents binding)** this deed poll is its valid and binding obligation enforceable in accordance with its terms;
- (e) **(transactions permitted)** the execution and performance by it of this deed poll and each transaction contemplated by this deed poll did not and will not violate in any respect a provision of:
 - (i) a law or treaty or a judgment, ruling, order or decree of a Governmental Agency binding on it;
 - (ii) its constitution or other constituent documents; or
 - (iii) any other document which is binding on it or its assets; and
- (f) **(solvency)** it is solvent and no resolutions have been passed nor has any other step been taken or legal action or proceedings commenced or threatened against it for its winding up

or dissolution or for the appointment of a liquidator, receiver, administrator or similar officer over any or all of its assets.

6. Continuing Obligations

6.1 Deed poll irrevocable

This deed poll is irrevocable and, subject to clause 3, remains in full force and effect until the earlier of:

- (a) AusCann having fully performed its obligations under this deed poll; and
- (b) termination of this deed poll under clause 3.2.

6.2 Variation

A provision of this deed poll may not be varied unless:

- (a) before the Second Court Date, the variation is agreed to in writing by CannPal; or
- (b) on or after the Second Court Date, the variation is agreed to in writing by CannPal and is approved by the Court,

in which event AusCann will enter into a further deed poll in favour of each Scheme Shareholder giving effect to the amendment.

7. Notices

Any notice, demand or other communication (a **Notice**) to AusCann in respect of this deed poll:

- (a) must be in writing and signed by the sender or a person duly authorised by it;
- (b) must be delivered to the intended recipient by prepaid post (if posted to an address in another country, by registered airmail) or by hand, email or to the address or email address specified in the Details;
- (c) will be conclusively taken to be duly given or made:
 - (i) **(in the case of delivery in hand)**, when delivered at the address of the addressee as provided in the Details, unless that delivery is not made on a Business Day, or is made between 5.00pm and 12 midnight on a Business Day, in which case that Notice will be deemed to be received at 9.00am on the next Business Day or is made between 12.01am and 8.59am on a Business Day, in which case that Notice will be deemed to be received at 9.00am on that Business Day;
 - (ii) **(in the case of delivery by post)**, on the third Business Day after the date of posting (if posted to an address within Australia) or the fifth Business Day after the date of posting (if posted to an address outside Australia); or
 - (iii) **(in the case of email)**, immediately after the time sent (as recorded on the device from which the sender sent the email) unless the sender receives an automated message that the email has not been delivered, unless that local time is not a Business Day, or is after 5.00pm on a Business Day, when that communication will be deemed to be received at 9.00am on the next Business Day. If delivery is between 12.01am and 8.59am local time on a Business Day, then delivery will be deemed to be received at 9.00am on that Business Day.

8. General Provisions

8.1 Assignment

- (a) The rights and obligations of AusCann, CannPal and each Scheme Shareholder under this deed poll are personal. They cannot be assigned, charged, encumbered or otherwise dealt with at law or in equity without the prior written consent of AusCann and CannPal.

- (b) Any purported dealing in contravention of clause 8.1(a) is invalid.

8.2 Cumulative rights

The rights, powers and remedies of AusCann, CannPal and each Scheme Shareholder under this deed poll are cumulative with and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

8.3 No waiver

- (a) AusCann may not rely on the words or conduct of any Scheme Shareholder as a waiver of any right unless the waiver is in writing and signed by the Scheme Shareholder granting the waiver.
- (b) If a Scheme Shareholder does not exercise a right arising from a breach of this deed poll at a given time, it may, unless it has waived that right in writing, exercise the right at a later point in time.
- (c) No Scheme Shareholder may rely on words or conduct of AusCann as a waiver of any right unless the waiver is in writing and signed by AusCann.
- (d) The meanings of the terms used in this clause 8.4 are set out below.

conduct includes delay in the exercise of a right.

right means any right arising under or in connection with this deed poll and includes the right to rely on this clause.

waiver includes an election between rights and remedies, and conduct which might otherwise give rise to an estoppel.

8.4 Stamp duty

AusCann:

- (a) must pay or procure the payment of all stamp duty (if any) any related fines, penalties and interest in respect of the Scheme and this deed poll (including the acquisition or transfer of Scheme Shares pursuant to the Scheme), the performance of this deed poll and each transaction effected by or made under or pursuant to the Scheme and this deed poll; and
- (b) indemnify and undertake to keep indemnified each Scheme Shareholder against any liability arising from a failure to comply with clause 8.4(a).

8.5 Further assurances

AusCann will, at its own expense, do all things reasonably required of it to give full effect to this deed poll.

8.6 Governing law and jurisdiction

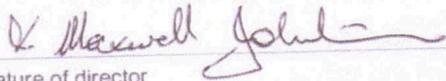
This deed poll is governed by the laws of the State of Western Australia. In relation to it and related non-contractual matters AusCann irrevocably:

- (a) submit to the non-exclusive jurisdiction of courts of Western Australia; and
- (b) waive any right to object to the venue on any ground.

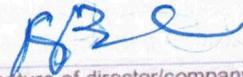
Signing page

EXECUTED and delivered as a deed poll.

Executed by **AusCann Group Holdings Ltd** ACN
008 095 207 in accordance with section 127 of the
Corporations Act 2001



Signature of director



Signature of director/~~company secretary~~
(Please delete as applicable)

Robert Maxwell Johnston

Name of director (print)

KRISTA BATES

Name of director/~~company secretary~~ (print)

By signing above, each director or secretary (as applicable) consents to electronic execution of this document (in whole or in part), represents that they hold the position or are the person named with respect to their execution and authorises any other director or secretary (as applicable) to produce a copy of this document bearing his or her signature for the purpose of signing the copy to complete its execution under section 127 of the Corporations Act. The copy of the signature appearing on the copy so executed is to be treated as his or her original signature.

Annexure D – Notice of Scheme Meeting

Notice of Scheme Meeting of CannPal Shareholders

Notice is hereby given that, by order of the Supreme Court of Western Australia (**Court**) made on 1 February 2021 pursuant to section 411(1) of the Corporations Act, a meeting of CannPal Shareholders will be held at BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, on 8 March 2021 commencing at 12:00 pm (AEDT).

The Court has also directed that Geoff Starr act as chairperson of the Scheme Meeting, or failing him, Robert Clifford, and has directed the chairperson to report the result of the Scheme Meeting to the Court.

The Board has made the decision that it will hold a physical Scheme Meeting with the appropriate social gathering and physical distancing measures in place to comply with the Federal and State Governments' restrictions for physical gatherings.

CannPal Shareholders will also be able to participate in the Scheme Meeting, vote and ask questions, from smartphones, tablets or desktop devices through an online platform, details of which are set out in Section 4.2.

Purpose of the Scheme Meeting

The purpose of the Scheme Meeting is to consider and, if thought fit, to agree (with or without any alterations or conditions agreed and approved by the Court or any alterations or conditions required by the Court to which CannPal and AusCann agree) to a scheme of arrangement (the **Scheme**) proposed to be made between CannPal and CannPal Shareholders.

A copy of the Scheme and the explanatory statement required by section 412 of the Corporations Act in relation to the Scheme are contained in the Scheme Booklet of which this Notice forms part. Terms and abbreviations used (and not otherwise defined) in this Notice have the same meaning as set out in the glossary of defined terms in Section 16 of the Scheme Booklet.

Resolution – Approval of Scheme

The Scheme Meeting will be asked to consider, and if thought fit, to pass (with or without any alterations or conditions agreed or any alterations or conditions required by the Court) the following resolution:

*“That pursuant to and in accordance with section 411 of the Corporations Act, the members agree to the arrangement proposed between CannPal Animal Therapeutics Ltd and the holders of its fully paid ordinary shares, designated the **Scheme**, as contained in and more particularly described in the Scheme Booklet accompanying the notice convening this meeting (with or without any alterations or conditions agreed or any alterations or conditions required by the Court) and, subject to approval of the Scheme by the Court, the Board of Directors of CannPal Animal Therapeutics Ltd is authorised to implement the Scheme with any such alterations or conditions.”*

DATED 2 February 2021

BY ORDER OF THE COURT



Baden M Bowen
Company Secretary

NOTES TO THE NOTICE OF COURT ORDERED SHARE SCHEME MEETING

General

This notice should be read in conjunction with the entire Scheme Booklet of which this notice forms part. The Scheme Booklet contains important information to assist you in determining how to vote on the proposed resolution. The Scheme Booklet includes a copy of the Scheme (refer Annexure B) and a copy of the explanatory statement required by section 412 of the Corporations Act in relation to the Scheme (the explanatory statement being all Sections of this Scheme Booklet, other than this Annexure D).

Majority Required

In accordance with section 411(4)(a)(ii) of the Corporations Act, the resolution to approve the Scheme must be passed at the Scheme Meeting by:

- unless the Court orders otherwise, a majority in number (more than 50%) of the CannPal Shareholders present and voting (whether in person, by proxy, by attorney or, in the case of a CannPal Shareholder that is a corporation, by corporate representative); and
- at least 75% of the total number of votes cast on the resolution by CannPal Shareholders present and voting (whether in person, by proxy, by attorney or, in the case of a CannPal Shareholder that is a corporation, by corporate representative).

Court Approval

In accordance with section 411(4)(b) of the Corporations Act, to become Effective, the Scheme (with or without any alterations or conditions agreed or any alterations or conditions required by the Court) must also be approved by an order of the Court and an office copy of the orders of the Court approving the Scheme must be lodged with ASIC. If the resolution put to the Scheme Meeting is passed by the majority required, and the other Scheme Conditions (other than approval by the Court) are satisfied or waived by the time required under the Scheme, CannPal intends to apply to the Court for the necessary orders to approve the Scheme.

CannPal Shareholders who are Entitled to Vote

Pursuant to section 411 of the Corporations Act and all other enabling powers, the Court has determined that the time for determining a person's entitlement to vote at the Scheme Meeting is 12:00 pm (AEDT) on 6 March 2021. Only those CannPal Shareholders entered on the CannPal Register as at that time will be entitled to attend and vote at the Scheme Meeting either in person, by proxy, by attorney or, in the case of a CannPal Shareholder that is a corporation, by corporate representative. Registrable transfers or transmission applications received after this time will be disregarded in determining entitlements to vote at the Scheme Meeting.

How to Vote

Voting at the Scheme Meeting will be by poll rather than by show of hands.

CannPal Shareholders can vote in one of the following ways:

- by attending the Scheme Meeting (either physically or virtually) and voting in person or by attorney or, in the case of a CannPal Shareholder that is a corporation, by corporate representative; or
- by appointing one or more proxies to attend and vote on their behalf, using the proxy form enclosed with the Scheme Booklet or lodging a proxy vote online in accordance with the instructions on the Proxy Form.

Attendance

CannPal Shareholders or their attorneys, proxyholders or corporate representatives who plan to attend the Scheme Meeting are asked to bring some form of personal identification (such as their driver's licence) and arrive at the venue 30 minutes prior to the time designated for the Scheme Meeting so that the shareholding can be checked against the CannPal Register and attendances can be noted.

Corporate Directory**CannPal Animal Therapeutics Limited****Directors**

Geoff Starr

Layton Mills

Dr Kathryn Adams

Robert Clifford

Company Secretary

Baden Bowen

Registered & Principal Office

Level 3
45a Bay Street
DOUBLE BAY NSW 2028

Solicitors

Steinepreis Paganin
Level 4
16 Milligan Street
PERTH WA 6000

Auditor

BDO Audit (WA) Pty Ltd
35 Station Street
SUBIACO WA 6008

Share Registry

Computershare Investor Services Pty Limited
Level 11
172 St Georges Terrace
PERTH WA 6000

AusCann Group Holdings Ltd**Directors**

Max Johnston

Krista Bates

Bruce McHarrie

Chris Mews

Company Secretary

Ms Susan Park

Registered & Principal Office

Level 4
35 Havelock Street
WEST PERTH WA 6005

Solicitors

MinterEllison
Level 20 Collins Arch
447 Collins Street
MELBOURNE VIC 3000

Auditor

PKF Perth
Level 4, 35 Havelock Street
WEST PERTH WA 6005

Share Registry

Computershare Investor Services Pty Limited
Level 11
172 St Georges Terrace
PERTH WA 6000