

# PROSPECTUS

## The Hydroponics Company Limited

ABN 33 614 508 039

**The objective of The Hydroponics Company Limited is to be a leading, global cannabis business – a leader in the development and delivery of medicinal cannabis; worldwide manufacturer and distributor of hydroponics equipment, materials and nutrients; and large-scale hydroponic greenhouse design and construction.**

### Public Offer

Initial Public Offering of 25,000,000 Shares at an issue price of \$0.20 per Share to raise a minimum of \$5,000,000 with attaching Options on a 1 for 2 basis.

Oversubscriptions for up to 15,000,000 Shares with attaching Options on a 1 for 2 basis may be accepted to raise up to an additional \$3,000,000.

### Secondary Offer

An offer of Options to Founders, Directors, Vendors, Seed Investors and Promoters as described in Section 3.2.

### IMPORTANT INFORMATION

This is an important document that should be read in its entirety.

If you do not understand it, you should consult your professional advisers.

**THE SHARES OFFERED BY THIS PROSPECTUS ARE OF A SPECULATIVE NATURE**

**This offer is not underwritten**

Joint Lead Managers:



MMR Corporate Services Pty Ltd

## Directory

<p><b>Issuer</b></p> <p>The Hydroponics Company Limited ACN 614 508 039</p> <p>Level 2 131 Macquarie Street Sydney NSW 2000</p> <p>e: corporate@thcl.com.au w: www.thcl.com.au</p> <p><b>ASX Code</b></p> <p>Shares: THC Options: THCO</p>	<p><b>Directors</b></p> <p>Alan Beasley (Chairman) Hamish MacDonald (CEO) Ian Mutton Mary Verschuer Peter Wallace</p> <p>John Hall (at Completion)</p> <p><b>Company Secretary</b></p> <p>Henry Kinstlinger</p> <p><b>Chief Financial Officer</b></p> <p>Francis Choy</p> <p><b>Business Unit Heads</b></p> <p>Dr Andrew Beehag – CEO, Canndeo</p> <p>Jason Colquhoun – CEO, CMDV</p> <p>Jim Barlow – Chief Agronomist, Regional Manager of the Americas</p>
<p><b>Australian Legal Advisers</b></p> <p>Piper Alderman Level 23, Governor Macquarie Tower 1 Farrer Place Sydney NSW 2000</p>	<p><b>Auditors**</b></p> <p>KS Black &amp; Co Level 6, 350 Kent Street Sydney NSW 2000</p>
<p><b>Share Registry – Computershare Investor Services Pty Limited (ABN 48 078 279 277) *</b></p> <p>The Registrar Computershare Investor Services Pty Limited Yarra Falls, 452 Johnston Street Abbotsford VIC 3067 (Melbourne)</p> <p>p: +61 (3) 9415 4000 and 1300 855 505</p>	<p><b>Investigating Accountant – RSM Corporate Australia Pty Ltd (ACN 050 508 024)</b></p> <p>RSM Corporate Australia Pty Ltd Level 21,55 Collins Street Melbourne VIC 3000</p>
<p><b>Corporate Advisor – MMR Corporate Services Pty Ltd (ACN 161 550 714)</b></p> <p>MMR Corporate Services Pty Ltd Level 2 131 Macquarie Street Sydney NSW 2000</p> <p>p: +61 2 8252 7105 w: mmrcorporate.com e: corporate@mmrcorporate.com</p>	<p><b>Joint Lead Managers – Gleneagle Securities (Aust) Pty Ltd ACN 136 930 526 AFSL 337 985</b></p> <p><b>Red Leaf Securities Pty Ltd (ACN 606 000 800) Corporate Authorised Representative (463 051)</b></p> <p>Gleneagle Securities Pty Ltd Level 27, 25 Bligh St, Sydney NSW 2000</p> <p>p: +61 2 8277 6655 w: gleneagle.com.au</p> <p>Red Leaf Securities Pty Ltd Level 1, 37 Bligh Street, Sydney, NSW 2000</p> <p>p: +61 2 8318 4300 w: redleafsecurities.com</p>

\*\* This entity is included for information purposes only and has not been involved in the preparation of this Prospectus. Any questions concerning the Offers should be directed to the Company Secretary on +61 2 9251 7177 or Gleneagle on +61 2 8277 6655. Front cover: Medicinal Cannabis under growth.

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## Important Information

Key dates for investors	
Public Offer Opens	16 March 2017
Public Offer expected to Close	5 April 2017
Expected Date for Dispatch of Shareholding Statements	18 April 2017
Expected Date for Quotation on the ASX	20 April 2017

These dates are indicative only and subject to change. The Board at its own discretion and subject to its statutory obligations reserves the right to alter this timetable at any time and may extend the period of the Public Offer or bring forward the Close of the Public Offer.

### Prospectus

This Prospectus dated 9 March 2017 relates to shares of The Hydroponics Company Limited (**Company**).

This Prospectus is prepared by the Company and was lodged with Australian Securities & Investments Commission (**ASIC**) on the date of this Prospectus.

Neither ASIC nor the ASX take any responsibility for the contents of this Prospectus.

The Company has issued this Prospectus in Australia.

No Securities will be issued based on this Prospectus later than thirteen months after the date of this Prospectus.

This Prospectus contains an invitation to apply for Shares (together with one Option for every two Shares issued). The Options are issued for nil consideration and are exercisable at \$0.40 each. The Company reserves the right to accept subscriptions for Shares and Options to raise up to \$8 million. No Shares and Options will be issued until the Minimum Subscription amount of \$5 million has been received. (**Public Offer**).

This Prospectus is also required to ensure that the Options to be issued pursuant to the Secondary Offer can be traded freely after their issue, subject to any escrow arrangements required by the ASX.

The Company will make application within seven days of the date of this Prospectus for official quotation by ASX of the Shares and Options offered by this Prospectus.

No person named in this Prospectus, nor any other person, guarantees the performance of the Company, the repayment of capital or the payment of a return on the Shares or Options.

The Prospectus will be made generally available in electronic form during the Exposure Period by being made available on the Company's website at [www.thcl.com.au](http://www.thcl.com.au). Persons having received a copy of this Prospectus in its electronic form may obtain an additional paper copy of this Prospectus and the Application Form (free of charge) from the registered office of the Company during the Public Offer Period by contacting the Company on +61 2 9251 7177. The Offers constituted by this Prospectus in electronic form is only available to persons receiving an

electronic version of this Prospectus and Application Form within Australia.

**Please read this document carefully before you decide to invest. An investment in the Company has specific risks, which you should consider before deciding to invest.**

Investors should carefully read the Section on risk factors outlined in Section 2.5.

### How to apply for Shares and Options

Applications for Shares and Options will only be accepted on the Application Form attached to or accompanying this Prospectus or in its paper copy form from [www.thcl.com.au](http://www.thcl.com.au). The *Corporations Act* prohibits any person from passing on to another person the Application Form unless it is accompanied by or attached to a complete and unaltered copy of this Prospectus.

Applications must be for a minimum of 10,000 Shares and half the number of Options at the Public Offer price of \$0.20 per Share. Applications for more than 10,000 Shares must be in multiples of 1,000 Shares.

### Representation

No person is authorised to give any information or to make any representation about the Offers other than as is contained in this Prospectus. Any information or representation not contained in the Prospectus should not be relied on as having been made or authorised by the Company or its Directors about the Offers.

### Forward-looking statements

This Prospectus contains forward looking statements which are statements that may be identified by words such as "may", "could", "believes", "estimates", "expects", "intends" and other similar words that involve risks and uncertainties.

Except as required by law, and only to the extent so required, the Company has no intention to update or revise forward looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus.

By their nature, forward looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond the Company's ability to control or predict which may cause the actual results or performance of THC to be materially different from the results or performance

## Important Information cont

expressed or implied by such forward looking statements. Such factors include, but are not limited to, those described in Section 5 and other information in this Prospectus. Forward-looking statements are based on assumptions and are not guarantees or predictions of future performance. The Issuer cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will occur. Investors are cautioned not to place any reliance on these forward-looking statements.

### International offer restrictions

This document does not constitute an offer of Shares of the Company in any jurisdiction in which it would be unlawful. Shares may not be offered or sold in any country outside Australia except to the extent permitted below.

### Hong Kong

**WARNING:** This document has not been, and will not be, registered as a prospectus under the Companies Ordinance (Cap. 32) of Hong Kong (Companies Ordinance), nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (SFO). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued about it. Accordingly, the Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO).

No advertisement, invitation or document relating to the Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

### New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with subpart 6 of Part 9 of the Financial Markets Conduct Act 2013 and Part 9 of the Financial Markets Conduct Regulations 2014 (New Zealand). The Shares are not being offered or sold in New Zealand, or allotted with a view to being offered for sale in New Zealand, and no person in New Zealand may accept a placement of Shares other than to:

persons whose principal business is the investment of money or who, during and for the purposes of their business, habitually invest money; or

persons who are each required to (i) pay a minimum subscription price of at least NZ\$500,000 for the securities before allotment or (ii) have previously paid a minimum subscription price of at least NZ\$500,000 for securities of the Company (initial securities) in a single transaction before the allotment of such initial securities and such allotment was not more than 18 months prior to the date of this document.

### Singapore

This document and any other materials relating to the Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Shares, may not be issued, circulated or distributed, nor may the Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (SFA), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) a "relevant person" (as defined in Section 275(2) of the SFA). If you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

### United States

This document may not be released or distributed in the United States. This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Any securities described in this document have not been, and will not be, registered under the US Securities Act of 1933 and may not be offered or sold in the United States except in transactions exempt from, or not subject to, the registration requirements under the US Securities Act and applicable US state securities laws.

### Exposure period

Applications for Shares under this Prospectus will not be processed until after expiry of the Exposure Period for this Prospectus under the *Corporations Act*. No preference will be conferred on Applications received during the Exposure Period. All Applications received during the Exposure Period will be treated as if they were simultaneously received on the date on which the Offers opened. If the Exposure Period is extended by ASIC, Applications will not be processed until after expiry of the extended Exposure Period.

The purpose of the Exposure Period is to enable examination of this Prospectus by market participants

## Important Information cont

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prior to the acceptance of Applications and the raising of funds. That examination may result in the identification of deficiencies in the Prospectus and, in those circumstances, any Application that has been received may need to be dealt with in accordance with Section 724 of the *Corporations Act*.

### Privacy and personal information

The completed Application Form provides personal information about you to the Company. The Company collects your personal information to process and administer your investment in the Company and to provide related services to you. If you do not complete the Application Form in full, the Company may not accept your Application Form.

By submitting an Application Form, each Applicant agrees that the Company may use the information provided by that Applicant on the Application Form for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to the Share Registry, the Company's related bodies corporate, agents, contractors and third party service providers, including mailing houses and professional advisers and to the ASX and regulatory authorities.

If you become a Security Holder, the *Corporations Act* requires the Company to include information about the Security Holder (including name, address and details of the Securities held) in its public register. The information contained in the Company's public register must remain there even if you cease to be a Security Holder. Information contained in the Company's register is used to facilitate distribution payments and corporate communications (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its Security Holders) and for compliance by the Company with legal and regulatory requirements.

If you do not provide the information required on the Application Form, the Company may not be able to accept or process that Application efficiently, or at all.

You have a right to gain access to the information that the Company holds about you subject to certain exemptions under law. A fee may be charged for such access. You can obtain access to personal information that the Company holds about you. To make a request for access or to obtain further information about the Company's personal information management practices, please contact the Company on +61 2 9251 7177.

### Photographs and Diagrams

Items and undertakings depicted in photographs and diagrams in this Prospectus, unless otherwise stated, are not assets of the Company. Diagrams appearing in this

Prospectus are illustrative only and may not be drawn to scale.

### Websites

Any references to documents included on the Company's website are provided for convenience only, and none of the documents or other information on those websites (or any other websites) is incorporated in this Prospectus by reference.

### Other matters

Unless otherwise stated, all references to "\$", dollars and cents are to Australian currency.

Except as otherwise stated, the Canadian Dollar denominated balances of CMM have been translated to Australian Dollars using a closing rate of CAD1.0034:1AUD and the US Dollar denominated balances of DV have been translated to Australian Dollars using a closing rate of USD0.763:1AUD as at 30 September 2016.

Volatility in exchange rates may mean that the actual \$ amounts at the time of consideration of this Prospectus may differ from the amounts stated. Any discrepancies between totals and sums and components in tables, figures and diagrams contained in this Prospectus are due to rounding.

Unless otherwise stated or implied, references to dates or years are calendar year references.

### Speculative investment

Persons wishing to subscribe for the Securities offered by this Prospectus should read this Prospectus in its entirety to make an informed assessment of the assets and liabilities, financial position and performance, profits and losses and prospects of THC and the rights and liabilities attaching to the Securities offered pursuant to this Prospectus. If persons considering subscribing for the Securities offered by this Prospectus have any questions, they should consult their stockbroker, solicitor, accountant or other professional advisers for advice.

Potential investors should carefully consider whether the Securities offered by this Prospectus are an appropriate investment for them considering their personal circumstances, including financial and taxation position. The Securities offered by this Prospectus should be considered speculative. Refer to Section 2.5 for details relating to the investment risks.

### Glossary

Defined terms and abbreviations used in this Prospectus are explained in Section 11.

## Investment Overview and Key Risks

### Investment Overview

#### Important notice

This information is a selective overview only. Investors should read the Prospectus in full before deciding whether to invest in Shares and Options. Investors should consider the risk factors that could affect the financial and operating performance of the Company described in Section 5.

#### Key Offer Statistics

Company	The Hydroponics Company Limited ABN 33 614 508 039
ASX code	Shares: THC Options: THCO
Securities Offered	Fully paid Shares with one Option for nil consideration for every two Shares allotted
Public Offer Price	\$0.20 per Share
Options expiry date	31 December 2019
Exercise Price of Options	\$0.40 per Option
Minimum number of Shares and Options available under the Public Offer	25,000,000 Shares 12,500,000 Options
Maximum number of Shares and Options available under the Public Offer	40,000,000 Shares 20,000,000 Options
Minimum number of Shares and Options on issue at completion of the Offers	82,400,000 Shares 46,450,000 Options
Maximum number of Shares and Options on issue at completion of the Offers	97,400,000 Shares 53,950,000 Options
Minimum number of Shares and Options on issue upon conversion of all Performance Shares upon all milestones being met (see section 9.6(c))	108,900,000 Shares 46,450,000 Options
Maximum number of Shares and Options on issue upon conversion of all Performance Shares upon all milestones being met (see section 9.6(c))	123,900,000 Shares 53,950,000 Options
Minimum amount raised under the Public Offer	\$5,000,000 (before exercise of any Options)
Maximum amount raised under the Public Offer	\$8,000,000 (before exercise of any Options)
Minimum Application Size	\$2,000 based on the \$0.20 Offer Price (excluding the exercise of any Options)
Market capitalisation (at \$0.20 per Share)	\$16,480,000 - \$19,480,000

Question	Answer	See Sections
<b>Who is making the Offers?</b>	The Hydroponics Company Limited (ABN 33 614 508 039) (the <b>Company</b> or <b>THC</b> ) is a newly formed Australian company, which has not yet commenced operations. It was formed specifically for the purposes of the Offers.  It is an Australian unlisted public company.	Section 2.1
<b>What is the Company's business?</b>	The objective of The Hydroponics Company Limited is to be a leading, global cannabis business – a leader in the development and delivery of medicinal cannabis; worldwide manufacturer and distributor of hydroponics equipment, materials and nutrients; and large-scale hydroponic greenhouse design and construction.  In furtherance of this objective THC will acquire several businesses and conclude several agreements, summarised below ( <b>Businesses</b> ).	Section 2.2

### **Medicinal Cannabis**

The Company has entered a Share Purchase Agreement to acquire Canndeo Limited (**Canndeo**), an Australian business offshoot of Agri Fibre Industries Pty Ltd with over 17 years' experience in the breeding, variety selection and growth management of *Cannabis sativa*, which will be applied to the production of medicinal cannabis (**Canndeo-SPA**).

In consideration for the acquisition of Canndeo the Company will issue 5,000,000 fully paid ordinary shares, 2,500,000 Options and 14,000,000 Performance Shares.

2,000,000 Class A Performance Shares converting on:

Canndeo securing required operating licences for the Business being:

- Cannabis Research Licence (cultivation and production)
- Medicinal Cannabis Licence
- Medicinal Cannabis Manufacturing Licence
- issued by the Australian Government, Department of Health, Office of Drug Control; and
- a minimum of one product submitted for approval through the TGA,

on or before 31 December 2017.

12,000,000 Class B Performance Shares converting upon the Canndeo achieving an NPAT of \$2,000,000 or more in either FY2018 or FY2019.

Completion under the Canndeo-SPA is conditional on the following:

- the Company successfully raising a minimum of \$5,000,000 under the Public Offer;
- the shareholders of Canndeo successfully raising a minimum of \$500,000 in pre-IPO funds (condition met) and \$1,500,000 under the Public Offer, or such other amount agreed by the Company; and
- the Company obtaining all regulatory approvals or consents.

Further details of the Canndeo-SPA are set out in Section 8.4.

### **Intellectual Property Acquisition**

The Company has concluded an IP Sale and Purchase Agreement with Pegasus Agriculture Pty Ltd.

The IP is for an epigenetic process in which organisms respond to environmental stress.

The THC epigenetic process is a natural phenomenon in which organisms respond to environmental stress, by increasing the number of homologous sets of chromosomes (or genomes) in each cell.

Deliberately increasing the number of genomes in an organism has been termed "genomic architecture" and varies from "genetic modification" in that the genome is unaltered by the process. Laboratory tests, conducted by University of Queensland, confirm that plants modified in this way will grow between 33% and 40% faster than their parent stock, therefore providing faster and higher returns to their growers.

THC Plants can be selectively bred to thrive under different environmental stresses, including low rainfall, offering a significant commercial advantage in cannabinoid production. The epigenetic process will be developed in conjunction with Canndeo.

THC has investigated the epigenetic process under the IP and has received advice that it does not breach any current Australian patent.



	<p>In consideration for the acquisition of the IP, the Company will issue 2,500,000 fully paid ordinary shares and 8,500,000 Performance Shares.</p> <p>Further details of the IP Sale and Purchase Agreement are set out in Section 8.6.</p> <p><b>Manufacture, Product Development and Distribution of Hydroponic Equipment</b></p> <p>The Company has entered a Share Purchase Agreement with the current shareholders of Crystal Mountain and Dragon Vision (<b>CMDV</b>) to acquire all the issued Shares in CMDV (<b>CMDV-SPA</b>).</p> <p>In consideration for the acquisition of CMDV the Company will issue 3,000,000 fully paid ordinary shares, 1,500,000 Options and 4,000,000 Performance Shares to the shareholders of CMDV in proportion to their holdings in CMDV plus reimbursement for the development of the IP in the amount of \$300,000 and payment of the value of the NTA, including Stock at Valuation.</p> <p>Completion under the CMDV-SPA is conditional on the following:</p> <ul style="list-style-type: none"> <li>the Company successfully raising a minimum of \$5,000,000 under the Public Offer; and</li> <li>the Company obtaining all regulatory approvals or consents.</li> </ul> <p>Further details of the CMDV-SPA are set out in Section 8.1.</p> <p><b>White Label Innovative Hydroponic Equipment</b></p> <p>The Company has entered several marketing agreements to acquire the exclusive marketing and distribution rights for hydroponic and indoor farming equipment for:</p> <p>Supa-Stelth Water Pumps and Inna Water water sterilization and conditioner systems.</p> <p>In consideration for the marketing rights for Supa-Stelth Water Pumps, the Company will issue 250,000 fully paid ordinary shares to New Fluid Technology Pty Ltd and pay a 5% gross royalty.</p> <p>In consideration for the marketing rights of the Inna Water water sterilization and conditioner systems the Company will pay a 1.5% gross royalty to Inna Water Pty Ltd.</p> <p>Further details of the marketing agreements are set out in Section 8.3.</p> <p><b>Hydroponic Greenhouses</b></p> <p>A binding MOU has been concluded with A&amp;B Hydroponics, the parties have agreed that they will conclude a Collaboration and Profit Share Agreement upon THC being admitted to the Official List of the ASX. A&amp;B Hydroponics is a world leader in the field of hydroponics, specializing in the design and manufacture of the finest commercial hydroponic greenhouses and growing systems available for any type of environment. A Collaboration and Profit Share Agreement has been concluded with Jim Barlow to represent THC throughout the Americas to develop large commercial hydroponic greenhouses.</p> <p>Jim Barlow will represent THC throughout the Americas to develop large commercial hydroponic greenhouses.</p>	
How will the Company make money?	<p>THC will make money through:</p> <ul style="list-style-type: none"> <li>the continued sale of equipment and other products for the indoor and urban horticultural industry, predominantly for cultivation and processing of cannabis.</li> <li>Successfully developing medicinal cannabis its commercialisation.</li> <li>the design and construction of hydroponic greenhouses.</li> </ul>	Section 2.5

## Investment Overview and Key Risks cont

<b>Why is the Public Offer being conducted?</b>	<p>The Public Offer is being conducted to fund:</p> <ul style="list-style-type: none"> <li>the costs of the Public Offer;</li> <li>the acquisition and development of the Businesses;</li> <li>any new acquisitions that may be identified by management; and</li> <li>working capital.</li> </ul>	<p>Section 3.7</p>																																																									
<b>How will the Company use the proceeds from the Public Offer?</b>	<p>The Company will use existing funds and the funds raised through the Public Offer as follows:</p> <table border="1"> <thead> <tr> <th></th><th colspan="2">Amount Raised</th></tr> </thead> <tbody> <tr> <td><b>Funds available</b></td><td><b>\$5,000,000</b></td><td><b>\$8,000,000</b></td></tr> <tr> <td>Existing cash reserves of the Company<sup>1</sup></td><td>\$750,000</td><td>\$750,000</td></tr> <tr> <td>Funds raised from the Public Offer</td><td>\$5,000,000</td><td>\$8,000,000</td></tr> <tr> <td><b>Total available funds</b></td><td><b>\$5,750,000</b></td><td><b>\$8,750,000</b></td></tr> <tr> <td><b>Allocation of funds</b></td><td></td><td></td></tr> <tr> <td>Expenses of the Public Offer<sup>2</sup></td><td>\$205,750</td><td>\$205,750</td></tr> <tr> <td>Commissions and Fees</td><td>\$300,000</td><td>\$480,000</td></tr> <tr> <td>ASX Costs</td><td>\$76,750</td><td>\$79,750</td></tr> <tr> <td>CMDV NTA</td><td>\$1,310,000</td><td>\$1,310,000</td></tr> <tr> <td>CMDV development</td><td>\$600,000</td><td>\$1,100,000</td></tr> <tr> <td>Canndeo funding<sup>3</sup></td><td>\$1,864,000</td><td>\$1,864,000</td></tr> <tr> <td>Polyploid development</td><td>\$100,000</td><td>\$700,000</td></tr> <tr> <td>Pump development</td><td>\$414,000</td><td>\$624,000</td></tr> <tr> <td>Greenhouse development</td><td>\$100,000</td><td>\$100,000</td></tr> <tr> <td>Review and further acquisitions</td><td></td><td>\$1,000,000</td></tr> <tr> <td>Administration expenditure and working capital<sup>4</sup></td><td>\$750,000</td><td>\$900,000</td></tr> <tr> <td>Surplus / Contingencies</td><td>\$29,500</td><td>\$386,500</td></tr> <tr> <td><b>Total</b></td><td><b>\$5,750,000</b></td><td><b>\$8,750,000</b></td></tr> </tbody> </table> <p><sup>1</sup> Refer to Investigating Accountant's Report set out in Section 7 of this Prospectus for further details.</p> <p><sup>2</sup> Refer to Section 9.13 of this Prospectus for further details.</p> <p><sup>3</sup> See Section 3.8 for a more detailed breakdown</p> <p><sup>4</sup> Administration includes salaries, rent and general administration costs.</p> <p>The estimates of expenditure are based on budgets set by the Directors. The actual level and break-up of expenditure may change on an ongoing basis depending on results obtained.</p> <p>No provision for revenues are included in the above use of funds.</p>		Amount Raised		<b>Funds available</b>	<b>\$5,000,000</b>	<b>\$8,000,000</b>	Existing cash reserves of the Company <sup>1</sup>	\$750,000	\$750,000	Funds raised from the Public Offer	\$5,000,000	\$8,000,000	<b>Total available funds</b>	<b>\$5,750,000</b>	<b>\$8,750,000</b>	<b>Allocation of funds</b>			Expenses of the Public Offer <sup>2</sup>	\$205,750	\$205,750	Commissions and Fees	\$300,000	\$480,000	ASX Costs	\$76,750	\$79,750	CMDV NTA	\$1,310,000	\$1,310,000	CMDV development	\$600,000	\$1,100,000	Canndeo funding <sup>3</sup>	\$1,864,000	\$1,864,000	Polyploid development	\$100,000	\$700,000	Pump development	\$414,000	\$624,000	Greenhouse development	\$100,000	\$100,000	Review and further acquisitions		\$1,000,000	Administration expenditure and working capital <sup>4</sup>	\$750,000	\$900,000	Surplus / Contingencies	\$29,500	\$386,500	<b>Total</b>	<b>\$5,750,000</b>	<b>\$8,750,000</b>	<p>Section 3.7, 3.8 and 7</p>
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<b>What is the financial position of the Company?</b>	<p>Financial information, including a pro forma balance sheet, is set out in Section 6.</p> <p>A copy of the Investigating Accountant's Report is also included in Section 7.</p>	<p>Sections 3.7, 6 and 7</p>																																																									

## Investment Overview and Key Risks cont

<p><b>What are the key dependencies affecting the Company?</b></p>	<p>The success of the Company will be subject to the following key dependencies:</p> <ul style="list-style-type: none"> <li>• continuing to manufacture, distribute and sell a broad range of products for the indoor and urban horticultural industry;</li> <li>• maintaining and/or further developing relationships with major customers, suppliers and distributors;</li> <li>• maintaining the trusted reputation of its existing brands;</li> <li>• adding new products to its current offerings;</li> <li>• obtaining all necessary regulatory and government consents;</li> <li>• continued legislative support for medicinal cannabis;</li> <li>• identifying and maintain relationships with key partnerships in research and product technology.</li> </ul> <p>Investors should also consider the risks associated with an investment in THC (see Section 5 of this Prospectus for further details).</p>	<p>Section 2.5</p>
<p><b>What are the key benefits associated with the Company's business?</b></p>	<p>At the Completion of the Offers, THC will be a manufacturer and distributor of hydroponics equipment, materials and nutrients; designer and constructor of large-scale hydroponic greenhouses; and undertake the development and delivery of medicinal cannabis.</p> <p>The key actual and potential benefits associated with the THC businesses include:</p> <ul style="list-style-type: none"> <li>• a proven track record in organic growth;</li> <li>• over 17 years' experience in the breeding, variety selection and growth management of <i>Cannabis sativa</i>, which will be applied to the production of medicinal cannabis;</li> <li>• established international manufacturing, supply and distribution networks;</li> <li>• an international sales catalogue of over 600 growing and processing equipment and allied businesses products (serving USA, Canada, UK, Europe and Australia);</li> <li>• a changing legislative environment across many jurisdictions leading to increased use of cannabis for both medical and recreational purposes;</li> <li>• prospects of further growth for the business both organically and through acquisition; and</li> <li>• a highly skilled management team.</li> </ul> <p>The Company's objectives in the near-term include:</p> <ul style="list-style-type: none"> <li>• consolidating and growing the existing customer base;</li> <li>• developing new products based on in-house IP and using existing manufacturing and logistics infrastructure to gain market share;</li> <li>• expanding into new markets;</li> <li>• securing licences to produce medicinal cannabis; and</li> <li>• seeking existing businesses servicing the indoor growing industry that are suitable for acquisition.</li> </ul>	<p>Section 2.2</p>
<p><b>Who are the Directors?</b></p>	<p>On Completion of the Offers, the proposed Board of the Company will comprise:</p> <ul style="list-style-type: none"> <li>• Alan Beasley (Chairman)</li> <li>• Hamish MacDonald (CEO)</li> <li>• John Hall</li> <li>• Ian Mutton</li> <li>• Mary Verschuer</li> <li>• Peter Wallace</li> </ul>	<p>Section 4.1</p>

## Investment Overview and Key Risks cont

<b>What are the Directors to be paid?</b>	<p>Subject to obtaining shareholder approval, the Directors are expected to receive the following amounts by way of directors' and committee fees in the first year:</p> <ul style="list-style-type: none"> <li>• Alan Beasley (Chairman) \$45,000</li> <li>• Hamish MacDonald (CEO) \$180,000</li> <li>• John Hall \$24,000</li> <li>• Ian Mutton \$40,000</li> <li>• Mary Verschuer \$50,000</li> <li>• Peter Wallace \$50,000</li> </ul> <p>The total amount that may be paid to non-executive directors is subject to shareholder approval at a general meeting to be held on 20 March 2017. It is expected to be set at \$300,000 per annum in aggregate.</p>	Sections 8.9, 8.11 and 9.10
<b>What key financial information do investors need to know?</b>	The Investigating Accountant's Report is set out in Section 7. A summary of the historical consolidated profit and loss statements and balance sheets for THC for the calendar years 2013, 2014 and 2015, and the pro-forma consolidated profit and loss statement and balance sheet for the Company as at 30 June 2016 are set out in Section 6. Assuming the Company raises the Minimum Subscription of \$5,000,000, the unaudited pro-forma consolidated balance sheet of the Company as at 30 September 2016 shows net assets of \$11,343,289.	Sections 6 and 7
<b>Who will benefit from the Offers?</b>	The Offers are being made to acquire the Businesses. The current owners of the Businesses will receive various securities and/or cash consideration and the Founders and Promoters have received securities. They will therefore benefit from the acquisition of the Businesses and the Offers and through the expected growth of the Company and market value of its securities.	Sections 2.2 and 8
<b>Who are the existing Shareholders and who will be subject to escrow?</b>	The existing Shareholders of the Company as at the date of this Prospectus hold a total of 35,400,000 Shares. Those Shareholders holding more than 5% of the Company as at the date of this Prospectus are listed in Section 9.17. The Shares held by these Shareholders may be escrowed for up to two years following admission to ASX in accordance with Appendix 9B of the Listing Rules.	Sections 9.13 and 9.17
<b>Options</b>	<p>Applicants during the initial Public Offer Period will receive one Option for nil consideration for every two Shares allotted to them. The exercise period for the Options is the period from the date of issue of the Options to 31 December 2019.</p> <p>It is proposed that the Options will be quoted on the ASX.</p>	Section 9.3
<b>What is the Public Offer?</b>	<p>25,000,000 new Shares (and 12,500,000 Options) are being offered by the Company to raise \$5,000,000.</p> <p>The Company has the right to accept over-subscriptions for up to 15,000,000 Shares with attaching Options on a 1 for 2 basis to raise up to an additional \$3,000,000.</p> <p>The minimum amount that may be raised under this Prospectus is therefore \$5,000,000 (before the exercise of any Options).</p> <p>The maximum amount that may be raised under this Prospectus is therefore \$8,000,000 (before the exercise of any Options).</p>	Section 3.1
<b>What is the issue price?</b>	The issue price is \$0.20 per Share.	Section 3.1
<b>What is the effect of the Offers?</b>	The effect of the Offers and issue of other Shares on the capital structure of the Company is depicted in the tables in Section 3.5. The current Shareholders will be diluted from 100% ownership to between 36.34% and 42.96% (before the conversion of any Options or conversion of the Performance Shares).	Sections 3.5 and 5.1(g)



## Investment Overview and Key Risks cont

<b>Is Public Offer underwritten?</b>	No, the Public Offer is not underwritten.	Section 3.17
<b>Will I receive dividends on my Shares?</b>	<p>Any future determination as to the payment of dividends by the Company will be at the discretion of the Directors and will depend on the availability of distributable earnings and operating results and financial condition of the Company, future capital requirements and general business and other factors considered relevant by the Directors.</p> <p>The Company is in its early stage of development and the directors do not expect to pay a dividend for at least two years or more.</p> <p>No assurance in relation to the payment of dividends or franking credits attaching to dividends can be given by the Company.</p>	Section 3.11
<b>What are the taxation implications of investing in Shares and Options?</b>	The acquisition and disposal of Shares and Options will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Securities from a taxation viewpoint and generally. To the maximum extent permitted by law, the Company, its officers and each of their respective advisors accept no liability and responsibility with respect to the taxation consequences of subscribing for Securities under this Prospectus.	Section 3.20
<b>How do I participate in the Public Offer?</b>	To participate in the Public Offer, please complete the Application Form attached to this Prospectus and return it with payment of the application money before the Closing Date.	Section 3.12 and Application Form
<b>What is the minimum number of Shares I can apply for?</b>	Applications under the Public Offer must be for a minimum of 10,000 Shares (total cost of \$2,000) and then in multiples of 1,000 Shares (\$200).	Section 3.4
<b>What rights and liabilities attach to the Shares?</b>	The Shares will rank equally in all respects with the shares held by the existing shareholders in the Company. The rights and liabilities attaching to all shares are detailed in the Company's constitution.	Section 3 and Section 9.2
<b>What are the terms that attach to the Options?</b>	The terms of the Options are set out in Section 9.5 of this Prospectus.	Section 9.5
<b>What are the terms of the Performance Shares?</b>	The terms of the Performance Shares are set out in Section 9.6 of this Prospectus.	Section 9.6
<b>How will Shares be allocated?</b>	In allocating the Securities, it is the intention of the Board to ensure that the Company has an adequate spread of Shareholders in order to meet Listing Rules requirements. The allocation of the Securities is at the absolute discretion of the Directors.	Section 3.13
<b>Will the Securities be listed?</b>	Application for Official Quotation by ASX of the Shares and Options offered pursuant to this Prospectus will be made within 7 days after the date of this Prospectus. The expected date for Shares to commence trading on ASX is 20 April 2017 (this date is subject to change).	Section 3.14
<b>Where will the Public Offer be made?</b>	No action has been taken to register or qualify the Shares or Options, or otherwise permit a public offering of the Shares and Options the subject of this Prospectus, in any jurisdiction outside Australia. Applicants who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed.	Section 3.21
<b>Broker commissions</b>	The Company reserves the right to pay a commission of amounts subscribed through any licensed securities dealers or Australian Financial Services Licensee and accepted by the Company.	Section 3.18

## Investment Overview and Key Risks cont

<b>CHESS and Issuer Sponsorship</b>	The Company will apply to participate in CHESS for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not wish to participate through CHESS will be issuer sponsored by the Company.	Section 3.15
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### Key Risks

Investors should be aware that an investment in the Company involves many risks, which may be higher than the risks associated with an investment in other companies.

Some of the key risks associated with an investment in the Company are summarised in the following table.

These do not identify all the risks associated with the investment and investors should carefully read the Section on risk factors outlined in Section 5.

Key Risk	Comment
<b>Competition risk</b>	The industry in which the Company will be involved is subject to domestic and global competition. While the Company will undertake all reasonable diligence in its business decisions and operations, the Company will have no influence or control over the activities or actions of its competitors, which activities or actions may, positively or negatively, affect the operating and financial performance of the Company's business.
<b>Laws and regulations</b>	The laws and regulations in foreign jurisdictions differ to those that exist in Australia. Laws may unexpectedly change, and could have an impact on the offshore operational activities of the Company. Unforeseen changes could materially impact the operating results of the Company.
<b>Capital structure</b>	Should the Options be exercised and/or the Performance Shares converted, Shareholders will have their holdings diluted.
<b>Reliance on key personnel</b>	<p>Skilled employees and consultants are essential to the successful delivery of the Company's strategy.</p> <p>The Company will rely on the services of certain key management personnel, particularly certain of its offshore nationals who will manage day to day interactions with contractors and regulatory authorities, the loss of any of which could delay the pursuit of the Company's strategy. The Company will not maintain key-man life insurance with respect to any of its employees.</p>
<b>Restricted Securities and effect on liquidity</b>	Subject to the Company being admitted to the Official List, certain Shares may be classified by ASX as Restricted Securities. ASX may require that they be held in escrow for up to 24 months from the date of reinstatement. During the period in which Securities are prohibited from being transferred, trading in Shares may be less liquid which may impact on the ability of a Shareholder to dispose of their Shares in a timely manner.
<b>Market conditions</b>	The market price of the Shares can fall as well as rise and may be subject to varied and unpredictable influences both globally and domestically.
<b>Economic</b>	The financial performance and value of the Company may be influenced by various economic factors such as inflation, interest rates, domestic and international economic growth, taxation policies, legislative change, political stability, stock market conditions in Australia and elsewhere, changes in investor sentiment towards particular market sectors, exchange rate fluctuations and acts of terrorism.
<b>Reliance on suppliers</b>	THC relies heavily on its suppliers to provide it with finished products and components used in the manufacture of its products. There is a risk that these suppliers may not be able to meet their obligations to THC. Such failure of suppliers to adequately meet the company's needs may significantly impede THC's ability to provide products to its distributors and customers and damage its reputation, adversely impacting its financial performance.
<b>Manufacturing</b>	THC currently manufactures several of its products and has several products in development that are yet to be manufactured at full scale. There are risks associated with disruption to its manufacturing facilities and with scaling up manufacture of products in development. Any such disruptions or failures to scale up manufacture may impact the Company's financial performance.

## Investment Overview and Key Risks cont

<b>Product liability</b>	THC is in business of selling products to retail customers and as such may be exposed to product liability claims arising from faults in the design or manufacture of its products. The Company carries (and will continue to carry after listing on ASX) what the Directors consider to be adequate insurance. However, there can be no assurance that a significant claim, if successful, would not adversely impact the Company's financial performance.
<b>Failure to develop new businesses and develop new products</b>	THC's strategy includes the development of new businesses and new products. When THC implements new business, and introduces new products, there is a risk that these new initiatives may have unforeseen costs, may fail to achieve planned revenue or may not achieve the intended outcomes. A failure by THC to implement new business and develop successful new products may materially adversely impact its revenue, profitability and growth.
<b>Protection of proprietary technology</b>	While the Company will continue to use all reasonable endeavors to protect its proprietary technology, there can be no assurance that these measures have been, or will be, sufficient. Any failure to protect its proprietary technology may result in competitors copying the Company's products, which may materially adversely impact its revenue, profitability and growth.
<b>Foreign exchange risks</b>	As THC's operations consist of activities in countries outside Australia, revenue is earned in foreign currencies, predominantly US dollars and Canadian dollars. Accordingly, a foreign exchange risk exists in relation to any significant fluctuations in currency exchange rates. The Company does not have any formal policy for hedging against foreign exchange exposure.
<b>Legislative risk</b>	<p>Growing of cannabis is a heavily regulated industry in most jurisdictions throughout the world. Future growth of this market is reliant on future legislative changes in legalization and decriminalization of cannabis for both medical and recreation use. Changes in legislation that restrict the ability of consumers and producers to grow cannabis legally may have a significant impact on the size of this market and on the ability of THC to grow its business.</p> <p>Regulatory authorities may interrupt, delay or change legislation that may impact THC's ability to implement its business plan.</p>
<b>License risk</b>	<p>The development of medicinal cannabis is reliant on the Company obtaining licences in Australia issued by the Drug Control Office.</p> <p>In the event the necessary licenses are not issued or are revoked, the Company will not be able to develop medicinal cannabis.</p>
<b>Changes in technology and consumer preferences</b>	The cannabis growing industry is characterised by changes in technology, introduction of new products and services, and changing consumer preferences. Thus, THC is required to constantly keep abreast of these changes to provide the most up-to-date products to meet customers' preferences. Any failure of THC to adapt to these changes may affect its ability to grow and remain profitable.
<b>Competitive pressures</b>	The indoor and urban horticultural industry is becoming increasingly competitive. The entry of new players into the industry will increase competitive pressure faced by existing operators. There are few barriers to prevent new competitors from entering the industry.
<b>Future funding</b>	The existing working capital and the issue proceeds of the Public Offer may not be sufficient to fully fund the costs of implementing all these plans. Additional debt or equity to fund such expansion plans may be required.
<b>Liquidity and realization</b>	There is no guarantee that an active market for the Shares will develop once the Shares are quoted on ASX. There may also be relatively few potential buyers or sellers of the Shares on ASX or otherwise at any time which may increase the volatility of the market price of the Shares.
<b>Taxation changes</b>	Changes to the tax laws in Australia and the other jurisdictions in which the Company plans to operate and the rate of taxes imposed on the Company are likely to affect Shareholder returns.

**Who should I contact with queries?**

Any questions concerning the Public Offer should be directed to the Company Secretary on +61 2 9251 7177 or Gleneagle on +61 2 8277 6655.

## Business Overview

The Hydroponics Company Limited (THC) is an Australian public company that was formed to be a leader in the development and delivery of medicinal cannabis; worldwide manufacturer and distributor of hydroponics equipment, materials and nutrients; and large-scale hydroponic greenhouse design and construction.

The burgeoning market in North America and liberalized laws surrounding cannabis production have created a high demand for the Company's hydroponic product line. The sector is experiencing strong growth as laws are passed in Australia, New Zealand, US and Canada permitting the possession and consumption of cannabis either for medicinal or recreational purposes.

The projected total economic impact of the US Cannabis Industry is estimated to be between US\$24.4 and US\$44 billion for 2020 representing a 250% increase over 2016<sup>1</sup>.

The Company's business is summarised below. Further and fuller details can be found in Section 2 of this Prospectus.

The Company has concluded several agreements to acquire and/or collaborate with several companies, technologies or projects that are aligned with the objectives of THC.

<b>The Hydroponics Company Limited</b>	<b>Canndeo Limited – Acquisition</b> High Purity Cannabidiol (CBD) – Research, Product Development and Distribution <b>canndeo.com</b>
(ASX: THC)	<b>Crystal Mountain and Dragon Vision – Acquisition</b> Manufacture, Product Development and Distribution of Hydroponic equipment <b>crystalmountainproducts.com</b>
<b>thcl.com.au</b>	<b>Pegasus Agriculture – IP Sale and Purchase Agreement</b> Epigenetic Process Technology – New plant species development
	<b>New Fluid Technology – Marketing Agreement</b> Exclusive licence – Supa-Stelth hydroponic pumps <b>www.supastelthpumps.com</b>
	<b>Inna Water – Marketing Agreement</b> Exclusive hydroponic rights – Inna Water water conditioner and sonic disintegrator <b>www.innawater.com</b>
	<b>A&amp;B Hydroponics International &amp; Jim Barlow – Collaboration and Profit Share Agreements</b> Commercial hydroponic greenhouse design and construction <b>www.abhydroponics.com.au</b>

- Diversified, vertically-integrated company covering a wide range of equipment for cannabis cultivation and processing, as well as high-end next generation agricultural products.
- North American cannabis industry experiencing 20-30% annual growth rates, driven by trend to legalize cannabis for both medicinal and recreational use.
- Over 600 products, 9 registered trademarks and 2 patents.
- Proven profit history over 5+ years.
- Strategy to grow product range and apply for research licence.
- Experienced management team.
- Over 17 years' experience in the breeding, variety selection and growth management of *Cannabis sativa*, which will be applied to the production of medicinal cannabis.
- Commercialisation of laboratory process for creation of new species in plants. This process is natural and therefore non-GMO.

<sup>1</sup> Source: The State of Legal Marijuana Markets – 4th Edition (Mid-Year Update)



## Investment Overview and Key Risks cont

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### ASX Listing

The Company will make application to the ASX for the Company to be admitted to the Official List and for the Shares and Options offered by this Prospectus to be granted Quotation – see Section 3.14 for further explanation.

After careful assessment of other overseas stock markets, the Directors are of the view that the ASX is the most ideal stock market for listing. The key advantages of listing on the ASX over other stock markets that the Directors have assessed as are:

- simpler listing process;
- high transparent government regulation; and
- low cost of maintaining the listing.

The reasons that the Company is seeking admission to the Official List are that it will:

- allow the Company to raise capital from a wider market to, among other things to expand existing business, acquire or establish new businesses and fund acquisitions;
- raise the profile of the company to institutional and professional investors;
- provide a means of increasing the number and diversity of Shareholders;
- improve the Company's public recognition and commercial standing;
- improve Company's investor profile;
- provide de facto third party valuation of the company by the market.

### Agreements with directors or related parties

There are no existing agreements or proposed arrangements and there are no currently proposed transactions in which the Company was, or is to be, a participant, and in which any related party had or will have a direct or indirect material interest, other than highlighted below and detailed elsewhere in this Prospectus.

Alan Beasley is also an executive of Hudson Pacific Group Limited which has 100% interest in Hudson Corporate Limited which has a Corporate Services Agreement with the Company. Details of the Corporate Services Agreement are described in Section 8.13.

Hamish Macdonald is also an executive director and co-owner of Pegasus Agriculture Pty Ltd, which has an IP Sale and Purchase Agreement with the Company. Details of the IP Sale and Purchase Agreement are described in Section 8.6.

John Hall is a proposed executive director of the Company. He is a shareholder and director of Agri Fibre Industries Pty Ltd which has a Sale of Shares Agreement with the Company. Details of the Sale of Shares Agreement are described in Section 8.4.

Additional information regarding the interests of the Directors is set out in Sections 9.9 and 9.10.

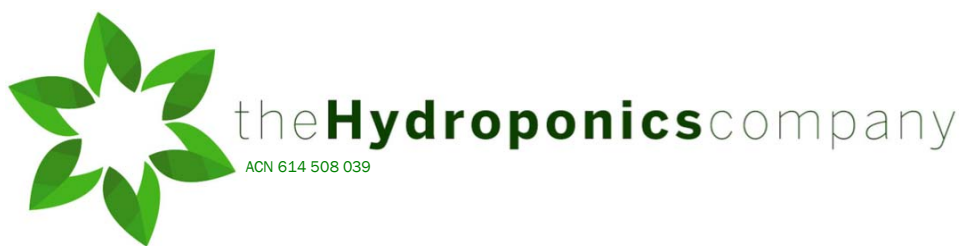
The Company's policy in respect of related party arrangements is:

- a Director with a material personal interest in a matter is required to give notice to the other Directors before such a matter is considered by the Board; and
- for the Board to consider such a matter, the Director who has a material personal interest is not present while the matter is being considered at the meeting and does not vote on the matter.

Additional information regarding the interests of the Directors is set out in Sections 9.9 and 9.10.

## Chairman's Letter

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9 March 2017

Dear Investor,

On behalf of my directors, I am delighted to present this opportunity to you to become a shareholder of The Hydroponics Company Limited (**Company or THC**).

The Company has entered various agreements to acquire and/or collaborate with businesses aligned to the Company.

Together these companies have established strong networks in the hydroponics sector, from manufacture and supply of equipment and nutrients to the design and construction of hydroponic greenhouses. The Company's business units will work synergistically to the benefit of THC; business will flow through the business units of THC, leads and introductions will pass throughout the business units of THC.

THC's manufacture and wholesale distribution unit holds 9 established trademarks across a range of product categories, and delivers over 600 products to their customers.

At the Completion of the Offers, THC will be a manufacturer and distributor of hydroponics equipment, materials and nutrients; designer and constructor of large-scale hydroponic greenhouses; and undertake the development and delivery of medicinal cannabis.

THC provides investors a single investment destination in the cannabis market, with a diversified portfolio that provides investment safety alongside high growth opportunities.

THC's directors believe the THC business model outlined in Section 2.2 presents a strong case for investment in this emerging sector.

The burgeoning market in North America and liberalized laws surrounding cannabis production have created a high demand for the Company's hydroponic product line. The sector is experiencing significant growth as increasingly laws are passed in the US and Canada permitting the possession and consumption of cannabis either for medicinal or recreational purposes.

The Australian government announced on 22 February 2017, that medicinal cannabis may be imported and prescribed by doctors, establishing an immediate legal cannabis trade.

On 27 February 2017, Canndeo submitted a Research Licence Application under the Narcotic Drugs Act 1967 with the Office of Drug Control to conduct Cannabis research and enable the cultivation of cannabis. Canndeo also intends to apply for a medicinal cannabis licence and manufacturing licence to utilise the outcomes of its research program.

Both personal and commercial growers are increasingly seeking the right equipment for cannabis cultivation and are willing to pay a premium for it.

The Company has acquired rights to distribute innovative pumps and water filtration systems and has formed profit share arrangements with designers and constructors of large-scale hydroponic greenhouses.

The influx of capital from THC should provide rapid growth and allow expansion to service large scale greenhouses as further products, such as Stelth Pumps and Inna Water are brought into production. THC will be well placed to service large scale indoor farming across a wide range of produce.

## Chairman's Letter cont

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### Value Proposition

The value proposition for THC may be summarised as:

- Diversified, vertically-integrated company covering a wide range of equipment for cannabis cultivation and processing, as well as high-end next generation agricultural products.
- North American cannabis industry experiencing 30-40% annual growth rates, driven by trend to legalize cannabis for both medicinal and recreational use.
- Over 600 products, 9 registered trademarks and 2 patents.
- Proven profit history over 5+ years.
- Experienced management team.
- Over 17 years' experience in the breeding, variety selection and growth management of Cannabis sativa, which will be applied to the production of medicinal cannabis.
- Commercialisation of laboratory process for creation of polyploid species in plants independently tested and substantiated by controlled university studies.

### Public Offer

Under this Prospectus, the Company is inviting investors to subscribe for 25,000,000 Shares and 12,500,000 Options at an offer price of \$0.20 per Share to raise \$5,000,000 to fund the acquisition and working capital requirements of the Businesses.

Additionally, the Company may accept over-subscriptions for up to 15,000,000 Shares and 7,500,000 Options to raise a further \$3,000,000.

Detailed information regarding the Offers, the operations of THC, as well as potential risks of investing in the new Shares and Options, are outlined in this Prospectus.

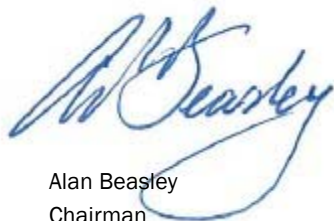
### Risk

As with all companies, the Company is subject to a range of risks detailed in the Investment Overview and Key Risks Section and more fully detailed in Section 5.

I encourage you to read the Prospectus in its entirety before deciding to invest.

On behalf of the Board of Directors, I commend an investment in the Company to you and look forward to welcoming you as a Shareholder of THC.

Yours sincerely,



Alan Beasley  
Chairman

## 1. Industry Overview

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THC will initially primarily participate in the USA Indoor Farming market through CMDV and the Australian medicinal cannabis market through Canndeo.

### 1.1 History of Medicinal Cannabis<sup>1</sup>

Cannabis was first used in China around 6,000 years ago and is one of the oldest psychotropic drugs known to man. There are several species of cannabis, the most common are *Cannabis sativa*, *Cannabis indica* and *Cannabis ruderalis*. The two main products that are derived from cannabis are, hashish – the thick resin of the plant, and marijuana – the dried flowers and leaves of the plant. Cannabis contains over 460 chemicals and 60 cannabinoids (chemicals that activate cannabinoid receptors in the body). The major psychotropic constituent of cannabis is known as delta-9-tetrahydrocannabinol (THC); others include cannabitol and cannabidiol (CBD).

Cannabis offers exciting possibilities for patients afflicted by cancer, HIV/AIDS, MS, chronic pain and other debilitating conditions. Although medicinal cannabis programs face several obstacles, the benefits offered by medicinal cannabis and the positive impact this drug could have on the lives of thousands of patients and their families make a strong case for its consideration.

The potential drawbacks can be minimised or even overcome through a number of measures, including: the close medical supervision of patients (e.g., proper patient education and monitoring), the creation of appropriate infrastructure (e.g., medicinal cannabis dispensaries, as seen in California) and the creation of laws and policies that are not only supportive of medicinal cannabis patients but will also, minimise the risk the drug poses to the public (e.g., strict penalties for medicinal cannabis diversion).

### 1.2 Usage of Medicinal Cannabis

There are two main forms of cannabis that can be used medically:

- **Medical Grade Product presented as medication**

This form of delivery is not as common, yet there are several products available. They are either extracts which are preparations which isolate pure THC and CBD from the cannabis plant, or synthetic THC.

- **Herbal Cannabis**

This is the most common use of cannabis. For medical grade herbal cannabis, the cultivation is standardised to produce stable levels of cannabinoids and the product is free from harmful adulterants. An example of this on the market is 'Bedrocan'.



Cannabis plant extract



A dispensary in British Columbia

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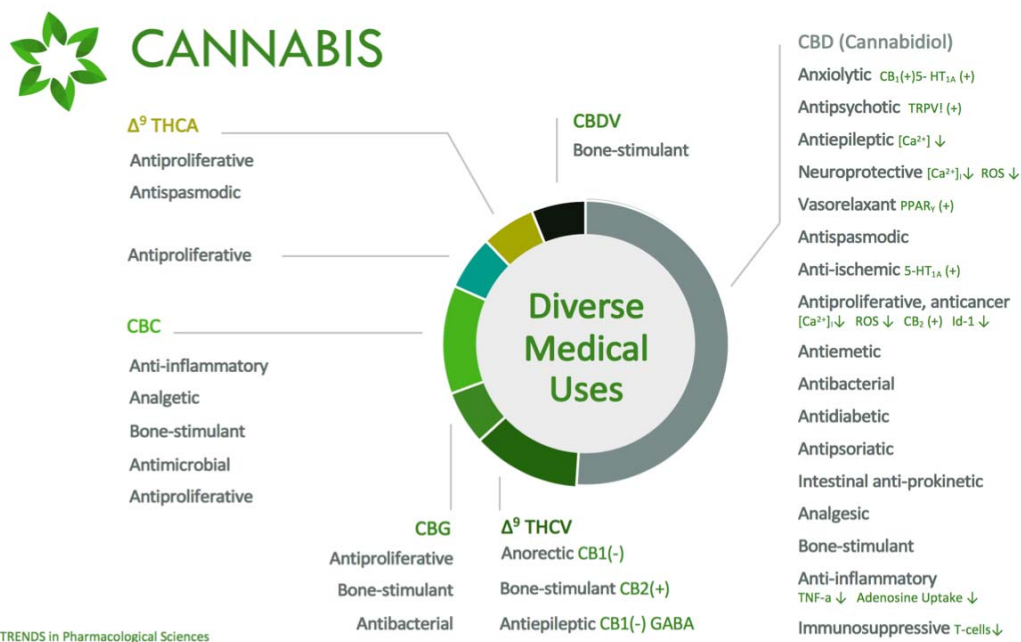
<sup>1</sup> Hamish R Smith, 'Legalising medical cannabis in Australia', Australian Medical School Journal



### 1.3 Medical Indications and Benefits<sup>1</sup>

Based on clinical, research and other medical literature the following are only part of the indications that cannabis has therapeutics benefits:

Medical Condition	Benefit
Obesity, Anorexia and Emesis	Studies have suggested that Cannabis may have a role in central appetite control, peripheral metabolism, and body weight regulation.
Pain	Cannabis has potent analgesic properties which can be used to treat intense pain. It has been shown that THC and CBD (such as found naturally in the cannabis plant) is efficacious for the relief of advanced cancer pain that is not adequately controlled by opiates alone.
Multiple Sclerosis and other Neurological Conditions	Cannabis may also be used to lessen or alleviate an entire range of symptoms associated with MS and other neurological conditions. Cannabis reduced pain intensity, improved the quality of sleep, and had minimal adverse effects.
Cancer	By reducing or eliminating the often debilitating and painful symptoms of chemotherapy induced nausea and vomiting, medicinal cannabis is hoped to improve the quality of life for the patient and their family. A reduction in the vomiting and pain associated with chemotherapy may also cause an increase in adherence to chemotherapy by cancer patients and result in better patient outcomes.
Parkinson's Disease	Significant improvement of sleep and reduction in pain.
Traumatic Brain Injuries	Prevents inflammation after brain trauma and reduces brain damage. Possible reduction in brain swelling and better clinical recovery
Alzheimer's Disease	Slows the formulation of amyloid plaques by blocking the enzyme in the brain that makes them. Cannabis is also neuroprotective, preventing neurodegeneration.
Epilepsy	Trials show that Cannabis based medication reduces convulsive seizures among epilepsy patients.



<sup>1</sup> Pertwee, R.G. ed. (2014). Handbook of Cannabis. Oxford: Oxford University Press

## 1.4 Current Regulation<sup>1</sup>

### (a) USA

The legalisation of medicinal cannabis is the key driving force behind the increasing attractiveness of the US market affecting also the rest of the world. Currently, the use of medicinal cannabis is legal in 28 states, of which California, with over half a million Medicinal Cannabis patients, is the largest. In the November US elections, 8 states voted in favour of legalising medicinal cannabis and of those 4 states also voted in favour of recreational marijuana usage.

These numbers are expected to rise towards 40 states by 2020 as public approval and support increases, and further legislation in several states is expected to be passed in the next few years. However, medicinal cannabis is still not legal at the federal level. Recently, new Senate legislation has passed shielding medicinal cannabis patients, from federal prosecution in states that have legalised marijuana for medical purposes. The U.S. Federal Drug Enforcement Agency has however changed their policies to expand the number of facilities that have federal licences to grow marijuana for research on it's medicinal value.

Support for further legalisation of marijuana use is likely in the coming years, with a June 2016 poll finding 89% of Americans supporting medical use of marijuana contingent on doctor's recommendations.

### (b) Canada

The Access to Cannabis for Medical Purposes Regulations (**ACMPR**) took effect in August 2016, replacing the Marihuana for Medical Purposes Regulations prior in effect since April 2014. The ACMPR now allows for individuals who are authorised by their health-care provider to use medicinal cannabis, to now register to produce limited amounts of marijuana for their use, or nominate another person to produce it for them.

The ACMPR continues to facilitate production of marijuana by commercial producers who must comply with strict safety and quality demands. It also streamlines the application process for patients who now need a prescription from a health care practitioner. 37 licenses have been issued to commercial producers that supply patients directly. More licenses will be issued soon to satisfy demand. As at September 2016, Health Canada reports that there are over 98,000 clients for medicinal cannabis which is predicted to grow to approximately 450,000 by 2024.

The recent election of a Liberal government in Canada that has promised to fully legalize marijuana should result in a significant, geometric, upward re-casting of these patient numbers.

### (c) Europe

The European medicinal cannabis market is small but rapidly developing. Bedrocan, a Dutch company is currently the largest supplier of herbal medicinal cannabis in Europe through contract with the Dutch Office for Medicinal Cannabis. In Italy, the national army has been entrusted with the growing of large crops of cannabis, hoping to ensure quality, security and reduce the cost of cannabis in Italy for patients.

Germany, the largest European Union nation by population, is in the process of introducing new legislation regarding medicinal cannabis. The use of marijuana for certain medical purposes is currently legal in limited circumstances, with proposed legislation to allow for widespread use proposed by Chancellor Angela Merkel's conservative CDU party. Other nations are also considering reforms to allow for medical and recreational cannabis use.

### (d) Australia

Legislation came into effect on 30 October 2016 to allow legal cultivation, production and manufacturing of medicinal cannabis products in Australia regulated by the Office of Drug Control and the Therapeutic Goods Administration. Availability of medicinal cannabis products will be governed by individual state and territory legislation.

In New South Wales, a Medicinal Cannabis Compassionate Use Scheme extends compassion to adults with terminal illness, allowing them to register as a person with terminal illness which assists Police in exercising discretion to not charge registered adults with possession of marijuana. The New South Wales Government also operates a scheme for children with severe forms of epilepsy to receive Epilodex, an oral pharmaceutical formulation of pure Cannabidiol. Other trials are being run by the New South Wales Government on the efficacy of medicinal cannabis, including one of the world's largest clinical trials on the use of medicinal cannabis in chemotherapy patients.

Queensland has legislated to allow for certain specialists such as oncologists, paediatric neurologists and palliative care specialists to prescribe medicinal cannabis to patients under a new program introduced in October 2016. Other doctors will be able to apply to Queensland Health for permission to prescribe the drug on certain conditions.

Victoria has also legislated to allow medicinal cannabis to be legalised, with childhood epilepsy the first target for the trials. Tasmania, Western Australia, and other states are also passing legislation supporting the Federal government's legislation to allow for limited medicinal cannabis use.

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<sup>1</sup> As at 31 December 2016

## 1.5 Global Markets

### (a) USA

The legalisation of medicinal cannabis is the key force behind the increasing attractiveness of the US market and also with direct influence on the global markets.

The legal cannabis market was an estimated \$5.9 billion in 2015, with projected CAGR of 29% over the next four years, to reach \$20.6 billion by 2020, comprised of a 17% CAGR for the medical market, and a 50% CAGR for the adult use market, which by 2020 is projected to account for over half of all legal cannabis sales in the United States.

The current size of the legal cannabis market is approximately US\$5.9bn (2015).

For market-potential indication only, unofficially, the size of the US recreational cannabis market for marijuana is estimated US\$40-45 billion.

It is estimated that as at October 2016 there are 1.44 million medicinal cannabis patients in the United States.

### (b) Canada

The Canadian Prime Minister, Justin Trudeau has publicised his stance in favour of legalisation of marijuana use and is expected to put forward legislation to legalise marijuana in 2017. The proposal will place marijuana on the same level as alcohol, allowing widespread consumption.

Deloitte Canada has projected that should Canada legalise adult recreational marijuana use, the market could be C\$4.9bn to C\$8.7bn in market value. Deloitte also predicts an ancillary market for growers, product makers and other marijuana industries being worth C\$12.7bn to C\$22.6bn.

As at 30 September 2016, there are over 98,000 registered medicinal cannabis clients in Canada registered under the ACMPR compared to only approximately 30,000 in September 2015.

### (c) Europe

Medicinal Cannabis is currently imported (in small quantities) from the Netherlands and used by patients in 9 European countries. The largest markets are: France, Italy, Netherland and Romania.

## 1.6 Cannabis Industry Facts and Statistics

### US\$5.9B

The estimated value of the legal marijuana market in the US in 2015, projected to grow at a CAGR 29% to \$20.6bn by 2020.<sup>1</sup>

### 76%

of clinicians polled worldwide by the New England Journal of Medicine believe that the medicinal benefits outweigh the risks and potential harms.<sup>2</sup>

### US\$44B

The projected total economic impact of the US Cannabis Industry is estimated to be between US\$24.4 and US\$44 billion for 2020 representing a 250% increase over 2016.<sup>1</sup>

### 86%

of Americans live in a state that has reformed their marijuana laws, either by decriminalisation, legalisation or other reforms.<sup>1</sup>

### 28

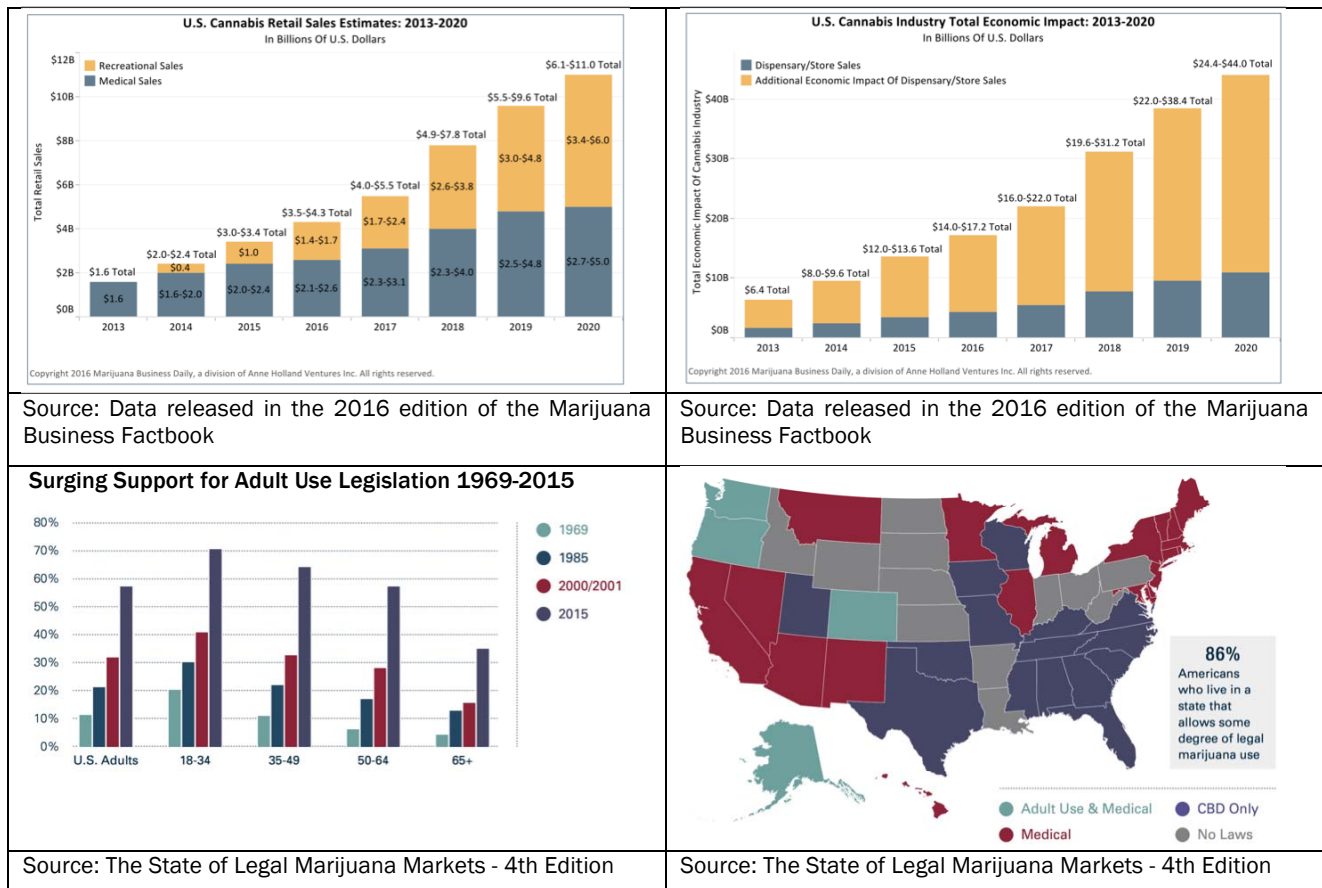
States that have already legalized medicinal cannabis. Of these, 7 states have also legalised recreational marijuana.

### 89%

89% of Americans support the medical use of marijuana with doctor's recommendations.<sup>1</sup>

<sup>1</sup> Source: The State of Legal Marijuana Markets – 4th Edition (Mid-Year Update)

<sup>2</sup> <http://www.nejm.org/doi/full/10.1056/nejmcldc1305159#t=article>



## 1.7 Indoor farming<sup>1</sup>

Indoor agriculture is one of the fastest growing industries in the United States. As the world's population continues to rise, so does the importance of building secure and consistent food supplies. The amount of available arable land and water to support conventional agriculture are dwindling. While conventional agriculture is geographically tied to areas with sufficient land and water, indoor farming is decoupled from such needs and can be located closer to the point of end consumption.

As the growing population continues to grow and urbanize, farmers are opening up indoor facilities closer to these urban areas creating a local, stable, and sustainable year round food supply. Indoor agriculture isn't only urban farming, it can take many shapes and forms, from urban and small space farming, to high-tech fully controlled and semi-automated greenhouse facilities in rural areas, to everything in between.

By enclosing farms, indoor growers can use technology to control farm inputs and to create artificial environments within their facilities. Increased control allows for more precision and allows growers a wider range of crop selection.

The indoor farming industry in the United States was predominantly dominated by greenhouse crop production until about 9 years ago. During that period, an increasing number of vertical farms and more technologically advanced greenhouses emerged, primarily due to the decrease in technology costs and an increase in local demand for food.

The higher revenues realized by indoor farming are driven by three factors: (a) year-round production capability, (b) higher yield, and (c) higher retail pricing.

Having the ability to create ideal and artificial climactic environments within an indoor farm allows growers to extend the growing season of crops and decrease the time it takes to grow a crop from seed to harvest. If cost was immaterial, indoor farms could create perfect growing environments, controlled by technology, year-round and produce the most high-yielding crops. Growers cannot ignore cost however, so instead they strive for optimized resource management while producing the highest possible yielding plants in the fastest possible time.

The future of the industry is data and technology driven. Growing in a climate controlled environment enables growers to realize massive efficiency gains by implementing small changes. As a result indoor growers have large technology budgets and are investing in technologies to improve operations, crop quality, and yield.

<sup>1</sup> State of Indoor Farming, September 2016, Agrilyst



A climate control system is one of the most critical pieces of technology for an indoor farm. This system comprises of sensors (typically recording light, temperature, humidity, CO<sub>2</sub>) and some level of control for HVAC and lighting equipment. Achieving optimal climates within an indoor farm is the most important factor in achieving the increased yield numbers reported by indoor farms. However, the level of sophistication among climate control systems varies significantly.

### Farm Productivity

One of the reasons indoor farming is gaining significant traction in the United States is the ability to produce more while using less resources. The United States Department of Agriculture's (USDA) July projection for the 2016 - 2017 growing year, corn prices range from \$3.10 - \$3.70 per bushel and farms are producing an average of 168 bushels per acre<sup>1</sup>; conventional lettuce and tomatoes are between 23 and 25x more productive at about \$12,000 and \$13,000 per acre respectively. In comparison, on a revenue basis alone, indoor horticulture is about 4,000x more productive than conventional outdoor commodity farming<sup>2</sup>; indoor cannabis is about 9,000x more productive than conventional outdoor commodity farming.



US Farm Productivity

### Australian Indoor Farming

The Australian Hydroponic Crop Farming industry has been performing well, with revenue forecast to increase by an annualised 4.3% over the five years through 2016-17. This has been partly due to hydroponic farmers growing crops under controlled conditions with reduced water requirements, allowing them to better withstand the unfavourable weather conditions that have plagued the agricultural sector over the past five years.

Hydroponic crop output has increased over the past five years. Increased capital investment has helped boost yields and overall productivity. Industry farmers have also been increasingly investing in automation to regulate variables such as temperature and moisture to optimise the cultivation process and improve yield and quality. Increasing automation has reduced imputed wage requirements and weakened the industry's average profit margin over the past five years.

The future remains bright for industry farmers. A marginal increase in health consciousness and rising fruit and vegetable consumption will support industry demand over the next five years. The major supermarket chains are projected to become increasingly important to industry farmers, as direct interaction with these supermarkets reduces the need to sell produce through wholesalers. Ongoing capital investment will help enhance production methods and improve storage techniques, boosting overall production. Industry revenue is forecast to grow by an annualised 2.0% over the five years through 2021-22, to \$690 million.

<sup>1</sup> "World Agricultural Supply and Demand Estimates," United States Department of Agriculture, 2016 "Crop Production 2015," United States Department of Agriculture, 2016

<sup>2</sup> corn, wheat, soybean, cotton, rice

## 2. Company Overview

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### 2.1 Company Background

The Hydroponics Company Limited (**THC**) is an unlisted Australian public company incorporated on 29 August 2016.

THC plans to be a worldwide manufacturer and distributor of hydroponics equipment, materials and nutrients; large-scale hydroponic greenhouse design and construction; and leader in the development and delivery of medicinal cannabis.

The burgeoning market in North America and liberalized laws surrounding cannabis production have created a high demand for the Company's hydroponic product line. The sector is experiencing substantial growth as increasingly laws are passed in Australia, New Zealand, Europe, US and Canada permitting the possession and consumption of cannabis either for medical or recreational purposes.

#### (a) Medicinal Cannabis

The Company has entered a Share Purchase Agreement to acquire Canndeo Limited (**Canndeo**), an Australian business offshoot of Agri Fibre Industries Pty Ltd with over 17 years' experience in the breeding, variety selection and growth management of *Cannabis sativa*, which will be applied to the production of medicinal cannabis (**Canndeo-SPA**).

On 27 February 2017, Canndeo submitted a Research Licence Application under the Narcotic Drugs Act 1967 with the Office of Drug Control to conduct Cannabis research and enable the cultivation of cannabis. Canndeo also intends to apply for a medicinal cannabis licence and manufacturing licence to utilise the outcomes of its research program.

In consideration for the acquisition of Canndeo the Company will issue 5,000,000 fully paid ordinary shares, 2,500,000 Options and 14,000,000 Performance Shares.

Completion under the Canndeo-SPA is conditional on the following:

- the Company successfully raising a minimum of \$5,000,000 under the Public Offer;
- the shareholders of Canndeo successfully raising a minimum of \$500,000 in pre-IPO funds and \$1,500,000 under the Public Offer; and
- the Company obtaining all regulatory approvals or consents.

Further details of the share purchase agreement are set out in Section 8.4.

#### (b) Intellectual Property Acquisition

The Company has concluded an IP Sale and Purchase Agreement with Pegasus Agriculture Pty Ltd.

The IP is for an epigenetic process in which organisms respond to environmental stress, by increasing the number of homologous sets of chromosomes (or genomes) in each cell. It is a natural phenomenon which modifies plants to grow 33% to 40% faster.

THC has investigated the epigenetic process under the IP and has received advice that it does not breach any current Australian patent.

In consideration for the acquisition of the IP the Company will issue 2,500,000 fully paid ordinary shares, 1,250,000 Options and 8,500,000 Performance Shares.

#### (c) Manufacture, Product Development and Distribution of Hydroponic Equipment

The Company has entered a Share Purchase Agreement with the current shareholders of Crystal Mountain and Dragon Vision (**CMDV**) to acquire all the issued Shares in CMDV (**CMDV-SPA**).

In consideration for the acquisition of CMDV the Company will issue 3,000,000 fully paid ordinary shares, 1,500,000 Options and 4,000,000 Performance Shares to the shareholders of CMDV in proportion to their holdings in CMDV plus reimbursement for the development of the IP in the amount of \$300,000 and payment of the value of the NTA, including Stock at Valuation.

Completion under the CMDV-SPA is conditional on the following:

- the Company successfully raising a minimum of \$5,000,000 under the Public Offer; and
- the Company obtaining all regulatory approvals or consents.

CMDV deliver over 600 products to their customers and hold 9 established trademarks across a range of product categories including:

- Lighting and power supplies (Digilume and Green Hornet Lighting);
- Lighting relays (Quick Flips);
- Climate control (Elemental Controls);
- Ventilation (Wind King);
- Trimming (Spinpro);
- Extraction bags (Payload);
- Plant rotation systems (Sunchaser); and
- Eyewear for indoor growing (Shady Optics).



Additionally, the Company will acquire two patents held by CMDV being Rotating Plant Stand Patent (US 8356445B1 and CA 2,802,240) and Jar Lid for Dry Ice Separation (US D708471S)

CMDV has strong distribution networks for hydroponic equipment and nutrients across Canada, UK, Europe and USA. Together these companies hold 9 established trademarks across a range of product categories, and deliver over 600 products to their customers.

The Company is intent on positioning itself in other parts of the world, including Australia, where the possession and consumption of cannabis may be made lawful and regulated. The Company can leverage existing expertise to build a first-mover advantage in the supply of this equipment, both for commercial growers, and Do It Yourself (**DIY**) growers. Both personal and commercial growers are increasingly seeking the right equipment for cannabis cultivation and are willing to pay a premium for it.

The Directors have not obtained an independent valuation of the Businesses. The Directors have made their own determination of the value to be imputed to the Acquisition after assessing the history, personnel, sales and prospects of its targets.

#### (d) White Label Innovative Hydroponic Equipment

The Company has entered several marketing agreements to acquire the exclusive marketing and distribution rights for hydroponic and indoor farming equipment for Supa-Stelth Water Pumps and Inna Water water sterilization and conditioner systems.

In consideration for the marketing rights for Supa-Stelth Water Pumps, the Company will issue 250,000 fully paid ordinary shares to New Fluid Technology Pty Ltd and pay a 5% gross royalty.

In consideration for the marketing rights of the Inna Water water sterilization and conditioner systems the Company will pay a 1.5% gross royalty to Inna Water Pty Ltd.

Further details of the marketing agreements are set out in Sections 8.2 and 8.3.

#### (e) Hydroponic Greenhouses

A binding MOU has been concluded with A&B Hydroponics, the parties have agreed that they will conclude a Collaboration and Profit Share Agreement upon THC being admitted to the Official List of the ASX. A&B Hydroponics is a world leader in the field of hydroponics, specializing in the design and manufacture of the finest commercial hydroponic greenhouses and growing systems available for any type of environment. A Collaboration and Profit Share Agreement has been concluded with Jim Barlow to represent THC throughout the Americas to develop large commercial hydroponic greenhouses.

Jim Barlow will represent THC throughout the Americas to develop large commercial hydroponic greenhouses.

## 2.2 Business Model

The Company will acquire and develop several companies, technologies and projects that are aligned with the objectives of THC.

The Hydroponics Company Limited  (ASX: THC)  thcl.com.au	<b>Crystal Mountain and Dragon Vision – Acquisition</b> Manufacture, Product Development and Distribution of Hydroponic equipment <a href="http://crystallmountainproducts.com">crystallmountainproducts.com</a>
	<b>Canndeo Limited – Acquisition</b> High Purity Cannabidiol (CBD) – Research, Product Development and Distribution <a href="http://canndeo.com">canndeo.com</a>
	<b>New Fluid Technology – Marketing Agreement</b> Exclusive licence – Supa-Stelth hydroponic pumps <a href="http://www.supastelthpumps.com">www.supastelthpumps.com</a>
	<b>Inna Water – Marketing Agreement</b> Exclusive hydroponic rights – Inna Water water conditioner and sonic disintegrator <a href="http://www.innawater.com">www.innawater.com</a>
	<b>Pegasus Agriculture – IP Sale and Purchase Agreement</b> Epigenetic Process Technology – New plant species development
	<b>A&amp;B Hydroponics International &amp; Jim Barlow – Collaboration and Profit Share Agreements</b> Commercial hydroponic greenhouse design and construction <a href="http://www.abhydroponics.com.au">www.abhydroponics.com.au</a>

- Diversified, vertically-integrated company covering a wide range of equipment for cannabis cultivation and processing, as well as high-end next generation agricultural products.
- North American cannabis industry experiencing 30-40% annual growth rates, driven by trend to legalize cannabis for both medical and recreational use.
- Over 600 products, 9 registered trademarks and 2 patents.
- Proven profit history over 5+ years.
- Experienced management team.
- Over 17 years' experience in the breeding, variety selection and growth management of Cannabis sativa, which will be applied to the production of medicinal cannabis.
- Commercialisation of laboratory process for creation of polyploid species in plants. Independent controlled university studies have substantiated the effects of polyploidy

(a) **Crystal Mountain – Acquisition**

THC's flagship acquisition has been operating for over a decade. CMDV holds 9 trademarks and two patents. It manufactures and distributes wholesale across North America and the UK.

CMDV has a strong sourcing and quality control team in Hong Kong, China which facilitates international sales for companies seeking to purchase directly from Chinese vendors. Additionally, the subsidiary also acts as a trading partner and sourcing agent for companies looking globally to purchase horticulture equipment in China. There is considerable potential to grow Dragon Vision and capture further competitor direct sales with a limited amount of increased resources.

CMDV has been able to compete with competitors while operating with a very low overhead. This allows CMP to be competitive, nimble but also scalable. CMDV are set up to quickly pivot with the changing cannabis market and growth in indoor farming. The influx of capital from THC will be directed to provide rapid growth and allow expansion to service large scale greenhouses as further products, such as Stelth Pumps and Inna Water are brought into production.

Collectively, these companies have established international manufacturing, supply and distribution networks. They hold nine trademarks and two patents, and distribute over 600 products through an international sales catalogue, serving the USA, Canada, UK, Europe and Australia.

It is expected that CMDV will provide cashflow to contribute toward funding THC's growth and R&D programs.



Crystal Mountain Distribution Facility



Example of Nutrients

#### (b) Supa-Stelth Water Pumps – Marketing Agreement

Exclusive license for distribution into the hydroponics market of recently developed pumps, operating at up to 2 times the efficiency of existing pumps, resulting in significant reduction in electricity consumption.

The pumps employ a principle called "solid body vorticity".



THC will distribute a revolutionary range of pumps called "Supa-Stelth".

Fluid Pumps consume approximately 9% of all the electricity on earth (source Grundfos) and therefore are amongst the heaviest energy users (and pollution generators) on our planet. The "wet-end" (the part that does the actual work) has changed little over time.

According to the manufacturer, Supa-Stelth pumps have the world's highest overall electrical efficiency and more importantly the highest litres per watt hour (the power consumed per hour of operation is the actual cost of pumping). They also claim to be the world's quietest.

This is because they are radically different to any other pump. They operate on a totally different law of physics, that of "Solid Body Rotation of Fluids", designed to minimise momentum change losses in fluids. This natural phenomenon was first noticed by Leonardo Da Vinci and later investigated by Isaac Newton.

THC will white label and distribute Supa-Stelth pumps to the hydroponic and indoor farming markets.

#### (c) Water Sterilisation and Conditioner – Marketing Agreement

Exclusive marketing and distribution rights have been secured for hydroponic and indoor farming of award winning chemical free water purification systems for closed hydroponic installations providing removal of pathogens, salt and foreign bodies utilizing sonic disinfection.

Inna Water has developed a water conditioner and sonic disintegrator for changing the structure of water and disinfecting water without the use of chemicals.

THC will white label and distribute Inna Water systems to the hydroponic and indoor farming markets.

#### (d) Canndeo Limited – Acquisition

THC has concluded a Sale of Shares Agreement with the shareholders of Canndeo and at completion of the Offers will own 100% of the issued capital of Canndeo.

The business of Canndeo is medicinal cannabis production, research and development in relation to medicinal cannabis production and commercialisation of the research results carried on or to be carried on by Canndeo.

On 27 February 2017, Canndeo submitted a Research Licence Application under the Narcotic Drugs Act 1967 with the Office of Drug Control to conduct Cannabis research and enable the cultivation of cannabis. Canndeo also intends to apply for a medicinal cannabis licence and manufacturing licence to utilise the outcomes of its research program.

#### (1) Canndeo Origin

Canndeo was founded by Agri Fibre Industries (AFI), Australia's leader in breeding and technology for *Cannabis sativa* with more Australian Plant Breeders Rights (PBR) for *Cannabis sativa* than any other organisation. AFI has more than 17 years of background in the breeding, growth management, quality control and use of *Cannabis sativa*.

Through IP Licences with AFI, Canndeo will deliver the core expertise to both supply medicinal cannabis products in Australia, and to establish a program for development of new medicinal products from *Cannabis sativa*.



**(2) Management**

Dr Andrew Beehag will lead THC's medicinal cannabis development program. His recent background includes managing a \$65 million 5-year industry and academic research centre with 24 international partners, which secured A\$14 million of Australian government funding.

Andrew's key skills include creation and execution of strategic plans, operations and personnel management, intellectual property management and commercialisation, budgeting and financial forecasting, stakeholder negotiation and management, project management, public speaking and development of high performing teams.

The business of Canndeo is medicinal cannabis production, research and development in relation to medicinal cannabis production and commercialisation of the research results carried on or to be carried on by Canndeo.

**(3) Vision, Mission and Approach**

Canndeo sees medicinal cannabis quickly becoming a major industry internationally, with continual high growth over a period of decades.

Canndeo's mission is to be a world leader in the development of therapeutically superior, paramount quality and cost effective medicines derived from *Cannabis sativa*.

We will achieve this through our end-to-end integration of essential capability and intellectual property, by investing and fostering connections through the entire value chain:

- Breeding of superior strains of *Cannabis sativa* without genetic modification
- Applying superior quality management and technology approaches through plant growth, extraction and medicine production
- Supporting leading research centres in understanding the therapeutic value of cannabinoids and other *Cannabis sativa* products, and efficiently pursuing their trial and approval as medicines
- Working with doctors, pharmacies, patient support groups, governments and regulatory agencies to ensure adherence to the highest standards of care within a regulated environment.

**(4) CBD Product for Australia**

Following legislation to legalise the use of medicinal cannabis in 2016, Australian states will be finalising their regulatory processes throughout 2016 and early 2017. Commercial enterprises will then be able to supply CBD-based medicinal cannabis through authorised pharmacy suppliers.

Following completion of this process, Canndeo will supply CBD based products into this new market. From its proposed growing and processing base in Bundaberg, Canndeo will supply products to the most stringent standards of purity and quality. In the interim, Canndeo is commencing its program of information dissemination to health professionals and interested future patients and their carers.

**(5) Future Products**

Several countries, particularly in the USA, have looked for several years at the commercial opportunities through a deregulated market. While this environment has different drivers to a regulated market, it has still resulted in a small number of very high quality companies emerging with innovative products and technology.

Canndeo is building partnerships with leading international organisations in the medicinal cannabis space, bringing the latest developments in medicinal cannabis delivery technology. Canndeo will assess the best products for Australia in consultation with doctors, patient groups and regulators.

Canndeo anticipate these partnerships will also bring near term opportunities for the clinical trial and commercial distribution of new medicines. The partnerships will also enable Canndeo to streamline its own development of products, while representing the interests of international organisations in reaching new markets in Australia.

**(6) Future Developments**

Canndeo has developed a unique Sandbox-Evolution-Certification model for working with leading researchers in the application of medicinal cannabis products, and fast-tracking research to identify new products that are effective, safe and whose revenues can adequately cover the extensive costs associated with clinical trials.

Working closely with its research partners, Canndeo will provide a wide variety of unique strains and extracts of *Cannabis sativa*, and through new research findings will fast-track development of new specialised breeds for the industry. Likewise, research partners will be able to quickly determine new effectiveness of multiple cannabinoids, singly and in combination.

New medicinal cannabis products, identified in a highly cost effective manner, can then rapidly be taken through clinical trial phases to enable new medicines in the regulated environment.

## (7) Cannabis Breeding Program

### History

*Cannabis sativa* is a remarkable plant, with an enormous level of variety of cannabinoids, flavonoids, terpenes and other products made possible through management of breeding. With heightened medical interest in the human endocannabinoid system, and the multitude of possibilities for a cannabis derived medicine to be developed, breeding and agriculture are likely to be central to new medicine development in a way we have never seen before.

AFI commenced its *Cannabis sativa* breeding program in 1998, with the development of a range of *Cannabis sativa* plants for food, fibre and other uses from more than 100 parent lines. Its specialty was the quick development of functional plants to improve value of the plants while simultaneously meeting requirements for industrial use.

### Plant Breeders Rights

Plant Breeders Rights (PBR) confers exclusivity in plant use for commercial purposes to the registered owner, and is used in combination with other protection mechanisms (including contractual agreements on distribution and propagation) to enable commercial viability for developers of new breeds.

Australia has 12 varieties of *Cannabis sativa* registered under its PBR program by IP Australia. Of these, AFI has 6 granted and 1 accepted PBR. This dominance of PBR for *Cannabis sativa* in Australia is testament both to the quality of AFI's breeding team and its long-term investment in new and valuable varieties.

### Development Program

Inheriting this tradition and having access to all AFI's breeds and breeding experts, Canndeo will continue to work closely with AFI on the medicinal use of current varieties as well as the development of new generation *Cannabis sativa* strains for medicinal use. Adding this capability to our broader collaboration in search of new and valuable medicines, Canndeo has positioned itself to become a leader in this emergent and high growth field.

## (e) THC Plant Science – Epigenetic Process

The Company has concluded an IP Sale and Purchase Agreement with Pegasus Agriculture Pty Ltd.

The IP is for an epigenetic process in which organisms respond to environmental stress, by increasing the number of homologous sets of chromosomes (or genomes) in each cell.

The THC epigenetic process is a natural phenomenon in which organisms respond to environmental stress, by increasing the number of homologous sets of chromosomes (or genomes) in each cell.

The deliberate process of increasing the number of genomes in an organism has been termed "genomic architecture" and varies from "genetic modification" in that the genome is unaltered by the process.

Laboratory tests, conducted by University of Queensland, confirm some polyploid plants will grow between 33% and 40% faster than their parent stock, therefore providing faster and higher returns to their growers.

THC Plants can be selectively bred to thrive under a wide range of environmental stressors, including low rainfall, significant commercial advantage in cannabinoid production.

This epigenetic process will be developed with Canndeo.

THC has investigated the epigenetic process under the IP and has received advice that it does not breach any current Australian patent.

## (f) Hydroponic Greenhouses

A binding MOU has been concluded with A&B Hydroponics, the parties have agreed that they will conclude a Collaboration and Profit Share Agreement upon THC being admitted to the Official List of the ASX. A&B Hydroponics is a world leader in the field of hydroponics, specializing in the design and manufacture of the finest commercial hydroponic greenhouses and growing systems available for any type of environment. A Collaboration and Profit Share Agreement has been concluded with Jim Barlow to represent THC throughout the Americas to develop large commercial hydroponic greenhouses.

Jim Barlow will represent THC throughout the Americas to develop large commercial hydroponic greenhouses.

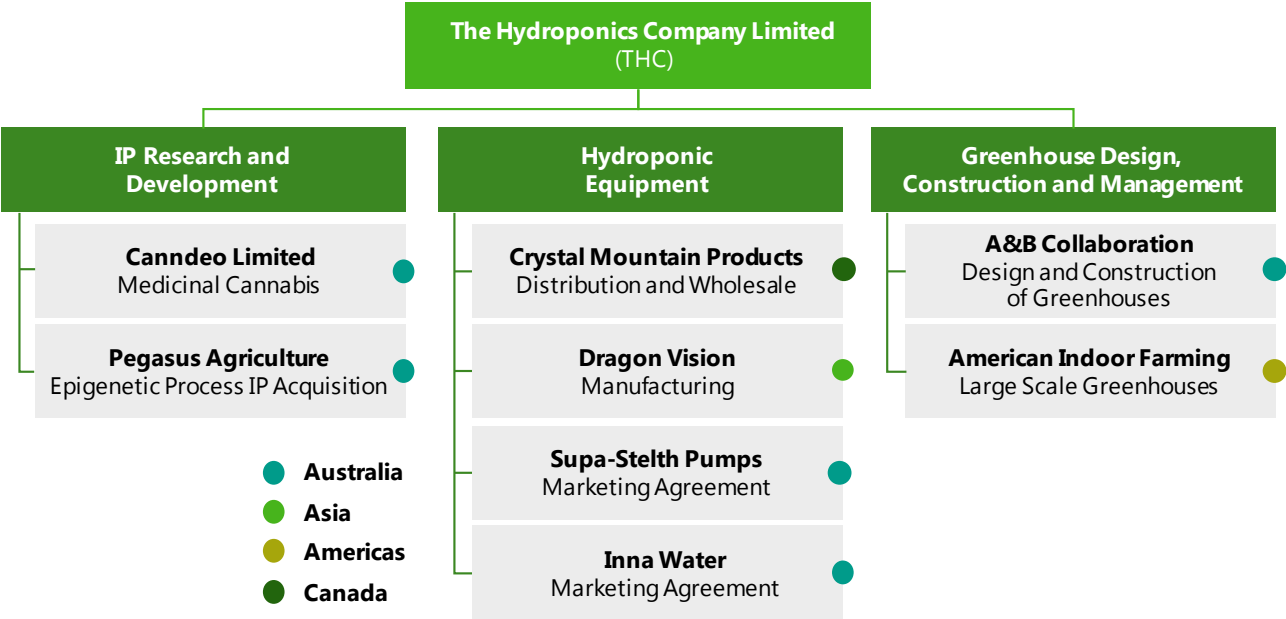




Greenhouses designed and constructed by A&B Hydroponics

2.3 Corporate and Product Structure

The Company’s corporate and product structure at completion of the Offers will be:



The Public Offer free float upon listing will be between 30.34% and 41.07%.

2.4 Market

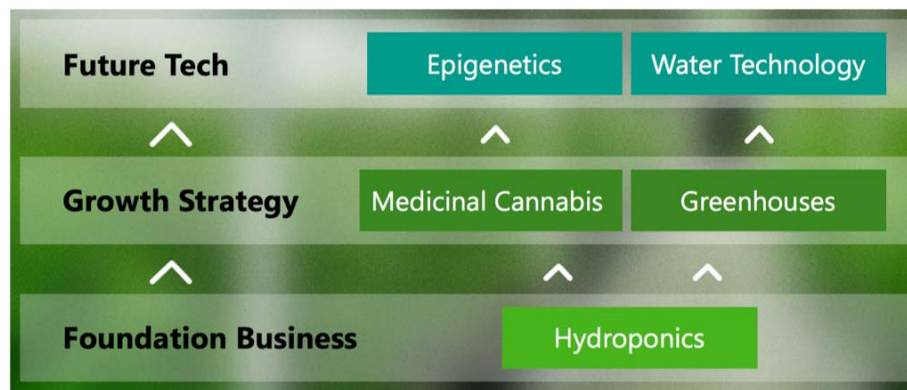
Hydroponic equipment represents a well-established but, until recently little discussed industry around the world. For many years, manufacturers have worked with distributors to supply hydroponic retail stores, garden centres and nurseries with the ‘indoor gardening’ equipment required for cannabis cultivation. Cannabis is a high-value crop that requires warm conditions for growth, making indoor cultivation essential for the cooler climates of Canada, northern US states and much of Europe.

As legislation shifts, making cannabis cultivation more widespread, both personal and commercial growers are increasingly seeking the right equipment for cannabis cultivation and are willing to pay a premium for it.

The Company intends to continue to target new areas of distribution in areas where it is evident that laws will be relaxed in the near-term, creating major new demand for consumers who seek both medical and recreational relief from cannabis. Additionally, the influx of capital from THC should provide rapid growth and allow expansion to service large scale greenhouses as further products, such as Stelth Pumps and Inna Water are brought into production.

A detailed overview of the industry and market developments are outlined in Section 1.

## 2.5 Framework for growth



## 2.6 Business strategies

### (a) Hydroponics development strategy

The Company aims to expand globally in the horticultural industry, through internal growth of existing assets and the possible acquisition of additional value-accretive assets that will provide operational synergies. The Company's short-term focus will be to expand its global footprint to increase its market share in key cannabis jurisdictions and to improve the profitability of existing THC businesses described above. This will involve taking advantage of synergies between the operations, where identified. The Company's objective is to generate revenues that can be used to fund product development, expansion of the distribution network and further potential acquisitions. The North American cannabis market, which is the largest and fastest growing, will be a key focus in developing new business.

THC has developed a three-part business model based on:

- Acquiring companies with lower revenues supplying proprietary products with high margin.
- Acquiring companies with higher revenues supplying standard products with lower margin.
- By pushing out its own products through an ever-growing distribution network, margins and penetration grow substantially.

THC is vertically integrated to enable manufacture, distribution and sales of its cannabis growing equipment. The Company expects to experience significant organic growth as well as growth through acquisition in the near term.

THC designs and manufactures its own equipment in Hong Kong and sells it through its own vertically integrated wholesale and retail distribution networks in UK, Europe, USA and Canada.

### (b) Medicinal cannabis strategy

The Canndeo business plan addresses the establishment of a new medicinal cannabis production and research business based in Queensland, where authorised supply through doctors will begin on 1 March 2017. Australia is anticipated to have a business estimated between \$100-400m based on government statistics. Canndeo will target multiple markets with high purity cannabidiol (CBD) with potential markets including cancer, neurological, autoimmune, epilepsy and aging related disorders.

On 27 February 2017, Canndeo submitted a Research Licence Application under the Narcotic Drugs Act 1967 with the Office of Drug Control to conduct Cannabis research and enable the cultivation of cannabis. Canndeo also intends to apply for a medicinal cannabis licence and manufacturing licence to utilise the outcomes of its research program.

Canndeo's focus on high purity, high quality CBD will supply Australia and subsequently overseas markets with effective medication having no hallucinogenic properties, and therefore it is envisaged that the market for this product will grow in popularity as the mainstream medicinal cannabis product (as observed in USA). The strategy simplifies compliance with Australian regulation and leverages leadership in extraction and refining technology from Queensland-based collaborators. Canndeo will strategically use its location in Australia as a base for future exports of pharmaceuticals based on the *Cannabis* plant.

Commercial exploitation of new drugs in the medicinal cannabis space are likely to rely less on traditional pharmaceutical industry patent strategies and focus more on plant breeders' rights (PBR) and process IP protection. Canndeo is therefore well placed internationally to be a leader in new drug development, and has already attracted commercial and research partners on this basis.

Canndeo will seek to operate with key partnerships in research and product technology, and continue to build its core competency in the growth and efficient extraction of cannabinoid products. This will be primarily based on local partnerships with AFI and BioExtracts as suppliers of relevant IP and expertise, and with international medicinal cannabis companies to strategically align on a range of business functions including market development, technology co-usage and new medicine development and approval. These partnerships are expected to lead to significant growth and export opportunities in the next 3-5 years.

**(c) Product development strategy**

THC plans to use its existing manufacturing capacity to develop new products that complement and expand its existing product range, developing in house intellectual property (IP) where feasible. THC will use its existing knowledge and industry contacts to identify new product development targets. The Company will focus on a range of important products in the cannabis production cycle that have clear competitive advantages, which are expected to facilitate rapid market penetration when introduced at competitive or lower prices than competing products.

**(d) Manufacturing strategy**

THC's subsidiaries have established manufacturing agreements with multiple ISO, UL and CSA certified manufacturers, allowing for low cost, high quality production of its products. These relationships also allow for efficient design and technology integration for the development of new products. The manufacturers for Dragon Vision are based in Hong Kong and a quality control team has been established to oversee the manufacturing of products.

**(e) Distribution strategy**

THC currently has an extensive network for distributing its products, although it plans to rapidly expand its network capabilities with new acquisitions.

Through new partnerships with new and existing distributors, retailers and growers, the company will look to expand this network to facilitate growth in sales of its new and existing products, and reach new markets. THC subsidiaries currently supply proprietary products to multiple wholesale distributors as well as larger chains of retail outlets. This ability to supply large chains of retailers on a direct-manufacture basis is an essential element to the distribution chain and provides a high-margin, high-volume business with an established clientele.

THC also plans to expand its web presence to make ordering easier for new and existing wholesale customers, as well as facilitating direct sales to growers.

**(f) Marketing strategy**

THC markets its products through its existing wholesale and retail distribution networks in the USA, Canada, UK and the EU, and globally through its existing web-based storefronts. The company's subsidiaries are also frequent attendees at industry tradeshow and have qualified company representatives in key jurisdictions to promote its full product range. THC intends to increase its own direct-to-consumer footprint through further development of its online presence, increased online advertising and a more visible social media presence to increase awareness.

**(g) Indoor farming strategy**

A&B Hydroponics is a world leader in the design, construction and management of large scale hydroponic greenhouses. THC will collaborate with A&B Hydroponics under a profit share arrangement and will promote high quality commercial greenhouses and growing systems available for many environments. THC will with A&B Hydroponics custom design quality systems to a customer's specific needs for professional operations in both Australia and overseas.

THC will seek to expand A&B Hydroponics client base which extends from Saudi Arabia to the mountain alps of Japan and including Malta, New Guinea, UAE, Fiji, New Zealand and Australia.

THC will draw on A&B Hydroponics vast knowledge and patented systems which include:

**A&B Hydroponic Solution** – For 20 years A&B has provided the A&B Hydroponic Solution to suit individual crops, including for the fodder industry and in all different types of environments. Our solution can be transported throughout Australia and the world.

**Easy Grow Foliary Spray** – A&B's Easy Grow spray is 100% natural and Australian made, available in 1 to 200 litre containers. It is used in the cooler climate areas, where soil temperature is very cool. The plants will show an increase in production of up to 20% with the application of the spray.

**Fancy Lettuce Using Flood and Drain System** – A&B has been using the flood and drain<sup>1</sup> system since 1993. It is proven to be a safer and faster producing system than the older NFT<sup>2</sup> system, reducing the problem of blockage in micro tubes and allowing better flow of oxygen to the roots.

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<sup>1</sup> Flood and drain is a method of growing plants hydroponically that is known for its reliability, simplicity of operation and low cost of investment. Pots or a flood tray are filled with a grow media such as gravel, clay pellets, lava rock etc. These do not function like soil or add nutrition to the plants but will anchor the roots and will function as a temporary reserve of water and nutrients. The hydroponic solution floods the system four to six times a day and can drain away in between flood cycles.

<sup>2</sup> Nutrient film technique is a hydroponic technique wherein a very shallow stream of water containing all the dissolved nutrients required for plant growth is re-circulated past the bare roots of plants in a watertight gully, also known as channels.



**Strawberry A Frame System** – Patented in 1989, the Strawberry A-Frame System produces up to 48 kilos of strawberries per square meter. Harvesting is easier with the A-Frame due to its unique design.

**A&B Channel System** – Tomatoes, cucumbers, capsicums, eggplants and even melons can all be grown in this cost effective and environmentally friendly channel system, allowing better crop management. Tomatoes average 2.4 plants per square metre.

**Vertical Rotating Growing System (RGS)** – The world's first hydroponics vertical Rotating Growing System (RGS) has been developed by A&B Hydroponics. Refer to the 'Rotating System' section of the A&B website for more information on the benefits of this unique system to growers. Patent: PCT AU02/00097.

**Greenhouses** – THC will provide a selection of greenhouses, available in kit form or fully erected. Standard greenhouses include plastic roof, hail net sides and vents.

**Environmentally Controlled Greenhouse and Tunnels** – A&B has environmentally controlled greenhouses and tunnels for extreme climates, as well as for producing mushrooms, green fodder for animals and leaf vegetables.

### (h) Finance strategy

Following completion of the Offers, the Company envisages that it will have sufficient capital to pursue its short-term objectives. If additional capital is required to pursue other acquisitions or any other activities, the Company may fund its future activities by issuing additional Shares to new and existing Shareholders, and, where attainable, by the raising of debt finance. The objective is to achieve near term cash flow with profitable operations within the two years.

### 3. Details of the Offers

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The information in this Section is a summary of the key points only and is not intended to provide comprehensive details of the Offers. You should read the full text of this Prospectus and, if in any doubt, you should consult with your professional advisers before deciding whether to apply for Shares. The Shares offered under this Prospectus carry no guarantee in respect of return of capital, return on investment, payment of dividends or the future value of the Shares.

#### 3.1 The Public Offer

This Prospectus invites investors to apply for a total of 25,000,000 Shares and 12,500,000 Options at an issue price of \$0.20 per Share to raise \$5,000,000. In addition, the Company may accept over-subscriptions for up to 15,000,000 Shares and 7,500,000 Options to raise a further \$3,000,000.

The minimum subscription is \$5,000,000.

Applicants under the Public Offer will be required to pay an Application Amount of \$0.20 per Share comprising solely the subscription price of \$0.20 per Share payable to the Company.

All Shares issued pursuant to this Prospectus will be issued as fully paid ordinary Shares and will rank equally in all respects with the Shares already on issue.

The rights attaching to the Shares are outlined in the Company's constitution and summarised in Section 9.2.

The terms and conditions of the Options are summarised in Section 9.5.

If the minimum subscription for the Public Offer is not achieved within four months after the date of this Prospectus, all Applications will be dealt with in accordance with the *Corporations Act*.

#### 3.2 The Secondary Offer

This Prospectus also includes an offer to the Founders, Directors, Vendors, Seed Investors and Promoters of 33,450,000 Options (**Secondary Offer**).

Secondary Offer Options	
Founders	7,750,000
Directors	1,250,000
Vendors	4,000,000
Seed Investors	14,200,000
Promoters	6,250,000
	<b>33,450,000</b>

Further details of the rights attaching to Options are set out in Section 9.5.

The *Corporations Act* requires (other than as provided by s708) that offers of securities need disclosure through a disclosure document, such as a prospectus. The Secondary Offer is required to ensure that the Options to be issued to the Founders, Directors, Vendors, Seed Investors and Promoters can be issued and traded freely after their issue, subject to any escrow arrangements required by the ASX (see Section 9.13 for further details).

#### 3.3 The Hydroponics Company Limited

The Hydroponics Company Limited (ABN 33 614 508 039) (the **Company** or **THC**) was incorporated on 29 August 2016. It is a newly formed Australian company, which has not yet commenced operations and was formed specifically for the purposes of the Offers.

It is an Australian unlisted public company.

At the Completion of the Offers, THC will be a manufacturer and distributor of hydroponics equipment, materials and nutrients; designer and constructor of large-scale hydroponic greenhouses; and undertake the development and delivery of medicinal cannabis.

The burgeoning market in North America and liberalized laws surrounding cannabis production have created a high demand for the Company's Businesses. The sector is experiencing substantial growth as increasingly laws are passed in Australia, New Zealand, US and Canada permitting the possession and consumption of cannabis either for medical or recreational purposes.

Details of the Company's history and financial performance are set out in Sections 6 and 7.

### 3.4 Applications for Shares

Applications must be for a minimum of 10,000 Shares (\$2,000) and thereafter in multiples of 1,000 Shares (\$200) and can only be made by completing the Application Form attached to or accompanying this Prospectus. The Company reserves the right to reject any Application or to allocate any investor fewer Shares than the number applied for.

### 3.5 Offers statistics

A summary of the capital structure of the Company following this Issue is set out below:

Amount raised	\$5,000,000	\$8,000,000
<b>Capital Structure prior to the Issue</b>		
Shares <sup>1</sup>	35,400,000	35,400,000
Options (including Options to be issued pursuant to the Secondary Offer) <sup>2</sup>	17,700,000	17,700,000
Performance Shares	Nil	Nil
<b>Maximum number of Securities under the Public Offer to be issued pursuant to this Prospectus</b>		
Shares	25,000,000	40,000,000
Options	12,500,000	20,000,000
Performance Shares	Nil	Nil
<b>Capital structure following completion of the Issue</b>		
Shares <sup>3,4</sup>	82,400,000	97,400,000
Options (including Options to be issued pursuant to the Secondary Offer) <sup>5,6</sup>	46,450,000	53,950,000
Performance Shares <sup>7</sup>	26,500,000	26,500,000

<sup>1</sup> 7,000,000 of the existing Shares on issue were issued to Directors, Founder and Promoters for nominal consideration.

28,400,000 Shares currently on issue were issued at an issue price of \$0.05 each to seed capital investors to fund acquisition costs, the listing costs and initial working capital requirements of the Company. These Shares were issued at a discount to the issue price of the Shares offered pursuant to the Offer to reflect the increased risk associated with an investment in the Company at the time of issue of the seed capital. Rights attaching to the Shares are outlined in the Company's constitution and summarised in Section 9.2.

<sup>2</sup> 3,500,000 of the Options include Options to be issued to Directors, Founder and Promoters for nominal consideration. Each Option will be quoted and is exercisable at \$0.40 cents on or before 31 December 2019.

14,200,000 of the Options include Options to be issued to seed capital investors.

The terms and conditions of the Options are summarised in Section 9.5.

<sup>3</sup> 10,750,000 Shares will be issued to Vendors summarised in the Material Contracts section described in Section 8.

<sup>4</sup> 11,250,000 Shares will be issued to Founders, Promoters and Brokers.

<sup>5</sup> 4,000,000 Options will be issued to Vendors as detailed in the Material Contracts section described in Section 8.

<sup>6</sup> 12,500,000 Options will be issued to Founders, Promoters and Brokers.

<sup>7</sup> 26,500,000 Performance Shares will be issued to Vendors. Performance Shares convert to Shares as specified milestones are achieved. The terms and conditions of the Performance Shares are detailed in Section 9.6.

### 3.6 Exposure Period

No Application can or will be processed until after the period of 7 days from the date of lodgement of the Prospectus with ASIC or, if that period is extended by ASIC by notice in writing, 14 days from the date of lodgement (**Exposure Period**). No preference will be conferred on Applications received during the Exposure Period.

The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. Examination during the Exposure Period may result in the identification of deficiencies in this Prospectus and in those circumstances, any Application that has been received may need to be dealt with in accordance with Section 724 of the *Corporations Act*.

### 3.7 Purpose of the Offers

The purpose of the Offers is to facilitate an application by the Company for admission of the Company to the official list of ASX and position the Company to seek to achieve the objectives set out above in Section 2.2.

The Company is seeking to raise a minimum of \$5,000,000 pursuant to the Public Offer. In addition, the Company may accept over-subscriptions for up to 15,000,000 Shares (and 7,500,000 Options) to raise a further \$3,000,000.

Funds raised through the Public Offer are proposed to provide additional funds to enable the Company to:

- meet the requirements and costs of listing on ASX;
- complete the acquisition and development of the Businesses;
- provide working capital; and
- provide funds for expansion.

### 3.8 Use of Funds

The Company intends to apply funds raised from the Public Offer, together with existing cash reserves, over the first two years following admission of the Company to the official list of ASX as follows:

	Amount Raised			
	\$5,000,000	% of Funds	\$8,000,000	% of Funds
<b>Funds available</b>				
Existing cash reserves of the Company <sup>1</sup>	\$750,000	13%	\$750,000	9%
Funds raised from the Public Offer	\$5,000,000	87%	\$8,000,000	91%
<b>Total available funds</b>	<b>\$5,750,000</b>	<b>100%</b>	<b>\$8,750,000</b>	<b>100%</b>
<b>Allocation of funds</b>				
Expenses of the Public Offer <sup>2</sup>	\$205,750	4%	\$205,750	2%
Commissions and Fees	\$300,000	5%	\$480,000	5%
ASX Costs	\$76,750	1%	\$79,750	1%
CMDV NTA	\$1,310,000	23%	\$1,310,000	15%
CMDV development	\$600,000	10%	\$1,100,000	13%
Canndeo funding <sup>3</sup>	\$1,864,000	32%	\$1,864,000	21%
Polyploid development	\$100,000	2%	\$700,000	8%
Product development	\$414,000	7%	\$624,000	7%
Greenhouse development	\$100,000	2%	\$100,000	1%
Review and further acquisitions	Nil	0%	\$1,000,000	11%
Administration expenditure and working capital	\$750,000	13%	\$900,000	10%
Surplus / Contingencies	\$29,500	1%	\$386,500	4%
<b>Total</b>	<b>\$5,750,000</b>	<b>100%</b>	<b>\$8,750,000</b>	<b>100%</b>

<sup>1</sup> Refer to Investigating Accountant's Report set out in Section 7 of this Prospectus for further details.

<sup>2</sup> Refer to Section 9.13 for further details

<sup>3</sup> The following provides further details with respect to Canndeo funding:

Licensing and government approvals	\$130,000
Sites and operations	\$450,000
Alliancing and product identification	\$270,000
Product R&D and pre-clinical development	\$455,000
Clinical trial preparation	\$160,000
Market development	\$345,000
Contingency	\$54,000
	<b>\$1,864,000</b>

The estimates of expenditure set out in this Section 3.8 are based on budgets set by the Directors. The actual level and break-up of expenditure may change on an ongoing basis depending on results obtained.

Following completion of the Offers, the Directors are of the view that the Company will have sufficient working capital to carry out its objectives pursuant to Section 2.2.

The previous tables and the development programmes and associated expenditure outlined in Section 2.1 are statements of current intentions at the date of the lodgement of this Prospectus with ASIC. As with any budget, intervening events and new circumstances have the potential to impact the ultimate way funds will be applied. The Board reserves the right to alter the way funds are applied in these circumstances.

It is also possible that future acquisitions may exceed the current or projected financial resources of the Company and it is expected that these acquisitions would be funded by project finance and/or equity issues (subject to Shareholder approvals as required).

### 3.9 Minimum Subscription and Over-Subscription

The minimum subscription for the Issue is \$5,000,000.

No Securities will be issued pursuant to this Prospectus until the minimum subscription is reached. Should the minimum subscription not be reached within 4 months after the date of this Prospectus, all application monies will be dealt with in accordance with the *Corporations Act*.

The Company reserves the right to accept over-subscriptions of up to \$3,000,000 through the issue of up to an additional 15,000,000 Shares (and 7,500,000 Options).

The maximum subscription for the Issue is \$8,000,000.

### 3.10 Proceeds of the issue

After expenses of the issue the net proceeds (including cash in hand) are estimated to be:

\$11 343,289, with the net asset backing of the Shares being 13.77 cents per share on a pro forma basis upon raising \$5 million (see Financial Information, Section 6).

\$14,160,289 with the net asset backing of the Shares being 14.54 cents per share on a pro forma basis upon raising \$8 million (see Financial Information, Section 6).

### 3.11 Dividends

Any future determination as to the payment of dividends by the Company will be at the discretion of the Directors and will depend on the availability of distributable earnings and operating results and financial condition of the Company, future capital requirements and general business and other factors considered relevant by the Directors.

No assurance in relation to the payment of dividends or franking credits attaching to dividends can be given by the Company.



### 3.12 How to apply for Shares

#### (a) Public Offer

To participate in the Public Offer, the Application Form attached to or accompanying this Prospectus must be completed in accordance with the instructions on its reverse side.

#### (b) General terms

Applications under the Public Offer may be made, and will only be accepted, in one of the following forms:

- on the relevant Application Form attached to or accompanying this Prospectus; or
- on a paper copy of the relevant electronic Application Form which accompanies the electronic version of this Prospectus, both of which can be found at and can be downloaded from [www.thcl.com.au](http://www.thcl.com.au).

Paper Application Forms, whether attached to or accompanying a paper copy of this Prospectus must be accompanied by a cheque or a bank draft payable in Australian dollars, drawn on an Australian branch of an Australian registered financial institution for an amount equal to the number of Shares for which you wish to apply multiplied by the Issue Price of \$0.20 per Share. Cheques or bank drafts should be made payable to "The Hydroponics Company Limited" and crossed "Not Negotiable".

Applicants should ensure that cleared funds are available at the time the Application is lodged, as dishonoured cheques will result in the Application being rejected.

Applicants should return their completed Application Forms to:

The Registrar  
Computershare Investor Services Pty Limited  
GPO Box 2115 Melbourne  
Victoria 3001 Australia

by no later than 5.00pm Sydney time on 5 April 2017 .

Detailed instructions on how to complete paper Application Forms are set out on the reverse of those forms. You are not required to sign the Application Form. The Company reserves the right to reject any Application (including where an Application has not been correctly completed) or allocate any person fewer Shares than that person applied for, or vary the dates and times of the Offers without prior notice and independently of other parts of the Offers. Where Applications are rejected or fewer Shares are allotted than applied for, surplus Application Monies will be refunded. No interest will be paid on any Application Monies refunded.

### 3.13 Allotment and Allocation of Shares

Subject to the ASX granting approval for the Company to be admitted to the Official List, the allotment of Shares to Applicants will occur as soon as possible after the Public Offer is closed, following which statements of Share holdings will be dispatched. It is the responsibility of Applicants to determine their allocation prior to trading in Shares. Applicants who sell their Shares before they receive their holding statements will do so at their own risk. Pending the issue of the Shares or return of the Application Monies, the Application Monies will be held in trust for Applicants.

The Company has the right to allocate the Shares under the Public Offer. The Company may reject any Application or allocate any investor fewer Shares than applied for under the Public Offer. If an Application is not accepted, or is accepted in part only, the relevant part of the Application Monies will be refunded. Interest will not be paid on Application Monies refunded.

### 3.14 ASX Quotation

Within seven days after the date of this Prospectus, application will be made to the ASX for the Company to be admitted to the Official List and for the Shares and Options offered by this Prospectus to be granted Official Quotation. If approval for Official Quotation is not granted within three months after the date of this Prospectus, the Company will not allot or issue any Shares pursuant to the Public Offer and will repay all Application Monies without any interest as soon as practicable. The fact that the ASX may admit the Company to its Official List is not to be taken in any way as an indication of the merits of the Company or the Shares offered pursuant to this Prospectus.

### 3.15 CHES

The Company proposes participating in the Clearing House Electronic Subregister System (**CHES**), operated by ASX Settlement Pty Ltd (**ASX Settlement**). ASX Settlement is a licensed clearing and settlement facility under the Corporations Act, and must comply with the Financial Stability Standard for Securities Settlement Facilities and in accordance with the ASX Listing Rules and ASX Settlement Operating Rules.

Under this system, the Company will not issue certificates to investors. Instead, Shareholders will receive a statement of their holdings in the Company. If an investor is participant sponsored, ASX Settlement will send them a CHES statement.

The CHES statement will set out the number of Shares allotted to each holder under this Prospectus, give details of the Shareholder's holder identification number and give the participant identification number of the sponsor.

If you are registered on the issuer-sponsored sub-register, your statement will be dispatched by the Share Registry and will contain the number of Shares allotted under this Prospectus and the Shareholder's security holder reference number.

A CHESS statement or issuer-sponsored statement will routinely be sent to Shareholders at the end of any calendar month during which the balance of their holding changes. A Shareholder may request a statement at any other time however a charge may be made for additional statements.

### 3.16 Ranking

Shares issued pursuant to this Prospectus will rank equally in all respects with existing Shares. Full details of the rights attaching to Shares are contained in the Company's Constitution, a summary of which is set out in Section 8. The Constitution is available for inspection, without a charge, during normal business hours at the Company's registered office.

### 3.17 No Underwriting

The offer made pursuant to this Prospectus is not underwritten.

### 3.18 Broker Commissions and Handling Fees

Gleneagle Securities (Aust) Pty Ltd, the Company appointed joint lead manager to the Public Offer, will pay a commission at a negotiable rate where a dealer has introduced an Applicant and indicated that introduction by completion of the "broker code" Section of the Application Form. The commission will be paid by Gleneagle within 21 Business Days of the allotment of the Shares on the presentation of a tax invoice to them.

### 3.19 Investment Risks

Further information on risk is provided in Section 2.5.

### 3.20 Taxation

The acquisition and disposal of Shares will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Shares from a taxation viewpoint and generally.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisors accept no liability and responsibility with respect to the taxation consequences of subscribing for Shares under this Prospectus.

### 3.21 Overseas Investors

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law. Persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. Lodgement of a duly completed Application Form will be taken by the Company to constitute a representation that there has been no breach of such laws.

No action has been taken to register or qualify the Shares, or the Public Offer, or otherwise to permit a public offering of the Shares, in any jurisdiction outside Australia.

The Public Offer pursuant to an Electronic Prospectus is only available to persons receiving an electronic version of this Prospectus within Australia.

### 3.22 Privacy Act

By completing an application form accompanying this offer document, you will be providing personal information to the Company (and its Share Registrar). *The Privacy Act 1988 (Cth)* governs the use of your personal information and sets out principles governing the ways in which organisations should treat that information.

The Company collects information about each Applicant from the Application Form for the purposes of processing the Application and, if the Application is successful, to administer the Applicant's Shareholding in the Company.

By submitting an Application Form, each Applicant agrees that the Company may use the information in the Application Form for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to the Share Registry, the Company's related bodies corporate, agents, contractors and third party service providers (including mailing houses), ASX, ASIC and other regulatory authorities.

If an Applicant becomes a Shareholder of the Company, the *Corporations Act* requires the Company to include information about the Shareholder (name, address and details of the Shares held) in its public register. This information must remain in the register even if that person ceases to be a Shareholder of the Company for seven years. Information contained in the Company's registers is also used to facilitate distribution payments and corporate communications (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its Shareholders) and compliance by the Company with legal and regulatory requirements.

If you do not provide the information required on the Application Form, the Company may not be able to accept or process your Application.

### 3.23 Electronic Prospectus

This Prospectus may be accessed on the Company website at [www.thcl.com.au](http://www.thcl.com.au).

Securities will only be issued on receipt of an application form issued together with the Prospectus.

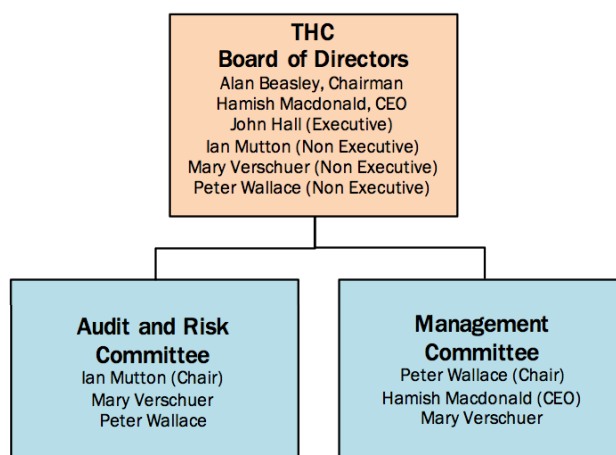
Any person accessing the electronic version of this Prospectus for the purposes of investing in the Company must only access this Prospectus from within Australia. The *Corporations Act* prohibits any person from passing on to another person the Application Form unless it is accompanied by a hard copy of this Prospectus or accompanies a complete and unaltered electronic version of this Prospectus. Investors should read the Prospectus before completing the Application Form. During the Public Offer Period, any person may obtain a hard copy of this Prospectus on request and without charge by contacting the Company on +61 2 9251 7177.

Applications will not be accepted by email or any other electronic means.

### 3.24 Opening and Closing Dates

Subscription lists will open on the Opening Date and will remain open until 5.00 pm Sydney time on the Closing Date in respect of the Public Offer subject to the right of the Company to close the Public Offer at an earlier time and date or to extend the closing time and date of the Public Offer without prior notice. Applicants are encouraged to submit their Applications as early as possible.

## 4. Directors and Key Management Personnel



### 4.1 Directors

#### (a) Alan Beasley (Non-Executive Chairman)



Alan Beasley has worked in the Investment Banking and Investment Management industries for over 30 years, with Bankers Trust Australia, Goldman Sachs Asset Management, and BNP Paribas Asset Management Ltd. The last two positions as Managing Director and Australian Country Head. Alan is a director and former director of several listed and unlisted public and private companies including two public charities. He is currently Managing Director of Hudson Investment Group Ltd (ASX: HGL) Hudson Pacific Group Ltd and Non-Executive Chairman of Esperance Minerals Ltd (ASX: ESM). He is a former Non-Executive Chairman of Admiralty Resources NL (ASX: ADY) Non-Executive Director of Asia Pacific Capital Securities Pty Ltd, and Biometric Advisers Pty Ltd. Alan has a passion for and experience in assisting to bring innovative and new technology companies to market, especially in the Health and Life Sciences sectors. Alan graduated with a Bachelor of Economics, (UNE) and completed an Advanced Management Program in International Investment Management, from the Graduate Business School, Stanford University, USA.

Alan is a Certified Practising Accountant, (CPA) Fellow of the Governance Institute of Australia, (FGIA) and Fellow of the Australian Institute of Company Directors. (FAICD).

Alan Beasley does not expect that his other directorships will impact his ability to act as a director of the Company.

#### (b) Hamish MacDonald (CEO – THC)



Hamish was the CEO in the commercialization of a Biotechnology start-up company that has successfully negotiated contracts with Clenergen Ltd to supply biomass genetics for a 500MWH off take agreement in India. He also formed a joint venture with Linc Energy Ltd for the development of a bioreactor to remove CO<sub>2</sub> emissions from coal and gas fired power stations and an R&D phytoremediation contract with Queensland Gas Group Ltd for the alleviation of contaminants within coal seam process water within the Surat Basin.

Hamish has proven leadership skills and practical experience in business development, feasibility studies, and planning, building and leading teams and influencing pathways for optimum organizational results.

#### (c) Mary Verschuer (Non-Executive)



Mary Verschuer is an experienced non-executive director with more than 20 years of experience in senior management positions, including board experience on an ASX200, NZX50 listed entity, joint ventures, charities, research and development, and training bodies across a range of sectors.

Formal tertiary qualifications to MBA level, including the AICD Company Directors Course. Mary has over 20 years operational C-suite experience in initiating, executing and integrating acquisitions, managing global supply chains, maintaining consistent top and bottom line growth and implementing operational and technical risk management. Mary completed a Bachelor of Applied Science at the University of Technology.

**(d) John Hall (Executive)**



John Hall brings over 30 years' experience in plant breeding, crop management and monitoring systems, as well as directorships of several companies. He has worked extensively in crop nutrition, including hydroponics, and was involved in breeding 7 of 9 registered industrial hemp varieties in Australia for the company.

John has also consulted extensively in Australia, USA, Europe and Asia. He developed a unique system for remote crop monitoring and integrated management which has been adopted in six countries. Most recently John has consulted on sustainable development of modern sugar industry in Guangxi China, and is Managing Director of Crop Tech Asia based in Thailand. John's depth of understanding gives the Company a clear advantage in its quest for quality and efficiency in its agricultural operations.

**(e) Ian Mutton**



Ian Mutton is the practice director of a Sydney based law firm specialising in contract related matters and competition and product liability laws. He assists with the development and implementation of programs aimed at ensuring compliance with the competition and product liability laws.

Separate to the law firm assists companies to list and implement systems that are intended to ensure ongoing compliance with the listing rules and regulatory requirements.

Following admission to practice law and before assuming the position of practice director in 2016 he spent: (a) a decade with the Commonwealth Crown Solicitor on continuous secondment to the (then) Trade Practices Commission and occasional secondment to an inter-department committee responsible for containing product liability exposure, (b) a decade and a half devising and implementing product liability defence and asset protection strategies in Australia, New Zealand and the US. Five years managing relations for a Northern Island based energy start-up company with governments and regulators based in Belfast, Westminster and Brussels (c) a decade devising and implementing competition law and product liability related governance and training programs for companies in Australia, New Zealand and Europe.

**(f) Peter Wallace**



Peter Wallace is the founder and Managing Director of Endeavour Capital, an independent corporate advisory firm. Endeavour Capital's operations include business sales/acquisitions, directorships and business valuations. He has over 25 years experience in advising smaller and mid-sized businesses and has been a non-executive director of over 20 company groups in a wide range of industries including; biotechnology, distribution, financial services, healthcare, information technology, manufacturing and retail.

Peter is non-executive chairman of ASX listed Ambertech Limited. He is also non-executive director of The Executive Connection Pty Limited and Carte Blanche Australia Pty Limited. Until May 2012 was non-executive chairman of ASX listed Ideas International Limited.

Peter has a Bachelor of Commerce and Masters of Business Administration, is a member of the Institute of Chartered Accountants and a Fellow of the Australian Institute of Company Directors.

## 4.2 Officers

**(a) Company Secretary – Henry Kinstlinger**



Henry Kinstlinger has in the past thirty years been actively involved in the financial and corporate management of several public companies and non-governmental organisations. He is a professional company secretary and corporate consultant with broad experience in investor and community relations and corporate and statutory compliance.

**(b) Chief Financial Officer – Francis Choy MComm MBA FCPA(HK) FCPA CA**



Francis Choy has held several senior positions in corporate financial management roles throughout Australia and South East Asia. He has extensive experience in project finance, compliance, acquisition and investment appraisals. He has been involved in project finance, financial management of property development and telecommunication projects in South East Asia. He held senior financial roles for numerous public listed companies both in Hong Kong and Australia.

The services of Francis Choy as CFO are provided under the terms of the Corporate Services Agreement, further described in Section 8.13.



## 4.3 Key Management Personnel

### (a) Dr Andrew Beehag, CEO, Canndeo



Andrew Beehag will lead THC's medicinal cannabis development program. His recent background includes managing a \$65 million 5-year industry and academic research centre with 24 international partners, which secured A\$14 million of Australian government funding.

Andrew's key skills include creation and execution of strategic plans, operations and personnel management, intellectual property management and commercialisation, budgeting and financial forecasting, stakeholder negotiation and management, project management, public speaking and development of high performing teams.

### (b) Jason Colquhoun, CEO, CMDV



Jason Colquhoun is the vendor of Crystal Mountain (Incorporated in Canada) and Dragon Vision (incorporated in Hong Kong), companies specializing in horticultural supplies. Jason is a self-made entrepreneur, with a broad range of international experience. Honing his business skills with a small start-up based out of his garage, Jason has successfully grown his business acumen to become a multi-national, multi-million-dollar enterprise.

Jason is an expert in his field and remains highly involved in every aspect of each of his businesses, including logistics, research and development, marketing, product design and customer relations.

### (c) Jim Barlow, Regional Manager of the Americas



Jim Barlow has been appointed THC's representative to the Americas for the development of large commercial hydroponic greenhouses.

Jim holds a B.Sc. degree in agronomy from California Polytechnic State University in San Luis Obispo, California. He is classically trained in soil science, soil microbiology and tropical agriculture, together with orchard, plantation and vineyard crop production practices. Since 2013 he has managed large commercial hydroponic greenhouses and consults to large farming concerns in Latin America wishing to acquire and operate state-of-the-art greenhouses and hydroponic systems.

Jim has rare knowledge and experience in the concepts and methods of applied soil microbiology that stimulate and support plants to have improved growth and higher yields. He is a career master consultant in modern sustainable agriculture who brings proven techniques of soil fertility, applied soil ecology, plant nutrition and plant health—including biological control of common pests and diseases. He has extensive international experience in crop production and planning of large-scale biodiesel and biomass projects in Mexico, Nicaragua, Panama, Mozambique, Cambodia, and Ghana.

Jim is a published author and an accomplished public speaker that has lectured widely on advanced techniques of sustainable agriculture across the U.S.

## 5. Risk Factors

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### 5.1 Introduction

There are several risks, some specific to the Company and some of a general nature, which may both individually or in combination materially and adversely affect the future operating and financial performance of the Company, its investment returns and the value of the Shares. Many of these risks are outside the control of the Company.

There can be no guarantee that the Company will achieve its objectives or that any forward-looking statements or forecasts will eventuate. This Section describes the areas, which the Company believes are the major risks associated with an investment in the Company.

This is not an exhaustive list and should be considered in conjunction with other information disclosed in this Prospectus. You should have regard to your own investment objectives and financial circumstances, and seek professional guidance from your stockbroker, solicitor, accountant or another independent professional adviser before deciding whether to invest.

The Company's business activities are subject to risk factors both specific to its business activities and that of a general nature. If any of the risks associated with the Company materialised, the Company's business, results of operations, financial condition and prospects could be materially and adversely affected, which could result in the loss of all or part of your investment. The principal risk factors are described below. While some of these risks can be mitigated using appropriate safeguards and systems, many are outside the control of the Company and cannot be mitigated.

Before deciding whether to invest in the Company's Shares, prospective investors should carefully consider the risk factors described below, together with all other information contained in this Prospectus. If any of these risks and uncertainties, together with the possible additional risks and uncertainties of which the Directors are currently unaware or which they consider not to be material in relation to the Company's business, actually occur, the Company's business, financial position, the amount of work able to be performed with the funds raised from the Public Offer or operating results could be materially and adversely affected.

In addition, potential investors should be aware that the value of the Company's Shares on ASX might rise and fall depending on a range of factors that affect the market price of Shares. These include local, regional and global economic conditions and sentiment towards equity markets in general. The Shares issued under this Prospectus carry no guarantee with respect to the profitability, the payment of dividends, return of capital or the price at which the Shares may trade on the ASX.

It should be noted that this list is not exhaustive and that certain other risk factors may apply.

You should carefully consider the risks and uncertainties set out below and the information contained elsewhere in this Prospectus before you decide whether to apply for Shares. You should also seek your own professional advice in relation to the risks associated with an investment in the Company and should make your own assessment as to whether to invest in the Company.

The Company's business could be materially and adversely affected by several risks, including:

#### (a) Government

Changes in legislation and government policy in Australia and internationally (including taxation and monetary policies and corporation laws) could materially affect the operating results of the Company.

#### (b) Geopolitical

The Company will be subject to the risks associated with operating Offshore. Such risks can include economic, social or political instability or change, hyperinflation, currency non-convertibility and instability and changes of law affecting foreign ownership, government participation, taxation, working conditions, exchange control, repatriation of income or return of capital, environmental protection, and labour relations.

#### (c) Laws and regulations

The laws and regulations in Offshore jurisdictions differ to those that exist in Australia. Laws may unexpectedly change, and could have an impact on the operational activities of the Company Offshore. Unforeseen changes could materially impact the operating results of the Company.

#### (d) Jurisdictional risk

The assets the Company is seeking to acquire are located Offshore and are therefore subject to different regulatory requirements than Australia. Sovereign risk may arise if there are changes to any Offshore regulatory requirements, particularly relating to ownership of shares in Offshore companies.

#### (e) Competition risk

The industry in which the Company will be involved is subject to domestic and global competition. While the Company will undertake all reasonable due diligence in its business decisions and operations, the Company will have no influence or control over the activities or actions of its competitors, which activities or actions may, positively or negatively, affect the operating and financial performance of the Company's business.

**(f) Reliance on key personnel**

Skilled employees and consultants are essential to the successful delivery of the Company's strategy. Upon changing the nature and scale of its activities, the Company will rely on the services of certain key management personnel, particularly certain of its Offshore nationals who will manage day to day interactions with contractors and regulatory authorities, the loss of any of which could delay the pursuit of the Company's strategy. The Company will not maintain key-man life insurance with respect to any of its employees.

**(g) Risks associated with the capital structure.**

If you accept the Public Offer and subscribe for shares in the Company you should note that you will be a minority Shareholder and that shareholders who have acquired shares outside of the Public Offer will hold up to 75.86% in the Company in the event that \$5,000,000 is raised and all convertible securities are converted. The Promoter's interests as controlling Shareholders of the Company may differ from the interests of minority Shareholders. In these circumstances, the Vendors may cause the Company's affairs to be conducted in a way that favours the Promoter's interests over minority Shareholders (where not prevented by the law or ASX Listing Rules from doing so).

**5.2 Business risks****(a) Reputational**

The industry in which THC will operate relates to controlled substances and their regulatory approval may generate public controversy. Political and social pressures and adverse publicity could lead to delays in approval of, and increased expenses for, our Businesses. These pressures could also limit or restrict the introduction and marketing of our 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 our products. The nature of our business attracts a high level of public and media interest, and in the event of any resultant adverse publicity, our reputation may be harmed.

**(b) Reliance on suppliers**

THC relies heavily on its suppliers to provide it with finished products and components used in the manufacture of its products. There is a risk that these suppliers may not be able to meet their obligations to THC. Such failure of suppliers to adequately meet the company's needs may significantly impede THC's ability to provide products to its distributors and customers and damage its reputation, adversely impacting its financial performance.

**(c) Manufacturing**

THC currently manufactures several its products and has several products in development that are yet to be manufactured at full scale. There are risks associated with disruption to its manufacturing facilities and with scaling up manufacture of products in development. Any such disruptions or failures to scale up manufacture may impact the Company's financial performance.

**(d) Product liability**

THC is in business of selling products to retail customers and as such may be exposed to product liability claims arising from faults in the design or manufacture of its products. The Company carries (and will continue to carry after listing on ASX) what the Directors consider to be adequate insurance. However, there can be no assurance that a significant claim, if successful, would not adversely impact the Company's financial performance.

**(e) Failure to develop new businesses and develop new products**

THC's strategy includes the development of new businesses and new products. When THC implements new business and introduces new products, there is a risk that these new initiatives may have unforeseen costs, may fail to achieve planned revenue or may not achieve the intended outcomes. A failure by THC to implement new business and develop successful new products may materially adversely impact its revenue, profitability and growth.

**(f) Protection of proprietary technology**

While the Company will continue to use all reasonable endeavours to protect its proprietary technology, there can be no assurance that these measures have been, or will be, sufficient. Any failure to protect its proprietary technology may result in competitors copying the Company's products, which may materially adversely impact its revenue, profitability and growth.

**(g) Adequacy of capital resources**

There is no guarantee that acceptable resources or funds will be found in the future. The lack of capital could have a material adverse impact on the Company and its prospects.

**(h) Potential acquisitions**

As part of its business strategy, the Company may make acquisitions of significant investments in other companies, products or assets. Any such future transactions would be accompanied by the risks commonly encountered in making acquisitions of companies, products or assets.

**(i) Tax risks**

A change to the current taxation regime in Australia or Offshore may affect the Company and its Shareholders. The Company will have subsidiaries that operate Offshore, and are subject to the taxation laws that apply to transactions with foreign entities and the interaction of tax laws and allocation of taxes between Australia and Offshore jurisdictions.

**5.3 General risks**

**(a) General investment risks**

There are general risks associated with any investment and the share market. The price of Shares may rise or fall depending upon a range of factors beyond the Company's control and which are unrelated to the Company's financial performance. Movements on international stock markets, interest rates and exchange rates, together with domestic and international economic conditions, inflation rates, commodity supply and demand, government taxation and royalties, legislation and other policy changes may affect the stock market generally and the market for the Company's Shares.

**(b) Possible volatility of Share price**

The price of Shares listed on ASX may also be affected by a range of factors including the Company's financial performance and by changes in the business environment in which the Company operates. The value of Shares can increase or decrease. Economic factors such as changes in interest rates, exchange rates, inflation rates, tax rates and governmental regulation; industry factors such as the development of new and competing resources and products by the Company's competitors; changing commodity supply and demand and commercial factors such as the loss of key staff can also affect the value of the Shares. Similarly the level of dividends paid on Shares (if any) could rise or fall.

**(c) Legislative risk**

Growing of cannabis is a heavily regulated industry in most jurisdictions throughout the world. Future growth of this market is reliant on future legislative changes in legalisation and decriminalisation of cannabis for both medical and recreation use. Changes in legislation that restrict the ability of consumers and producers to grow cannabis legally may have a significant impact on the size of this market and on the ability of THC to grow its business.

The Company's operations are subject to a variety of laws, regulations and guidelines. The medicinal cannabis industry is evolving worldwide and in Australia 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 Company's involved in medicinal cannabis. While to the knowledge of management, the Company is currently in compliance with all current laws, changes to laws and regulations due to matters beyond the control of the Company may cause adverse affects to its operations.

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

**(d) License risk**

Research, development and production of medicinal cannabis is reliant on THC obtaining licences in Australia issued by the Drug Control Office.

In the event the necessary licenses are not issued or are revoked, the Company will not be able to implement its medicinal cannabis program.

**(e) Changes in technology and consumer preferences**

The cannabis growing industry is characterised by changes in technology, introduction of new products and services, and changing consumer preferences. Thus, THC is required to constantly keep abreast of these changes to provide the most up-to-date products to meet customers' preferences. Any failure of THC to adapt to these changes may affect its ability to grow and remain profitable.

**(f) Competitive pressures**

The indoor and urban horticultural industry is becoming increasingly competitive. The entry of new players into the industry will increase competitive pressure faced by existing operators. There are few barriers to prevent new competitors from entering the industry.

**(g) Changes in laws and government policy**

Changes in laws, regulations and government policy may affect the Company and the attractiveness of an investment in the Company.

**(h) Government actions**

The impact of actions by government may affect the Company's activities.

**(i) Currency risk**

Operating Offshore, THC trades in multiple currencies. Any conversion and payment of profits to Australian dollars will be subject to currency exchange rate fluctuations. THC does not hedge these currency risks.

**(j) Application of and changes to accounting policies**

Accounting standards and policies may change in the future especially in relation to the application of the International Financial Reporting Standards. Such changes may have an adverse impact on future reported financial results.

### **5.4 Investor Considerations**

Before deciding to apply for Shares, Applicants should consider whether the Shares are a suitable investment for them.

There may be tax implications arising from the application for Shares, the receipt of dividends (both franked and unfranked) from the Company, and on the disposal of Shares. Applicants should carefully consider these tax implications and obtain their own advice from an accountant or other professional tax adviser in relation to the application of tax legislation.

If you are in doubt as to whether you should subscribe for Shares you should seek advice on the matters contained in this Prospectus from a stockbroker, solicitor, accountant or other professional adviser immediately.

## 6. Historical and Pro Forma Financial Information

### THE HYDROPONICS COMPANY LIMITED STATEMENT OF FINANCIAL PERFORMANCE FOR THE PERIOD FROM 29 AUGUST 2016 TO 30 SEPTEMBER 2016

	Period from 29-Aug-16 to 30-Sep-16 Audited \$
Interest received	64
Consultants costs	(45,000)
Director fees	(12,500)
Legal fees	(2,146)
Administration costs	(104)
Options cost	(24,525)
<b>Loss before income tax expense</b>	<b>(84,211)</b>
Income tax expense	-
<b>Loss after tax</b>	<b>(84,211)</b>
Other comprehensive (loss) / income	-
<b>Total comprehensive loss</b>	<b>(84,211)</b>

Investors should note that past results are not a guarantee of future performance.



**CRYSTAL MOUNTAIN MANUFACTURING INC**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEARS ENDED 31 DECEMBER 2014, 31 DECEMBER 2015**  
**AND THE NINE MONTHS ENDED 30 SEPTEMBER 2016**

	9 months ended 30-Sep-16 Audited \$	9 months ended 30-Sep-15 Audited \$	Year ended 31-Dec-15 Audited \$	Year ended 31-Dec-14 Audited \$
Sales	1,613,533	1,043,220	1,441,852	1,473,982
Cost of sales	(1,103,019)	(708,718)	(976,783)	(1,176,052)
<b>Gross profit</b>	<b>510,514</b>	<b>334,502</b>	<b>465,070</b>	<b>297,930</b>
<b>Expenses</b>				
Wages and benefits	(115,230)	(101,562)	(142,215)	(100,870)
Freight	(55,075)	(43,200)	(59,780)	(63,233)
Rent	(25,665)	(21,649)	(29,778)	(57,263)
Professional fees	(24,309)	(11,051)	(14,412)	(53,789)
Licences, dues and fees	(13,717)	(6,992)	(9,770)	(6,523)
Duty and brokerage fees	(14,827)	(11,368)	(15,025)	(21,418)
Interest and bank charges	(11,158)	(14,015)	(17,966)	(14,584)
Insurance	(10,323)	(9,178)	(7,027)	(12,251)
Bad debts	(9,798)	-	(401)	(4,361)
Other expenses	(28,682)	(22,633)	(36,183)	(51,040)
<b>Income before income taxes</b>	<b>201,732</b>	<b>92,855</b>	<b>132,512</b>	<b>(87,401)</b>
Income tax expense	(27,433)	(12,476)	(14,410)	10,949
<b>Net income and comprehensive income for the period</b>	<b>174,299</b>	<b>80,379</b>	<b>118,102</b>	<b>(76,452)</b>

Investors should note that past results are not a guarantee of future performance.

The Canadian Dollar denominated income statement of CMM has been translated to Australian Dollars using average exchange rates in respect of each financial period ended.

**DRAGON VISION LIMITED**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEARS ENDED 31 MARCH 2015, 31 MARCH 2016**  
**AND THE SIX MONTHS ENDED 30 SEPTEMBER 2016**

	6 months ended 30-Sep-16 Audited \$	6 months ended 30-Sep-15 Audited \$	Year ended 31-Mar-16 Audited \$	Year ended 31-Mar-15 Audited \$
<b>Revenue</b>	474,057	334,710	1,048,667	1,197,157
Cost of sales	(408,578)	(302,222)	(860,938)	(973,666)
<b>Gross profit</b>	65,479	32,488	187,729	223,491
Other income	2,020	18,832	26,678	75,155
Other net gains/ (losses)	-	8	(115)	(6)
Operating and administrative expenses	(7,034)	(13,241)	(29,193)	(87,840)
<b>Profit before tax</b>	60,465	38,086	185,098	210,800
Income tax expense	-	-	-	-
<b>Profit for the period</b>	60,465	38,086	185,098	210,800

Investors should note that past results are not a guarantee of future performance.

The US Dollar denominated income statement of DV has been translated to Australian Dollars using average exchange rates in respect of each financial period ended.

**THE HYDROPONICS COMPANY LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE PERIOD FROM 29 AUGUST 2016 TO 30 SEPTEMBER 2016**

	Period from 29-Aug-16 to 30-Sep-16 Audited \$
<b>Cash flows from operating activities</b>	
Profit before tax	(84,211)
Adjustments for:	
Options cost	24,525
Operating cash flows before changes in working capital	(59,686)
(Increase) in receivables	(4,378)
Increase in trade and other payables	14,110
Net cash flows used, in operating activities	(49,954)
<b>Cash flows from financing activities</b>	
Cash from share capital raised	75,475
Net cash flows from financing activities	75,475
<b>Net (decrease) increase in cash and cash equivalents</b>	25,521
Cash and cash equivalents, beginning balance	-
<b>Cash and cash equivalents, ending balance</b>	25,521

Investors should note that past results are not a guarantee of future performance.

**CRYSTAL MOUNTAIN MANUFACTURING INC**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED 31 DECEMBER 2014, 31 DECEMBER 2015**  
**AND THE NINE MONTHS ENDED 30 SEPTEMBER 2016**

	9 months ended 30-Sep-16 Audited \$	9 months ended 30-Sep-15 Audited \$	Year ended 31-Dec-15 Audited \$	Year ended 31-Dec-14 Audited \$
<b>Cash flows from operating activities</b>				
Cash receipts from customers	1,641,875	1,003,589	1,322,551	1,562,319
Cash paid to suppliers, employees and contractors	(1,398,593)	(1,070,026)	(1,780,679)	(1,073,325)
Interest paid	(11,158)	(14,015)	(17,966)	(14,584)
Income taxes paid	(14,706)	-	(3,407)	(38,432)
Movements in currency	2,515	(415)	3,839	(6,464)
	<u>219,933</u>	<u>(80,867)</u>	<u>(475,662)</u>	<u>429,514</u>
<b>Cash flows from investing activities</b>				
Purchase of plant and equipment	(2,070)	-	-	(2,439)
Activities from (to) related parties	(37,741)	194,353	511,536	(408,182)
	<u>(39,811)</u>	<u>194,353</u>	<u>511,536</u>	<u>(410,620)</u>
<b>Cash flows from financing activities</b>				
Repayment of bank indebtedness	-	(139,169)	(139,219)	109,506
	<u>-</u>	<u>(139,169)</u>	<u>(139,219)</u>	<u>109,506</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<u>180,122</u>	<u>(25,683)</u>	<u>(103,345)</u>	<u>128,400</u>
Cash and cash equivalents, beginning balance	39,498	142,843	142,843	14,443
<b>Cash and cash equivalents, ending balance</b>	<u><u>219,620</u></u>	<u><u>117,160</u></u>	<u><u>39,498</u></u>	<u><u>142,843</u></u>

Investors should note that past results are not a guarantee of future performance.

The Canadian Dollar denominated cash flows of CMM has been translated to Australian Dollars using average exchange rates in respect of each financial period ended.

**DRAGON VISION LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED 31 MARCH 2015, 31 MARCH 2016**  
**AND THE SIX MONTHS ENDED 30 SEPTEMBER 2016**

	6 months ended 30-Sep-16 Audited \$	6 months ended 30-Sep-15 Audited \$	Year ended 31-Mar-16 Audited \$	Year ended 31-Mar-15 Audited \$
<b>Cash flows from operating activities</b>				
Profit before tax	107,038	67,662	342,459	278,024
Adjustments for:				
Interest income	-	-	-	(1)
Provision for slow moving inventories	-	12,402	12,657	-
Trade receivables written off	-	-	7,618	-
Overpayment to supplier written off	-	-	48	-
Net effect of exchange rate changes	(46)	4,753	(5,521)	-
Operating cash flows before changes in working capital	106,992	84,818	357,261	278,023
Decrease/(increase) in related party receivables	(191,299)	470,801	406,053	167,119
Inventories	120,644	(33,183)	(195,862)	(29,318)
Trade and other receivables	38,400	65,352	16,418	28,296
Other assets	11,566	47	(11,824)	-
Trade and other payables	(111,334)	8,462	99,700	(124,423)
Other liabilities, current	59,857	13,922	3,020	8,725
(Decrease)/increase in related party payables	-	(27,133)	(27,690)	23,379
Net cash flows used, in operating activities	34,825	583,085	647,075	351,799
Refund for the purchase of tax reserve certificates	-	6,440	6,572	-
	34,825	589,525	653,647	351,799
<b>Cash flows from investing activities</b>				
Interest received	-	-	-	1
Net cash used in investing activities	-	-	-	1
<b>Cash flows from financing activities</b>				
Dividends paid	-	(522,434)	(533,143)	(521,609)
Net cash flows from financing activities	-	(522,434)	(533,143)	(521,609)
<b>Net (decrease) increase in cash and cash equivalents</b>	34,825	67,092	120,504	(169,808)
Cash and cash equivalents, beginning balance	127,591	6,638	6,638	165,288
<b>Cash and cash equivalents, ending balance</b>	<b>162,417</b>	<b>73,730</b>	<b>127,142</b>	<b>6,638</b>

Investors should note that past results are not a guarantee of future performance.

The US Dollar denominated cash flows of DV has been translated to Australian Dollars using average exchange rates in respect of each financial period ended.

**THE HYDROPONICS COMPANY LIMITED**  
**CONSOLIDATED PRO FORMA STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 SEPTEMBER 2016**

	Note	THC Audited 30-Sep-16 \$	CMM Audited 30-Sep-16 \$	DV Audited 30-Sep-16 \$	Subsequent events Unaudited \$	Pro forma adjustments Unaudited \$	Pro forma Unaudited \$
<b>Current assets</b>							
Cash at Bank	4	25,521	219,620	162,417	750,000	2,458,919	3,616,477
Trade Debtors	5	-	247,272	3,796	-	155	251,223
Other Receivables		4,378	13,560	-	-	-	17,938
Related party receivables		-	-	1,369,896	(1,369,896)	-	-
Inventory	6	-	707,943	108,773	-	-	816,716
<b>Total current assets</b>		<b>29,899</b>	<b>1,188,395</b>	<b>1,644,882</b>	<b>(619,896)</b>	<b>2,459,074</b>	<b>4,702,354</b>
<b>Non-current assets</b>							
Intangibles	3,7	-	-	-	-	6,753,550	6,753,550
Plant and Equipment		-	4,379	-	-	-	4,379
Advances to Related Parties		-	288,276	-	(288,276)	-	-
<b>Total non-current assets</b>		<b>-</b>	<b>292,655</b>	<b>-</b>	<b>(288,276)</b>	<b>6,753,550</b>	<b>6,757,929</b>
<b>Total assets</b>		<b>29,899</b>	<b>1,481,050</b>	<b>1,644,882</b>	<b>(908,172)</b>	<b>9,212,624</b>	<b>11,460,283</b>
<b>Current liabilities</b>							
Trade Payables		14,110	16,531	50,136	-	1,705	82,482
Other payables and accruals		-	522	20,585	-	-	21,107
Income Tax		-	13,405	-	-	-	13,405
Receipts in Advance		-	-	55,772	-	(55,772)	-
Related party payables		-	341,550	-	(341,550)	-	-
<b>Total current liabilities</b>		<b>14,110</b>	<b>372,008</b>	<b>126,493</b>	<b>(341,550)</b>	<b>(54,067)</b>	<b>116,994</b>
<b>Non-current liabilities</b>							
Redeemable Preference Shares		-	821,384	-	(821,384)	-	-
<b>Total non-current liabilities</b>		<b>-</b>	<b>821,384</b>	<b>-</b>	<b>(821,384)</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>14,110</b>	<b>1,193,392</b>	<b>126,493</b>	<b>(1,162,934)</b>	<b>(54,067)</b>	<b>116,994</b>
<b>Net assets</b>		<b>15,789</b>	<b>287,658</b>	<b>1,518,389</b>	<b>254,762</b>	<b>9,266,691</b>	<b>11,343,289</b>
<b>Equity</b>							
Share Capital	8	75,475	100	1	1,264,934	6,404,765	7,745,275
Reserves	9	24,525	-	-	976,525	5,668,250	6,669,300
Accumulated Losses	10	(84,211)	287,558	1,518,388	(1,986,697)	(2,806,324)	(3,071,286)
<b>Total equity</b>		<b>15,789</b>	<b>287,658</b>	<b>1,518,389</b>	<b>254,762</b>	<b>9,266,691</b>	<b>11,343,289</b>

The unaudited consolidated pro forma statement of financial position represents the notionally consolidated audited statement of financial position of the Company as at 30 September 2016 adjusted for subsequent events and the pro forma transactions outlined in Note 1, Section 6 of the Prospectus. It should be read in conjunction with the notes to the historical and pro forma financial information.

The Canadian Dollar denominated balances of CMM have been translated to Australian Dollars using a closing rate of CAD1.0034:1AUD and the US Dollar denominated balances of DV have been translated to Australian Dollars using a closing rate of USD0.763:1AUD as at 30 September 2016 (source: RBA).



## 1. Introduction

The financial information set out in this section consists of the notionally consolidated statement of financial position as at 30 September 2016 and the statements of financial performance and cash flows for the periods ended 30 September 2016 ("Historical Financial Information") together with a pro forma consolidated statement of financial position as at 30 September 2016, reflecting the Directors' pro forma adjustments ("Pro Forma Historical Financial Information").

The Pro Forma Historical Financial Information has been compiled by adjusting the consolidated statements of financial position of the Company for the impact of the following subsequent events and pro forma adjustments.

### Adjustments adopted in compiling the Pro Forma Historical Financial Information

The Pro Forma Historical Financial Information has been prepared by adjusting the Historical Financial Information to reflect the financial effects of the following subsequent events which have occurred in the period since 30 September 2016 and the date of this Report:

#### Subsequent events

- (i) The issue of 750,000 ordinary THC shares at \$0.0001 each issued post balance sheet date, together with 375,000 attaching options exercisable at \$0.40 per option on or before 31 December 2019 ("Options");
- (ii) The issue of 28,400,000 ordinary THC shares at \$0.05 each to raise \$1,420,000 for seed capital, together with the issue of 14,200,000 attaching Options;
- (iii) Material expenses to the date of this Prospectus of \$670,075;

#### Pro forma adjustments

and the following pro forma transactions which are yet to occur, but are proposed to occur immediately before or following completion of the Offer:

- (iv) The issue of 25,000,000 ordinary THC shares at \$0.20 each to raise \$5,000,000 before costs pursuant to the Offer, together with 12,500,000 attaching Options;
- (v) The payment of cash costs related to the Offer estimated to be \$582,500 (comprising expenses of the Public Offer, commissions and fees and ASX costs as set out in the Use of Funds table in Section 3.8);
- (vi) Completion of the acquisitions of CMM and DV through the issue of 3,000,000 shares at \$0.20 per share, 4,000,000 performance shares, 2,500,000 Options, cash payment of \$300,000 for the reimbursement for IP development costs, and additional cash payment equal to 100% of the net tangible assets of CMM and DV acquired plus a \$300,000 distributor margin on inventory acquired;
- (vii) Completion of the acquisition of Canndeo through the issue of 5,000,000 shares, 14,000,000 performance shares and 2,500,000 Options;
- (viii) Purchase of pump technology from New Fluid Technology Pty Ltd ("NFT") through the issue of 250,000 shares and a 5% royalty;
- (ix) Purchase of intellectual property (IP) assets from Pegasus through the issue of 2,500,000 shares and 8,500,000 performance shares;
- (x) The issue of 7,750,000 shares and 7,250,000 Options to the Founders;
- (xi) The issue of 1,000,000 Options to the Promoters;
- (xii) The issue of 1,000,000 shares and 500,000 Options to the Brokers; and
- (xiii) The issue of 2,500,000 shares and 3,500,000 Options to MMR Corporate Services Pty Ltd ("MMR") under the MMR Corporate Services Mandate.

The Pro Forma Historical Financial Information has been presented in abbreviated form and does not contain all the disclosures usually provided in an Annual Report prepared in accordance with the *Corporations Act 2001*.

## 2. Statement of significant accounting policies

### (a) Basis of preparation

The Historical Financial Information has been prepared in accordance with the recognition and measurement requirements of the International Financial Reporting Standards ("IFRS"), adopted by the International Accounting Standards Board and the *Corporations Act 2001*.

The Company was incorporated on 29 August 2016 and has not undertaken any trading activities prior to 30 September 2016.

The Pro Forma Financial Information presented in the Prospectus has been notionally consolidated for as at 30 September 2016 to reflect the Company's acquisition of CMM, DV, Canndeo, the pump technology from NFT and the IP from Pegasus assuming these occurred as at 30 September 2016.

The acquisitions of CMM and DV are considered a business combination transaction with the Company being the accounting acquirer and the transaction accounted for at fair value. The Directors anticipate that the excess of fair value compared to the book value of net assets acquired would primarily be allocated to intangible assets and would be subject to future amortisation expenses or impairment testing.

This acquisitions of Canndeo, the pump technology from NFT and the IP from Pegasus are considered asset acquisitions.

The significant accounting policies that have been adopted in the preparation and presentation of the historical and the Pro forma Historical Financial Information are:

### (b) Basis of measurement

The historical and pro forma financial information has been prepared on the historical cost basis except for financial instruments classified at *fair value through profit or loss*, which are measured at fair value.

### (c) Functional and presentation currency

These historical and pro forma financial information has been presented in Australian dollars which is the Group's functional currency. The historical and pro forma financial information of CMM and DV have been translated from Canadian dollars and US dollars, respectively, to Australian dollars in accordance with international financial reporting standards.

### (d) Principles of consolidation

The historical and pro forma financial information incorporates the assets, liabilities and results of entities controlled by the Company at the end of the pro forma reporting period. A controlled entity is any entity over which the Company has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the consolidated entity during the year, the financial performance of those entities is included only for the period of the year that they were controlled.

In preparing the consolidated financial statements, all intragroup balances and transactions between entities in the consolidated entity have been eliminated in full on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

**(e) Use of estimates and judgements**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

**(f) Going concern**

The historical and pro forma financial information has been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

**(g) Revenue recognition**

The revenue amount is the fair value of the consideration received or receivable from the gross inflow of economic benefits during the reporting period arising from the course of the activities of the entity and it is shown net of any related sales taxes and rebates. Revenue from the sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer, there is neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue from rendering of services that are not significant transactions is recognised as the services are provided or when the significant acts have been completed. Interest income is recognised using the effective interest method.

**(h) Translation of financial statements of other entities**

Each entity in the group determines the appropriate functional currency as it reflects the primary economic environment in which the relevant reporting entity operates. In translating the financial statements of such an entity for incorporation in the consolidated financial statements in the presentation currency the assets and liabilities denominated in other currencies are translated at end of the reporting period rates of exchange and the income and expense items for each statement presenting profit or loss and other comprehensive income are translated at average rates of exchange for the reporting period. The resulting translation adjustments (if any) are recognised in other comprehensive income and accumulated in a separate component of equity until the disposal of that relevant reporting entity

**(i) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**(j) Trade and other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

**(k) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

**(l) Inventories**

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: purchase cost on a first-in/first-out basis
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**(m) Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

**(n) Plant and equipment**

Depreciation is provided on a straight-line method to allocate the gross carrying amounts of the assets less their residual values over their estimated useful lives of each part of an item of these assets.

An asset is depreciated when it is available for use until it is derecognised even if during that period the item is idle. Fully depreciated assets still in use are retained in the financial statements.

Plant and equipment are carried at cost on initial recognition and after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses. The gain or loss arising from the derecognition of an item of plant and equipment is measured as the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognised in profit or loss. The residual value and the useful life of an asset is reviewed at least at each end of the reporting period and, if expectations differ significantly from previous estimates, the changes are accounted for as a change in an accounting estimate, and the depreciation charge for the current and future periods are adjusted.

Cost also includes acquisition cost, borrowing cost capitalised and any cost directly attributable to bringing the asset or component to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequent costs are recognised as an asset only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss when they are incurred.

**(o) Share-based payment transactions**

The Company provides benefits to employees and other parties in the form of share based payments, whereby the employees and parties provide services in exchange for shares and other securities in the Company. The cost of the equity settled share based payment transactions is determined by reference to the fair value of the equity instruments granted.

The fair value of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance/ and or service conditions are fulfilled ("vesting period").

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- (i) The grant date fair value;
- (ii) The extent to which the vesting period has expired; and
- (iii) The number of equity instruments that, in the opinion of the Directors of the Company, will ultimately vest.

This opinion is formed based on the best available information at reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for equity instruments that do not ultimately vest, except for equity instruments where vesting is conditional upon a market condition.

**(p) Income tax**

The income taxes are accounted using the liability method that requires the recognition of taxes payable or refundable for the current period and deferred tax liabilities and assets for the future tax consequence of events that have been recognised in the financial statements or tax returns. The measurements of current and deferred tax liabilities and assets are based on provisions of the enacted or substantially enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the reporting period in respect of current tax and deferred tax. Current and deferred income taxes are recognised as income or as an expense in profit or loss unless the tax relates to items that are recognised in the same or a different period outside profit or loss. For such items recognised outside profit or loss the current tax and deferred tax are recognised (a) in other comprehensive income if the tax is related to an item recognised in other comprehensive income and (b) directly in equity if the tax is related to an item recognised directly in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same income tax authority. The carrying amount of deferred tax assets is reviewed at each end of the reporting period and is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realised. A deferred tax amount is recognised for all temporary differences, unless the deferred tax amount arises from the initial recognition of an asset or liability in a transaction which (i) is not a business combination; and (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). A deferred tax liability or asset is recognised for all taxable temporary differences associated with investments in subsidiaries except where the reporting entity is able to control the timing of the reversal of the taxable temporary difference and it is probable that the taxable temporary difference will not reverse in the foreseeable future or for deductible temporary differences, they will not reverse in the foreseeable future and they cannot be utilised against taxable profits.

**(q) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

### 3. Business Combination

	Note	CMM	DV	Total
<b>Assets</b>				
Cash at Bank		219,620	162,417	382,037
Trade Debtors		247,272	3,796	251,068
Other Receivables		13,560	-	13,560
Inventory		707,943	108,773	816,716
Plant and Equipment		4,379	-	4,379
		<u>1,192,774</u>	<u>274,986</u>	<u>1,467,760</u>
<b>Liabilities</b>				
Trade Payables		(16,531)	(50,136)	(66,667)
Other payables and accruals		(522)	(20,585)	(21,107)
Income Tax		(13,405)	-	(13,405)
Receipts in Advance		-	(55,772)	(55,772)
		<u>(30,458)</u>	<u>(126,493)</u>	<u>(156,951)</u>
Net tangible assets acquired				1,310,809
Intangible assets recognised on acquisition	7			<u>1,996,500</u>
<b>Total net assets acquired</b>				<b><u>3,307,309</u></b>
<b>Consideration</b>				
Reimbursement for IP acquired	1(vi)			300,000
Net tangible assets cash consideration				1,310,809
Distributor margin on inventory acquired	1(vi)			300,000
Value of Shares issued to acquire CMM and DV	1(vi)			600,000
Value of Performance Shares issued to acquire CMM and DV	1(vi)			696,000
Value of Options issued to acquire CMM and DV	9			<u>100,500</u>
<b>Total consideration</b>				<b><u>3,307,309</u></b>

The acquisitions of CMM and DV have been treated as a business combination. The assets and liabilities of the acquisitions (including intangible assets) have been recognised at estimated fair value. The fair value of intangible assets has been estimated on a provisional basis.

Further details on the milestones attached to the conversion of performance shares and the probability of achieving those milestones are set out in Section 9.6 of the Prospectus.



#### 4. Cash and cash equivalents

	Note	Audited 30-Sep-16 \$	Unaudited Pro-forma 30-Sep-16 \$
Cash and cash equivalents		25,521	3,616,477
THC cash and cash equivalents as at 30 September 2016			25,521
<i>Subsequent events are summarised as follows:</i>			
Shares issued post balance sheet date	1(i)	750,000	75
Shares issued to raise seed capital at \$0.05 per share	1(ii)	28,400,000	1,420,000
Less material expenses incurred	1(iii)	-	(670,075)
			750,000
<i>Adjustments arising in the preparation of the pro forma statement of financial position are summarised as follows:</i>			
Proceeds from the Public Offer pursuant to the Prospectus	1(iv)		5,000,000
Less amounts received in advance			(55,772)
Capital raising costs	1(v)		(582,500)
Reimbursement for IP acquired in CMDV acquisition	1(vi)		(300,000)
CMM and DV net tangible assets consideration	1(vi)		(1,610,809)
Cash acquired in CMM	1(vi)		219,620
Cash acquired in DV	1(vi)		162,417
Cash acquired in Canndeo	1(vii)		8,000
			2,840,956
Pro-forma cash and cash equivalents			3,616,477

The Prospectus has provision for subscriptions of between 25,000,000 and 40,000,000 shares to raise between \$5.0 million and \$8.0 million (before costs) wherein the pro forma statement of financial position assumes the minimum \$5.0 million is raised. Should the maximum \$8.0 million be raised, the share issue cash costs would increase by \$183,000 to \$765,500, and the cash at bank balance would increase by \$2,817,000 to \$6,433,477.

#### 5. Trade and other receivables

	Note	Audited 30-Sep-16 \$	Unaudited Pro-forma 30-Sep-16 \$
Trade receivables		-	251,223
THC receivables as at 30 September 2016			-
<i>Adjustments arising in the preparation of the pro forma statement of financial position are summarised as follows:</i>			
CMM receivables acquired	1(vi)		247,272
DV receivables acquired	1(vii)		3,796
Canndeo receivables acquired	1(vii)		155
Pro-forma trade receivables			251,223

## 6. Inventories

	<b>Note</b>	<b>Audited 30-Sep-16 \$</b>	<b>Unaudited Pro-forma 30-Sep-16 \$</b>
Inventories		-	816,716
THC inventories as at 30 September 2016			-
<i>Adjustments arising in the preparation of the pro forma statement of financial position are summarised as follows:</i>			
CMM inventories acquired	1(vi)		707,943
DV inventories acquired	1(vi)		108,773
Pro-forma inventories			816,716

## 7. Intangible assets

	<b>Note</b>	<b>Audited 30-Sep-16 \$</b>	<b>Unaudited Pro-forma 30-Sep-16 \$</b>
Intangible assets		-	7,061,550
THC intangible assets as at 30 September 2016			-
<i>Adjustments arising in the preparation of the pro forma statement of financial position are summarised as follows:</i>			
Intangible assets arising on business combination	3, 1(vi)		1,996,500
Acquisition of Canndeo	1(vii)		3,961,050
Pump technology acquired from NFT	1(viii)		50,000
IP acquired from Pegasus	1(ix)		1,350,000
Pro-forma intangible assets			6,753,550

## 8. Issued capital

	Note	Number of shares	\$
THC issued share capital as at 30 September 2016		6,250,000	75,475
<i>Subsequent events are summarised as follows:</i>			
Shares issued post balance sheet date	1(i)	750,000	75
Shares issued to raise seed capital at \$0.05 per share	1(ii)	28,400,000	1,420,000
Cost of options issued in relation to the seed capital raising and post balance sheet date	1(i), 1(ii)	-	(976,525)
		29,150,000	443,550

*Adjustments arising in the preparation of the pro forma statement of financial position are summarised as follows:*

Fully paid ordinary shares issued at \$0.20 pursuant to this Prospectus	1(iv)	25,000,000	5,000,000
Shares issued to acquire CMM and DV	1(vi)	3,000,000	600,000
Shares issued to acquire Canndeo	1(vii)	5,000,000	1,000,000
Shares issued to acquire pump technology from NFT	1(viii)	250,000	50,000
Shares issued to acquire IP from Pegasus	1(ix)	2,500,000	500,000
Shares issued to Founders	1(x)	7,750,000	1,550,000
Shares issued to Brokers	1(xii)	1,000,000	200,000
Shares issued to MMR	1(xiii)	2,500,000	500,000
Cash costs associated with the share issue pursuant to this Prospectus	1(v)	-	(582,500)
Cost of options issued under the Public Offer pursuant to this Prospectus	1(iv)	-	(837,500)
Cost of options issued to Founders pursuant to this Prospectus	1(x)	-	(485,750)
Cost of options issued to Brokers pursuant to this Prospectus	1(xii)	-	(33,500)
Cost of options issued to MMR under the MMR Corporate Services Mandate	1(xiii)	-	(234,500)
		47,000,000	7,226,250
<b>Pro-forma issued share capital</b>		<b>82,400,000</b>	<b>7,745,275</b>

The Prospectus has provision for subscriptions of between 25,000,000 and 40,000,000 shares to raise between \$5.0 million and \$8.0 million (before costs). The pro forma statement of financial position assumes the minimum \$5.0 million is raised. Should the maximum \$8.0 million be raised, the share issue cash costs would increase by \$183,000 to \$837,500 and the issued capital would increase by \$2,817,000 to \$10,562,275.

## 9. Reserves

	Note	Audited 30-Sep-16 \$	Unaudited Pro-forma 30-Sep-16 \$
Reserves		24,525	6,669,300
THC reserves as at 30 September 2016			24,525
<i>Subsequent events are summarised as follows:</i>			
Options issued as part of the seed capital raising and post balance sheet date	1(i), 1(ii)		976,525
<i>Adjustments arising in the preparation of the pro forma statement of financial position are summarised as follows:</i>			
Options issued under the Public Offer pursuant to this Prospectus	1(iv)		837,500
Performance shares issued to acquire CMM and DV	1(vi)		696,000
Options issued to acquire CMM and DV	1(vi)		100,500
Performance shares issued to acquire Canndeo	1(vii)		2,196,000
Options issued to acquire Canndeo	1(vii)		167,500
Performance shares issued to acquire IP from Pegasus	1(ix)		850,000
Options issued to Founders	1(x)		485,750
Options issued to Promoters	1(xi)		67,000
Options issued to Brokers	1(xii)		33,500
Options issued to MMR	1(xiii)		234,500
			5,668,250
<b>Pro-forma reserves</b>			<b>6,669,300</b>

### (a) Performance Shares

The pro forma fair value of the Performance Shares is based upon the price of THC Shares under the Public Offer (\$0.20).

Further details on the milestones attached to the conversion of performance shares and the probability of achieving those milestones are set out in Section 9.6 of the Prospectus.

### (b) Options

The pro forma fair value of the Options is \$0.067 per option.

All options have been valued using a standard binomial pricing model based on the fair value of a Company share at the grant date, assuming minimum subscription of the Offer using the following assumptions:

Assumptions	Options
Stock price	\$ 0.20
Exercise price	\$ 0.40
Expiry period	2.75 years
Expected future volatility	80%
Risk free rate	2.0%
Dividend yield	0%

The terms and conditions for the Options are set out in Section 9 of the Prospectus.

**10. Accumulated losses**

	<b>Note</b>	<b>Audited 30-Sep-16 \$</b>	<b>Unaudited Pro-forma 30-Sep-16 \$</b>
Accumulated losses		(84,211)	(3,071,286)
THC accumulated losses as at 30 September 2016			(84,211)
<i>Subsequent events are summarised as follows:</i>			
Material expenses incurred subsequent to 30 September 2016	1(iii)		(670,075)
<i>Adjustments arising in the preparation of the pro forma statement of financial position are summarised as follows:</i>			
Cost of equity issued to Founders	1(x)		(1,550,000)
Cost of equity issued to Promoters	1(xi)		(67,000)
Cost of equity issued to Brokers	1(xii)		(200,000)
Cost of shares issued to MMR	1(xiii)		(500,000)
			<u>(2,317,000)</u>
Pro-forma accumulated losses			<u><u>(3,071,286)</u></u>

**11. Related party disclosure**

Following completion of the Offer and Acquisition, the Directors of THC will be Alan Beasley, Hamish McDonald, Mary Verschuer, Ian Mutton and Peter Wallace. Directors' holdings of shares, directors' remuneration and other directors' interests are set out in Section 4 of the Prospectus.

**12. Commitments and contingent liabilities**

The Company has no commitments or contingent liabilities as at the date of this Prospectus.

**13. Controlled entities**

<b>Consolidated Entities</b>	<b>Country of Incorporation</b>	<b>Pro forma interest held</b>
The Hydroponics Company Limited	Australia	Parent
Crystal Mountain Manufacturing Inc.	Canada	100%
Dragon Vision Limited	Hong Kong	100%
Canndeo Ltd	Australia	100%

## 7. Investigating Accountant's Report



9 March 2017

The Directors  
The Hydroponics Company Limited  
Level 2, 131 Macquarie Street  
Sydney, NSW 2000

**RSM Corporate Australia Pty Ltd**

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Dear Directors

### INVESTIGATING ACCOUNTANT'S REPORT

#### Independent Limited Assurance Report ("Report") on The Hydroponics Company Limited Historical and Pro Forma Historical Financial Information

##### Introduction

We have been engaged by The Hydroponics Company Limited ("THC" or the "Company") to report on the historical financial information of THC for the periods ended 30 September 2016 and pro forma financial information of the Company as at 30 September 2016 for inclusion in the prospectus ("Prospectus") of THC dated on or about 24 February 2017 in connection with THC's proposed initial public offering and listing on the Australian Securities Exchange ("ASX"), pursuant to which the Company is offering 25,000,000 ordinary THC shares at an issue price of \$0.20 per share to raise \$5.0 million before costs with attaching options on a 1 for 2 basis (the "Offer"). Oversubscriptions of up to 15,000,000 additional shares with attaching options on a 1 for 2 basis may be accepted (to raise an additional \$3.0 million before costs).

Expressions and terms defined in the Prospectus have the same meaning in this Report.

The future prospects of the Company, other than the preparation of Pro Forma Historical Financial Information, assuming completion of the transactions summarised in Note 1 Section 6 of the Prospectus, are not addressed in this Report. This Report also does not address the rights attaching to the shares to be issued pursuant to this Prospectus, nor the risks associated with an investment in shares in the Company.

##### Background

THC was incorporated in New South Wales on 29 August 2016 in order to facilitate the initial public offering of THC.

The Company was formed to be a manufacturer and distributor of hydroponics equipment, materials and nutrients; designer and constructor of large-scale hydroponic greenhouses; and undertake the development and delivery of medicinal cannabis.

The Company is seeking to raise funds in order to fund the acquisitions of Crystal Mountain Manufacturing Inc. ("CMM"), Dragon Vision Limited ("DV") and Canndeo Ltd ("Canndeo") ("the Acquisitions"), purchase pump technology from New Fluid Technology Pty Ltd ("NFT"), purchase intellectual property ("IP") from Pegasus Agriculture Pty Ltd ("Pegasus") and for product development and working capital of the business.

Canndeo is a newly incorporated wholly-owned subsidiary of Agri Fibre Industries Pty Ltd. Canndeo has no operating history and minimal assets and liabilities. Pegasus also has no operating history and minimal assets and liabilities.

#### THE POWER OF BEING UNDERSTOOD AUDIT | TAX | CONSULTING

RSM Corporate Australia Pty Ltd is beneficially owned by the Directors of RSM Australia Pty Ltd. RSM Australia Pty Ltd is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Corporate Australia Pty Ltd ABN 82 050 508 024 Australian Financial Services Licence No. 255847





## Scope

### Historical financial information

You have requested RSM Corporate Australia Pty Ltd ("RSM") to review the following historical financial information of the Company included in Section 6 of the Prospectus, comprising:

- The statements of financial performance of THC for the period from incorporation to 30 September 2016;
- The statements of financial performance of CMM for the two years ended 31 December 2015 and the nine months ended 30 September 2016;
- The statements of financial performance of DV for the two years ended 31 March 2016 and the six months ended 30 September 2016;
- The statements of cash flows of THC for the period from incorporation to 30 September 2016;
- The statements of cash flows of CMM for the two years ended 31 December 2015 and the nine months ended 30 September 2016;
- The statements of cash flows of DV for the two years ended 31 March 2016 and the six months ended 30 September 2016; and
- The notionally consolidated statement of financial position of the Company and its controlled entities as at 30 September 2016

(together the "Historical Financial Information").

The Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles of the International Financial Reporting Standards and the Company's adopted accounting policies.

The Historical Financial Information has been extracted from the financial statements of THC, CMM and DV for the relevant periods.

The THC financial statements were audited by K.S. Black & Co in accordance with Australian Auditing Standards. K.S. Black & Co issued an unmodified audit opinion for the period from THC's incorporation of 29 August 2016 to 30 September 2016.

The CMM financial statements were audited by Manning Elliot LLP in accordance with International Auditing Standards. The audit reports issued for the nine months ended 30 September 2016 and years ended 31 December 2015 and 31 December 2014 were qualified opinions as the auditor was not appointed at the end of the financial periods audited and did not observe the counting of physical inventories at the beginning and end of the periods in the financial statements. The auditor was unable to satisfy themselves by alternate means concerning the inventory quantities held at 31 December 2015, 31 December 2014 and 1 January 2014 and was therefore unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories, and the elements making up the statements of comprehensive income, changes in equity, and cash flows.

The DV financial statements were audited by Abacus CPA Limited in accordance with International Auditing Standards. The audit reports issued for the six months ended 30 September 2016 and years ended 31 March 2016 and 31 March 2015 were qualified opinions as the auditor was unable to verify opening balances and corresponding figures at 1 April 2015 and 30 September 2015 and the auditor did not observe the counting of physical inventories at the beginning and end of the periods in the financial statements. The auditor was unable to satisfy themselves by alternate means concerning the inventory quantities held at 1 April 2015, 30 September 2015, 31 March 2016 and 30 September 2016 and was therefore unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories, and the elements making up the statements of income and retained earnings. The auditor was also unable to obtain bank confirmation from the bankers of the bankers of DV as at the end of the 30 September 2015 comparative period and was unable to verify the completeness of bank balances and if there were any omissions of disclosures or contingent liabilities, pledge of assets and banking facilities in the notes of the financial statements for the period from 1 April 2015 to 30 September 2015.



The Historical Financial Information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by International Financial Reporting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

#### **Pro forma historical financial information**

You have requested RSM to review the pro forma historical consolidated statement of financial position as at 30 September 2016, referred to as "the Pro Forma Historical Financial Information".

The Pro Forma Historical Financial Information has been derived from the Historical Financial Information of the Company after adjusting for the effects of the subsequent events and pro forma adjustments described in Note 1, Section 6 of the Prospectus. The stated basis of preparation is the recognition and measurement principles of the International Financial Reporting Standards applied to the Historical Financial Information and the events or transactions to which the subsequent events and pro forma adjustments relate, as described in Note 1, Section 6 of the Prospectus, as if those events or transactions had occurred as at the date of the Historical Financial Information. Due to its nature, the Pro Forma Historical Financial Information does not represent the Company's actual or prospective financial position or statement of financial performance.

#### **Directors' responsibility**

The Directors of the Company are responsible for the preparation of the Historical Financial Information and Pro Forma Historical Financial Information, including the selection and determination of pro forma adjustments made to the Historical Financial Information and included in the Pro Forma Historical Financial Information. This includes responsibility for such internal controls as the Directors determine are necessary to enable the preparation of Historical Financial Information and Pro Forma Historical Financial Information that are free from material misstatement, whether due to fraud or error.

#### **Our responsibility**

Our responsibility is to express a limited assurance conclusion on the Historical Financial Information and Pro Forma Historical Financial Information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review consists of making such enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Our procedures included:

- A consistency check of the application of the stated basis of preparation, to the Historical and Pro Forma Historical Financial Information;
- A review of the Company's work papers, accounting records and other documents;
- Enquiry of directors, management personnel and advisors;
- Consideration of subsequent events and pro forma adjustments described in Note 1, Section 6 of the Prospectus; and
- Performance of analytical procedures applied to the Pro Forma Historical Financial Information.

A review is substantially less in scope than an audit conducted in accordance with International Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### **Conclusions**

##### **Historical Financial Information**

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Historical Financial Information, as described Section 6 of the Prospectus, and comprising:

- The statements of financial performance of THC for the period from incorporation to 30 September 2016;



- The statements of financial performance of CMM for the two years ended 31 December 2015 and the nine months ended 30 September 2016;
- The statements of financial performance of DV for the two years ended 31 March 2016 and the six months ended 30 September 2016;
- The statements of cash flows of THC for the period from incorporation to 30 September 2016;
- The statements of cash flows of CMM for the two years ended 31 December 2015 and the nine months ended 30 September 2016;
- The statements of cash flows of DV for the two years ended 31 March 2016 and the six months ended 30 September 2016; and
- The notionally consolidated statement of financial position of the Company and its controlled entities as at 30 September 2016

are not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Note 1, Section 6 of the Prospectus.

#### **Pro Forma Historical Financial Information**

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information, as described Section 6 of the Prospectus, and comprising the consolidated statements of financial position as at 30 September 2016 of the Company and its controlled entities are not presented fairly in all material respects, in accordance with the stated basis of preparation, as described in Note 1, Section 6 of the Prospectus.

#### **Restriction on Use**

Without modifying our conclusions, we draw attention to the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose.

#### **Responsibility**

RSM has consented to the inclusion of this assurance report in the Prospectus in the form and context in which it is included. RSM has not authorised the issue of the Prospectus. Accordingly, RSM makes no representation regarding, and takes no responsibility for, any other documents or material in, or omissions from, the Prospectus.

#### **Disclosure of Interest**

RSM does not have any pecuniary interest that could reasonably be regarded as being capable of affecting its ability to give an unbiased conclusion in this matter. RSM will receive a professional fee for the preparation of this Report.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Glyn Yates'.

**RSM CORPORATE AUSTRALIA PTY LTD**  
**Glyn Yates**  
**Director**

## 8. Material contracts

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All contracts which may be material in terms of the Offers or the operation of the business of the Company are summarised below.

### 8.1 Crystal Mountain and Dragon Vision Share Purchase Agreement

The key terms of the contract are:

- (a) The Company will purchase from the vendor, 100% of the issued capital in CMDV.
- (b) In consideration for the shares in CMDV, the Company will on admission of the Company's securities to quotation issue the following:
  - (1) 3,000,000 shares and 1,500,000 A\$0.40 options expiring 31 December 2019;
  - (2) 2,000,000 performance shares converting upon CMDV achieving an audited NPAT for the financial year ending 31 December 2018 of a minimum of A\$1,000,000;
  - (3) 2,000,000 performance shares converting upon CMDV achieving an audited NPAT for the financial year ending 31 December 2018 of a minimum of A\$2,000,000;
  - (4) Reimbursement in the amount of A\$300,000 for the development of the IP; and
  - (5) Payment of the value of the NTA, including Stock at Valuation.
- (c) CMDV owns or has enforceable rights to use the following trademarks: Spinpro, Green Hornet, Shady Optics, Sunchaser, Quick Flips, Digilumes, Elemental Controls, Wind King, Payload Bags, as well as two patents (Rotating Plant Stand US 8356445 B1 and Jar Lid for Dry Ice Separation US D708471S) and several domain names.
- (d) The Vendors are bound by a non-compete, preventing them from conducting, being engaged in, or associated with a business similar to CMDV in Australia or Canada for three years after the date the Company's securities are admitted to quotation.

### 8.2 New Fluid Technology Pty Ltd ("NFT") Supa-Stelth Pump Development and Exclusive Marketing Agreement

The key terms of the contract are:

- (a) NFT has developed the Supa-Stelth pumps technology that employs a solid body vortex described in US Patent 8,967,971 Fluid Pump (**Pumps**). NFT is granting the Company the exclusive right to market the Pumps in the Territory under the Company's own brand name.
- (b) **Territory** means Australia, United States of America, Canada, United Kingdom and Panama.
- (c) NFT will produce three initial Pumps fitted with and of sizes suitable for single speed induction motors operating on 240 volts 50 hertz and with respectively, 600, 800 and 1500 Watts (**Initial Pumps**)
- (d) The Pumps will to the best of NFT's knowledge be more efficient and quieter in operation than other single speed pumps with induction motors that are generally available to the commercial hydroponics industry. The design of the Initial Pumps will be provided to THC by 30 June 2017.
- (e) THC may request NFT to develop pumps with specifications as the Initial Pumps but operating on 110 volts 60 hertz.
- (f) THC may also request NFT to develop further pumps for the commercial hydroponics industry, for example pumps of different capacities, motors and multi-speed pumps. If NFT considers such developments feasible, it will carry out the development. In the event that THC and NFT agree to develop further pumps, the Company will pay NFT's estimated direct costs as agreed at the time. In consideration for NFT's commitment, the Company will issue 250,000 fully paid ordinary shares in the Company on or before the date that the Company's securities are admitted to quotation.
- (g) THC will pay to NFT 5% of the selling price of each Supa-Stelth pump sold by THC or any of its subsidiaries.
- (h) NFT agrees to not within the Territory and whilst this agreement is in force, offer Pumps of 600, 800, and 1500 watts in both 240 volts and 110 volts which THC will label "Supa-Stelth Hydroponics" or pumps of similar capacities to the Initial Pumps to the commercial hydroponics industry.
- (i) If during the 12 months ended 30 June 2018 or any subsequent 12 months THC and its subsidiaries sell less than the equivalent of six 30-foot standard shipping containers of the Pumps, the agreement may be terminated by either party.
- (j) The agreement remains in force until 30 June 2022 unless terminated earlier.

### 8.3 Inna Water Pty Ltd ("IW") Exclusive Marketing Agreement

The key terms of the contract are:

- (a) IW has developed a water conditioner and sonic disintegrator for changing the structure of water and disinfecting water without the use of chemicals (the Device), and grants THC the exclusive right to market the Device worldwide as a THC product.

- (b) IW must provide the Company with all technical information and promotional material in relation to the Products to assist the Company in the promotion and marketing of the Products and Services.
- (c) IW will manufacture and supply to THC the Devices as requested by THC.
- (d) THC will pay the cost of manufacture of the Devices and a 1.5% gross royalty on sales of the Devices each quarter by THC.

The agreement commences on 31 January 2017 and terminates on 31 December 2019.

#### 8.4 Agri Fibre Industries Pty Ltd ("AFI") Sale of Shares Agreement

This contract is subject to the Company's securities being admitted to quotation. The key terms of the contract are:

- (a) The Company will purchase from AFI 100% of the issued capital of Canndeo in consideration for the issue of following securities:
  - (1) 5,000,000 Shares
  - (2) 2,500,000 Options
  - (3) 2,000,000 Class A Performance Shares converting on:
    - (A) Canndeo securing required operating licences for the Business being:
      - (I) Medicinal Cannabis Licence
      - (II) Cannabis Research Licence (cultivation and production)
      - (III) Medicinal Cannabis Manufacturing Licence
 issued by the Australian Government, Department of Health, Office of Drug Control; and
    - (B) a minimum of one product submitted for approval through the TGA, on or before 31 December 2017.
  - (4) 12,000,000 Class B Performance Shares converting upon the Canndeo achieving an NPAT of \$2,000,000 or more in either FY2018 or FY2019
- (b) In the event of a Change of Control, AFI will be allowed to convert the Class B Performance Shares into Shares notwithstanding that the applicable performance milestone has not been achieved, only to the extent that the total number of shares in aggregate convert into is no more than 10% of the issued ordinary capital of the Company.
- (c) The agreement is conditional on AFI raising \$500,000 in seed capital for the Company, and \$1,500,000 in the Company's IPO.
- (d) Subject to AFI complying with its obligations under the agreement, the Company will subscribe for 2,500,000 fully paid ordinary shares in Canndeo at an issue price of \$0.20 raising \$500,000 for Canndeo.
- (e) Subject to AFI complying with its obligations under the agreement, the Company will subscribe for such number of ordinary shares in Canndeo fully paid to \$0.20 per share that will raise an amount of capital for Canndeo equal to the funds raised by AFI during the Company's IPO period.
- (f) AFI as a principal employee, consultant, or agent is bound to a five year non-compete period, preventing AFI carrying on business similar to Canndeo.

#### 8.5 Canndeo Ltd ("Canndeo")

##### (a) Employment Contract with Andrew Beehag

This contract is subject to the Company's securities being admitted to quotation. The key terms of the contract are:

- (1) Andrew Beehag is employed to be the Chief Executive Officer of Canndeo ("CEO").
- (2) Andrew Beehag will be entitled to an agreed remuneration package of \$152,000 p.a. paid monthly plus 9.5% superannuation (or otherwise legislated requirement).
- (3) Subject to meeting certain KPI's to be assessed on 31/12/2017 namely:
  - (A) Canndeo securing operating licences; and
  - (B) 1 product being submitted for TGA approval,
 he will be paid a bonus of \$100,000 in addition to his salary package;
- (4) He will receive the usual employee entitlements in relation to leave.
- (5) He must give 6 months' notice if he wishes to resign.

- (6) Canndeo can terminate on 3 months notice or payment in lieu or immediately for serious misconduct or gross negligence.
- (7) There is a comprehensive non-compete clause in his contract.

**(b) Consultancy Agreement with John Leslie Hall**

This contract is subject to the Company's securities being admitted to quotation. The key terms of the contract are:

- (1) He will be engaged to provide specified consultancy services and executive director tasks as set out in the agreement.
- (2) He will be paid a consultancy fee of \$80,000 per annum plus GST payable monthly in advance subject to annual increases in accordance with movements in the CPI over that period.
- (3) Subject to meeting certain KPI's namely:
  - (A) Canndeo securing operating licences; and
  - (B) 1 product being submitted for TGA approval,
 he will be paid a bonus of \$50,000.
- (4) The term of the agreement is for one year from when the Company's securities are admitted to quotation which may be extended for a further two periods of two years (5 years combined) unless termination notice is served earlier.
- (5) There are provisions for termination on notice the period varying depending on the circumstances.

**(c) Consultancy Agreement with Ken Charteris**

This contract is subject to the Company's securities being admitted to quotation. The key terms of the contract are:

- (1) Ken Charteris will be engaged as relationship advisor for a term of 12 months from when the Company's securities are admitted to quotation;
- (2) He will be paid a consultancy fee of \$6,750.00 plus GST per month plus any expenses.
- (3) The agreement may be terminated by either party on 6 months notice although Canndeo can also terminate without notice if it pays 3 months of the consultancy fee.
- (4) There is provision for payment of a performance fee upon meeting certain performance objectives neither of which are stated in the agreement.

**(d) Bioextracts Pty Ltd Service Provision Agreement**

This contract is subject to the Company's securities being admitted to quotation. The key terms of the contract are:

- (1) Bioextracts will exclusively provide Craig Davis and certain Licence and Permit Services within the market sector of medicinal cannabis anywhere in the world.
- (2) Bioextracts will be paid a fee for the services of Craig Davis of \$90/hr + GST from the date that the Company's securities are admitted to quotation until 31/01/2019;
- (3) Craig Davis will be required to work in carrying out the services for 700 hours per annum on a lock-in basis;
- (4) Bioextracts is responsible for all on-costs of providing the services of Craig Davis including superannuation and other employee entitlements;
- (5) There are non-poaching clauses provided by Canndeo and Bioextracts;
- (6) After 31/01/2019 the Agreement continues to operate but either party may terminate with 60 days written notice.

**(e) Agri Fibre Industries Pty Ltd (AFI) Service Provision Agreement (SPA)**

This contract is subject to the Company's securities being admitted to quotation. The key terms of the contract are:

- (1) AFI will exclusively provide David Gillespie and certain Licence and Permit Services within the market sector of medicinal cannabis anywhere in the world.
- (2) AFI will be paid a fee for the services of David Gillespie of \$80/hr + GST from the date that the Company's securities are admitted to quotation until 31/01/2019;
- (3) David Gillespie will be required to work in carrying out the services for 1,100 hours per annum on a lock-in basis;
- (4) AFI is responsible for all on-costs of providing the services of Craig Davis including superannuation and other employee entitlements;
- (5) There are non-poaching clauses provided by Canndeo and AFI;



- (6) After 31/01/2019 the Agreement continues to operate but either party may terminate with 60 days written notice.

**(f) AFI IP Licence & Commercial Use Agreement**

The key terms of this agreement are:

- (1) **Grant:** Exclusive, worldwide licence.
- (2) **Scope:** to utilise, develop and commercialise the following intellectual property ("IP") within the field of medicinal cannabis for human and veterinary application:
  - (A) Calavos (Australia PBR Cert. No.3856);
  - (B) FibreGem (Australia PBR Cert. No.3878);
  - (C) Kepnock (Australia PBR Cert. No. 4014);
  - (D) BundyGem (Australia PBR Cert. No. 3857);
  - (E) Farnsfield (Australia PBR Cert. No. TBA);
  - (F) Tegege (Australia PBR Cert. No: 3821);
  - (G) Ruby (Australia PBR-Cert. No, 3820);
  - (H) Colorimetric THC test (as developed 30 June 2016);
  - (I) Parameters for nutrient monitoring of medicinal cannabis cultivation;
  - (J) Cultivars suitable for medicinal cannabis currently under development, ("Licensed IP").
- (3) **Term:** in perpetuity for the purpose of research, development and commercialisation.
- (4) **Exclusions:** AFI does not licence the excluded field of commercialisation being insecticides and cosmetics.
- (5) **Royalties:** one-off fixed amount of \$1 for each item of IP described above;
- (6) **Licence Fee:** one off fixed fee of \$1.00
- (7) **AFI rights:**
  - (A) Undertake further research for purpose outside the field of medicinal cannabis for human and veterinary application.
  - (B) To inspect/audit any records of commercialisation once every royalty period.
- (8) **AFI responsibilities:**
  - (A) Refer all enquires in relation to the products and application in the field of medicinal cannabis for human and veterinary application.
  - (B) Continue to make the Licenced IP available where Canndeo has changed ownership/controlling interest, unless disallowed at law.
  - (C) Assignee all rights, obligations, warranties and other matters within this Agreement to a new licensee at the request of Canndeo provided the new licensee enters into a written IP licence agreement on terms same/equivalent to this one.
- (9) **Canndeo Rights:** sublicense to any person without prior written consent.
- (10) **Canndeo Responsibilities:**
  - (A) Provide AFI written notice within 15 days of execution or variation of a sublicense.
  - (B) Apply for all approvals and comply with law laws required to commercialise the IP at its own expense.
  - (C) Ensure products and packaging reference the registration identifiers.
  - (D) Promptly disclose improvements Canndeo makes to the Licenced IP.
  - (E) Report to AFI on commercialisation, sublicensing, developments/improvements and anything else reasonably requested up to twice a calendar year upon request.
- (11) **New IP Rights:**
  - (A) Canndeo may use the Licenced IP for development and subsequent acquiring of new IP rights, which will be owned by Canndeo.
  - (B) Any new IP rights developed by Canndeo shall be licensed by AFI to Canndeo on the same terms and pursuant to the IP licence.

- (C) Parties may agree on new licenced IP to be included in the agreement with agreed royalty rates.
- (D) If Canndeo requires further legally protected IP rights it must seek this additional protection in the name of AFI at Canndeo's cost.
- (12) **Confidentiality:** There are standard confidentiality clauses
- (13) **Release & Indemnity:** Canndeo releases and indemnifies AFI and its representatives from all actions etc arising out of commercialisation of the IP.
- (g) **Termination:** Either Party may terminate by notice upon material breach not remedied within 30 days after notice to do so and dispute resolution. Upon termination, all Licensed IP must be returned to AFI.

#### 8.6 Pegasus Agriculture Pty Ltd ("Pegasus") IP Sale and Purchase Agreement

This contract is subject to the Company's securities being admitted to quotation. The key terms of the contract are:

- (a) Pegasus will sell to the Company the Assets consisting of the Technology and the current and future Intellectual Property Rights over the Technology.
- (b) **Technology** means the genomic architectural process (or any similar process) in which organisms respond to environmental stress by increasing the number of chromosomes (or genomes) in each cell but is not GMO and therefore exempt from GMO restrictions and commercial applications of the same including without limitation:
  - (1) the creation of a new species to enable ownership of genetics through Plant Breeder's Rights;
  - (2) increase in crop yields
  - (3) phytoremediation of degraded farmland and rehabilitation of mine sites;
  - (4) less use of water;
  - (5) providing the ability to grow in high salinity or adverse environmental conditions.
- (c) The Company will incorporate a new subsidiary for the development and marketing of the Assets purchased from Pegasus (**PolyCo**).
- (d) In consideration for the Assets, the Company will issue to Pegasus the following Consideration Shares:
  - (1) 2,500,000 fully paid ordinary shares at the IPO price of \$0.20 per share;
  - (2) 2,500,000 Class C Performance Shares converting upon independent verification of producing a stable polyploidy within Cannabis plant; and
  - (3) 6,000,000 Class D Performance Shares converting to Shares upon PolyCo achieving a minimum NPAT of \$1,000,000 in FY2017, FY2018, FY2019 or FY2020.
- (e) In the event of a Change of Control, Pegasus will be allowed to convert the Class D Performance shares into Shares notwithstanding that the applicable performance milestone has not been achieved, only to the extent that the total number of shares in aggregate convert into is no more than 10% of the issued ordinary capital of the Company.

#### 8.7 A&B Hydroponics International Pty Ltd (ABHI) MOU

The key terms of the MOU are:

- (a) ABHI is a provider of services including design and construction of greenhouses and the provision of education and consulting. ABHI also provides products including nutrients developed, produced and/or manufactured by ABHI, the patented rotating growing system developed and manufactured by ABHI and greenhouses constructed by ABHI.
- (b) ABHI will collaborate with THC with respect to the promotion, development and implementation of opportunities in North America and other jurisdictions that THC operates in.
- (c) Upon THC's admission to the Official List of the ASX, THC and ABHI will negotiate a non-exclusive collaboration, where THC will be entitled to a profit share on builds and consumables, including but not limited to:
  - (1) Supply and sale of ABHI's nutrients
  - (2) The marketing of ABHI's patented rotating growing system
  - (3) Managing the building of greenhouses and providing education and consulting to the operators
- (d) ABHI allowing THC to use ABHI's marketing material for the promotion of the business

#### 8.8 James Barlow Consultancy Deed

The key terms of the contract are:

- (a) James Barlow is to represent the Company or its Related Body Corporates on an exclusive basis in the development, building and management of large commercial hydroponic greenhouses in North and South America and provide education regarding hydroponics (collectively, the AIFO)

- (b) The Company will pay to James Barlow US\$9,900 inclusive of all costs and expenses for the period commencing 15 November 2016 and ending 28 February 2017.
- (c) If the Company's securities are admitted to quotation on the ASX, the Company will pay to James Barlow AU\$5,000 per month for 24 months.
- (d) The Company may terminate the agreement with 60 days notice to the Consultant.
- (e) The Company will also during the term pay to the Consultant a share of the NPAT of the AIFO worked out as follows:

AIFO NPAT Band \$AUS	Profit Share Band %	Worked Example		
		AIFO NPAT	Profit Share \$AUS	Net %
\$1 to \$1,000,000	10.00%	\$750,000	\$75,000	10.00%
\$1,000,001 to \$2,500,000	8.00%	\$2,000,000	\$180,000	9.00%
\$2,500,001 to \$5,000,000	6.00%	\$5,000,000	\$310,000	7.75%
>= \$5,000,001	2.00%	\$8,000,000	\$390,000	6.50%

### 8.9 Hamsar Pty Ltd (Hamsar) Consultancy Agreement

The key terms of the contract are:

- (a) Hamsar will provide the services of Hamish Macdonald to act as the CEO of the Company and its Related Body Corporates.
- (b) The primary purpose of Hamish Macdonald's employment will be the oversight and management of all day-to-day operations of the Company and its Related Body Corporates.
- (c) Hamsar will be paid a fee of \$15,000 per month for the services of Hamish Macdonald. The Company may pay Hamsar a performance based bonus not exceeding 25% of the fee, considering any KPI or other matters deemed appropriate by THC.
- (d) The Consultancy Agreement commenced 11 January 2017 and terminates on 10 January 2018. No severance payment will be made.
- (e) The Company may terminate the engagement without cause by giving 3 months written notice to Hamsar, or payment in lieu of notice of 3 months, or a combination of both.
- (f) Following termination, Hamsar and Hamish Macdonald are bound to a three year non-compete.

### 8.10 Current Directors and Officers Indemnity Agreements

The Company has entered an Indemnity and Access Agreement with each current Director and the Company Secretary (each an **Officer**). The terms of each agreement provide for the Company:

- to indemnify the relevant Officer against certain liabilities incurred as an officer of the Company or any other company in the Company's group;
- to ensure that the Company uses its best commercial endeavours to maintain Directors and Officers insurance for the benefit of the relevant Officer in relation to acts and omissions of the relevant Officer in their capacity as an officer of the Company; and
- to give access to the relevant Officer to documents (excluding a document created after the Officer ceases to be an officer of the Company) for the purposes of any claims where the Officer is a party, witness or otherwise and the Officer is involved because they are or were an officer of the Company or any other company in the Company's group.
- Shareholder approval has not been sought in relation to any financial benefit to a Director because the Directors consider that the provision of this financial benefit is permitted without shareholder approval under Section 212 of the *Corporations Act*.

### 8.11 Non-Executive Directorial Services Agreements

The Company has entered directorial services agreements with each current non-executive Director for their services as non-executive Directors (**Directorial Services Agreements**).

Subject to Shareholders approving the maximum aggregate amount payable to non-executive Directors under the Directorial Services Agreements for the purpose of ASX Listing Rule 9.17, all non-executive Directors will receive a base salary of \$35,000 per year plus an additional \$5,000 per year as a member of the Audit and Risk Committee and a further \$10,000 per year as a member of the Management Committee (plus any statutory superannuation requirement). In addition, the Company will

reimburse the relevant Director for all reasonable travel, accommodation and other expenses that they may incur in connection with the performance of their duties as a Director.

The Non-Executive Directorial Services Agreements will terminate when the relevant Director ceases to be a Director in accordance with the Constitution, such as where the Director:

- resigns;
- is removed from office in a general meeting;
- is absent (without the consent of the other Directors) from all Directors' meetings over any 6-month period;
- becomes mentally incapable; or
- automatically retires as provided for in the Constitution.

No termination payments will be made to a Director.

### 8.12 MMR Corporate Services Mandate

The key terms of the contract are:

- (a) MMR will manage the drafting of the prospectus, the capital raising and the IPO process generally.
- (b) The Company must pay to MMR Corporate the following fees:
  - (1) Corporate Advisory Fee of \$25,000 payable on signing of the Mandate for structuring, proposing and executing the planned transaction.
  - (2) IPO Management and Prospectus Drafting Fee of \$50,000 payable upon the Company's securities being admitted to quotation.
  - (3) Due Diligence Fee of \$15,000 to manage the prospectus due diligence committee, provide secretarial functions to the due diligence committee, attend meetings and manage the verification of the Prospectus.
  - (4) Placement Fee of 5% of the gross amount raised under the offer through investors introduced by MMR, its related entities or employees.
  - (5) Success Fee of 2,500,000 Shares and 3,500,000 options exercisable at \$0.40 expiring 31 December 2019 to MMR or its nominees.

### 8.13 Corporate Services Agreement

The Company has entered into a services agreement with Hudson Corporate Limited (**HCL**) dated on or around 16 January 2017.

The services agreement may be terminated upon one month's notice by either party. In the event that the Company terminates the services agreement on this basis it may pay HCL \$5,000 in lieu of notice.

Under the terms of the services agreement, HCL agrees to provide the following Services to the Company (at the election of the Company):

- (a) Financial/accounting services (including arranging for accountants, financial controllers and other professionals to carry on work on behalf of the Company);
- (b) Company secretarial support services;
- (c) Office services and facilities (including the provision of the premises that the Company may occupy and operate as its registered office and principal place of business); and
- (d) Miscellaneous services (being other services that may be requested by the Company from time to time).

HCL may terminate the services agreement if an insolvency event occurs with respect to the Company or the Company defaults in paying any fees (or otherwise commits a material default) and does not rectify that default within 30 days of receiving written notice from HCL.

The Company may terminate the services agreement if an insolvency event occurs with respect to HCL or HCL fails to provide any of the services it is required to provide to the Company under the services agreement (or otherwise commits a material default) and does not rectify that default within 30 days of receiving written notice from the Company.

HCL is not to be reimbursed by the Company for the expenses incurred in providing the services.

The Company is currently required to pay \$5,000 per month to HCL commencing from the date of THC being admitted to the Official List of the ASX.

HCL must act in good faith towards the Company, including being just and faithful in all its activities and dealings with the Company and provide the services with due care and skill and in a competent and professional manner and in compliance with the laws of the jurisdictions in which the services are provided. HCL must comply with all relevant laws and promptly and fully inform the Company about all matters affecting or likely to affect the Company, which come to HCL's knowledge.

HCL and the Company have given mutual indemnities for any liability, loss, damage, reasonable legal costs and expenses incurred by the other arising from a breach by the other party, a fraudulent or wilful act or omission or dishonest conduct of the other party (unless such breach, act, omission or conduct was caused by a breach of the services agreement by the other party or as a result of complying with the other party's specific directions).

The services agreement is not an exclusive arrangement and the Company can engage any other person to provide similar services to it.

#### 8.14 MMR Ongoing Corporate Services Agreement

This contract is subject to the Company's securities being admitted to quotation. The key terms of the Contract are:

- (a) MMR will provide ongoing services to the Company following the Company's admission to the official list of the ASX including; Corporate Advisory Services, assisting the Company in its messaging and communications, assist in the preparation and delivery of roadshows, preparation of marketing material, provide media strategy and distribution, and provide ongoing strategic advice and counsel regarding investor and media communications.
- (b) The agreement shall continue for a renewable period of one year following the Company's admission to quotation. At the conclusion of this one-year term, either MMR or the Company can upon three months written notice to the other party terminate the engagement. In the event the Company terminates the engagement; the Company may in lieu of notice pay an amount being three times the monthly average of the previous six months paid to MMR for all services performed under this Engagement (excluding the Value Add Fee).
- (c) MMR's fees (excluding GST) are:
  - (1) Corporate Advisory Fee of \$10,000 per month;
  - (2) Investor and Media Relations Fee of \$5,000 per month;
  - (3) Value Add Fee of 1% of funds raised by the Company through the issue of new equity (including instruments issued with equity characteristics such as convertible notes, warrants, options, bonds, or any participation rights) raised by the Company during the engagement term; and
  - (4) Change of Control Event Fee payable in the event of any acquisition of a relevant interest in at least 50% of the issued voting shares in the Company during the engagement term or within a period of 12 months thereafter consisting of an additional fee of \$25,000 per month to assist the Company to respond to any and each takeover offer payable from the 1<sup>st</sup> day of the month in which a Change of Control Event or offer is made until completion or withdrawal and a fee of 3% of the Enterprise Value of the Company based on the final offer price per share, where the enterprise value is the value of the share capital of the Company, calculated on a value per share equal to the final offer price per share.
- (d) MMR retains the copyright in all materials written by MMR and provided to the Company pursuant to this Mandate.
- (e) During the term of the engagement, the Company agrees not to retain any other party to perform similar services in respect of the engagement without prior approval in writing of MMR.

#### 8.15 Joint Lead Manager Agreement – Gleneagle Securities Pty Ltd

The Company and Gleneagle Securities Pty Ltd (**Gleneagle**) holder of Australian Financial Services License 337 985 have entered into a joint lead manager agreement in relation to the Offer. The key terms of the Agreement are:

- (a) Gleneagle Securities has responsibility for the equity raising process as it applies to the Offers.
- (b) The Company must pay Gleneagle Securities:
  - (1) A sign-on fee of \$15,000;
  - (2) an equity raising and IPO management fee of 1% of the amount raised under the Offers;
  - (3) a distribution fee of 5% of the amount raised under the Offers from Gleneagle and its Clients;
  - (4) 500,000 Shares in THC will be allocated to Gleneagle upon THC listing on the ASX; and
  - (5) 250,000 additional Shares in THC will be allocated to Gleneagle subject to Gleneagle raising more than \$3,000,000 and upon THC listing on the ASX.
- (c) THC will also pay reasonable out of pocket expenses incurred by Gleneagle in connection with the Offers.
- (d) The terms of the agreement are otherwise what THC considers to be standard commercial terms for an agreement of this type.

#### 8.16 Joint Lead Broker Agreement – Red Leaf Securities Pty Ltd

Red Leaf Securities Pty Ltd (**Red Leaf**) is a Corporate Authorised Representative (463051) of BR Securities Australia Pty Ltd (AFSL 456663)

The Company and Red Leaf have entered into a joint lead broker agreement in relation to the Offer. The key terms of the Agreement are:

- (a) Red Leaf will assist in the equity raising of between A\$500,000 to a maximum A\$1,000,000 with respect to the Offers on a best endeavours basis.
- (b) The Company must pay Red Leaf:
  - (1) \$10,000 Engagement Fee;
  - (2) An additional \$10,000 upon Red Leaf successfully raising a minimum of \$500,000;
  - (3) a placement fee of 6% of the amount raised under the Offers from Red Leaf;
  - (4) 125,000 Shares and 62,500 Listed Options with an exercise price of \$0.40 on or before 31 December 2019 in THC upon Red Leaf successfully raising \$500,000; and
  - (5) 125,000 additional Shares and 62,500 additional Listed Options with an exercise price of \$0.40 on or before 31 December 2019 in THC upon Red Leaf successfully raising \$1,000,000.
- (c) THC will also pay reasonable out of pocket expenses incurred by Red Leaf in connection with the Offers.
- (d) The terms of the agreement are otherwise what THC considers to be standard commercial terms for an agreement of this type.



## 9. Additional Information

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### 9.1 Issue of Securities

For every two Shares allotted to an investor, one Option for nil consideration will also be allotted.

### 9.2 Constitution

A copy of the Constitution of the Company will be accessible on the website of the Company and may be inspected at the registered office of the Company during normal business hours by appointment with the Company Secretary.

#### (a) Shares

There is only one ordinary class of Company Shares. Detailed provisions relating to the rights attaching to Shares are set out in the Constitution and the *Corporations Act*. The Company has adopted a constitution of the kind usually adopted by a public company listed on the ASX. The following is a broad summary of the key provisions in the Constitution and the rights attaching to Shares.

#### (b) General meetings

Each Shareholder is entitled to receive notice of and be present, to vote and speak at general meetings of the Company.

#### (c) Voting rights

At a general meeting, every Shareholder present (in person or by proxy, attorney or representative) has one vote on a show of hands. Every Shareholder present (in person or by proxy, attorney or representative) has one vote per fully paid Share on a poll, except in respect of each partly paid Share held by a Shareholder, where the Shareholder has a fraction of a vote for each partly paid Share they hold. This is subject to any other rights or restrictions attached to any Shares.

#### (d) Dividend rights

Subject to any special rights or restrictions attached to a Share, each holder of a fully paid Share will participate in all dividends declared after their issue and rank equally with all existing Shares. Dividends are declared by the Directors at their discretion and, subject to any special rights, are payable on all Shares in proportion to the amount of capital for the time being paid up or credited as paid up on those Shares.

#### (e) Rights on winding up

Subject to any special rights and restrictions attached to Shares, on a winding up any surplus must be divided among the Shareholders in the proportion that the amount paid up on the Shares bears to the total amount paid up on all Shares on issue. Subject to any special rights and restrictions attached to Shares, on a winding up, a liquidator of the Company may, with the sanction of a special resolution of Shareholders, divide among Shareholders the whole or any part of the property of the Company and may decide how to distribute the property as between the Shareholders.

#### (f) Transfer of shares

Subject to the Constitution, the *Corporations Act* and the ASX Listing Rules, generally, Shares are freely transferable.

#### (g) Future changes in capital

Subject to the ASX Listing Rules and the Constitution, the Directors may issue, grant options over, or otherwise dispose of Shares on such conditions, at such times and with the preferred, deferred or other special rights or restrictions as the Directors think fit. Subject to the *Corporations Act* and the ASX Listing Rules, the Company may by resolution, consolidate and divide its share capital or reduce its share capital and buy back its Shares.

#### (h) Variation of rights

The Company may only vary or cancel the rights attaching to any class of shares, or convert shares from one class to another, by a special resolution of the Company and a special resolution passed at a meeting of the holders of shares in that class or the written consent of Shareholders with at least 75% of the votes in that class.

#### (i) Marketable parcels

Subject to certain conditions, the Company may sell non-marketable parcels of Shares on issue as agent for the holders of those parcels.

Shareholders will be provided at least six weeks' notice with preliminary notice provided at least four weeks earlier (a total of ten weeks) enabling the Shareholder to elect not to have their Shares sold.

In the event the Shareholder does not elect to retain their Shares the Shares may be sold and the proceeds held in trust on behalf of the Shareholder.

#### (j) Proportional takeover

The Constitution contains a proportional takeover provision, which may be renewed from time to time in accordance with the *Corporations Act*.

### 9.3 Entitlement to Options

The Company will issue Options at the same time as the issue of Shares under the Prospectus to each allottee of Shares in the amount of one Option for every Share allotted to that allottee.

Subject to these terms, each Option entitles the Option holder to subscribe for and be allotted one fully paid Share at an exercise price of \$0.40.

The Company will issue Shares on the exercise of an Option. These will be listed on the ASX and governed in accordance with the Listing Rules of the ASX.

Shares issued on the exercise of the Option will rank pari passu with all existing ordinary Shares in the capital of the Company from the date of issue.

### 9.4 Register of Options

Following granting of the Options, the Company will establish and maintain a register of Options in accordance with the Corporations Act (Register).

The Register will be altered accordingly on receipt of details of any change of name and address of an Option holder notified in writing to the Registry and accompanied in the case of a change of name by any evidence which may reasonably be required.

Notice of any trust expressed or implied or constructive will be entered in the Register.

The Company may delegate any of its powers and obligations in respect of the Register.

### 9.5 Terms and Conditions of Options

The terms and conditions of an Option are as follows:

**(a) Vesting**

The Options vest on the date the Company is admitted to the Official List of the ASX.

**(b) Expiry Date**

The Options expire on 31 December 2019.

**(c) Option Period**

The period from the date of issue of the Options to 31 December 2019.

**(d) Shares Issued on Option Exercise**

Shares issued on the exercise of the Options rank equally in all respects with the then existing issued shares in the capital of the Company. From the date of issue, Shares are subject to the provisions of the Constitution.

**(e) Exercise Price**

The Exercise Price is \$0.40 for each Option.

**(f) Exercise of Options**

The Options are exercisable wholly or in part by execution and lodgement with the Company of a notice of exercise and payment of the Exercise Price during the Option Period.

The notice of exercise must set out the number of Options which the Option holder wishes to exercise.

**(g) Quotation**

The Options will be quoted on ASX.

**(h) Transferability**

The Options may be transferred at any time in accordance with the Corporations Act, the Listing Rules, ASX Market Rules and ASTC Settlement Rules.

**(i) Holding Statement**

A holding statement will be issued for the Options and a copy of the terms and conditions will be forwarded to the Option holder. On the reverse side of the terms and conditions there will be a notice of exercise that is to be completed when exercising the Options. If there is more than one Option on a holding statement and those Options are exercised in part, the Company will issue another holding statement for the balance of the Options held and not yet exercised.

### 9.6 Performance Shares Terms and Conditions

The terms and conditions of the Performance Shares are as follows:

**(a) Rights attaching to the Performance Shares**

- (1) **Performance Shares:** Each Performance Share is a share in the capital of the Company.

- (2) **General Meetings:** The Performance Shares shall confer on the holder (**Holder**) the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to shareholders. Holders have the right to attend general meetings of shareholders of the Company.
- (3) **No Voting Rights:** The Performance Shares do not entitle the Holder to vote on any resolutions proposed at a general meeting of shareholders of the Company, subject to any voting rights under the Corporations Act or the ASX Listing Rules where such rights cannot be excluded by these terms.
- (4) **No Dividend Rights:** The Performance Shares do not entitle the Holder to any dividends.
- (5) **Rights on Winding Up:** Upon winding up of the Company, the Performance Shares may not participate in the surplus profits or assets of the Company, unless and only to the extent that each Performance Share has converted into a Share.
- (6) **Transfer of Performance Shares:** The Performance Shares are not transferrable.
- (7) **Re-organisation of Capital:** In the event that the Company is admitted to the official list of the ASX and the issued capital of the Company is subsequently reconstructed, all rights of a Holder will be changed to the extent necessary to comply with the ASX Listing Rules at the time of re-organisation.
- (8) **Application to ASX:** The Performance Shares will not be quoted on ASX. Upon conversion of the Performance Shares into Shares in accordance with these terms, the Company must within seven (7) days after the conversion, apply for the official quotation on ASX of the Shares arising from the conversion.
- (9) **Participation in Entitlements and Bonus Issues:** Holders of Performance Shares will not be entitled to participate in new issues of capital offered to holders of the Shares such as bonus issues and entitlement issues.
- (10) **Change of Control:** Holders of Performance Shares will be entitled to convert Performance Shares into Shares if there is a Change of Control Event of the Company, notwithstanding that the applicable performance milestone has not been achieved, but only to the extent that the total number of Shares that the performance shares in aggregate convert into is no more than 10% of the issued ordinary capital of the Company as at the date of conversion.
- (11) **Anti-Dilution:** The number of Shares into which the Performance Shares convert if the Company splits or consolidates its Shares or undertakes a bonus issue, entitlement issue or other capital reconstruction will be adjusted to the extent that the Holder will not be diluted.
- (12) **Amendments required by ASX:** The directors of the Company may amend the terms of the Performance Shares as necessary to comply with the ASX Listing Rules, or any directions of ASX regarding the terms.
- (13) **No Other Rights:** The Performance Shares give the Holders no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

**(b) Conversion of the Performance Shares**

Performance Shares will convert to Shares on the basis of one (1) Performance Share will convert to one (1) Share.

- (1) **Conversion Time:** The Company must convert the Performance Shares on these terms within 10 business days of receipt by the Company of THC audited annual accounts, which must state the NPAT or upon independent assessment that the relevant milestone has been achieved.
- (2) **Conversion Ratio:** Performance Shares will convert to Shares on the basis of one (1) Performance Share will convert to one (1) Share.
- (3) **Cancellation:** If the relevant milestone is not achieved the relevant Performance Shares will be cancelled. All outstanding Performance Shares will expire upon determination of the NPAT for FY 2020.
- (4) **Number of Shares:** 26,500,000 Shares will be issued upon conversion of the Performance Shares.
- (5) **After Conversion:** The Shares issued on conversion of the Performance Shares will, as and from 5.00pm (Sydney Time) on the date of allotment, rank equally with and confer rights identical with all other Shares then on issue and application will be made by the Company to ASX for official quotation of the Shares issued upon conversion.
- (6) **Conversion Procedure:** The Company will issue the Holder with a new holding statement for the Shares as soon as practicable following the conversion of the Performance Shares into the Shares.
- (7) **Ranking of Shares:** The Shares into which the Performance Shares will convert will rank pari passu in all respects with the Shares on issue at the date of conversion.

## (c) Performance Shares – Milestones

Holder	Performance Share Class	No Performance Shares	Milestone
Agri Fibre Industries Pty Ltd	A	2,000,000	Upon Canndeo securing: (1) required operating licences for the Business being: <ul style="list-style-type: none"> <li>Medicinal Cannabis Licence</li> <li>Cannabis Research Licence (cultivation and production)</li> <li>Medicinal Cannabis Manufacturing Licence</li> </ul> issued by the Australian Government, Department of Health, Office of Drug Control; and (2) a minimum of one product submitted for approval through the TGA, on or before 31 December 2017.
Agri Fibre Industries Pty Ltd	B	12,000,000	Upon Canndeo achieving an NPAT of A\$2,000,000 or more in either FY 2018 or FY 2019
Pegasus Agriculture Pty Ltd	C	2,500,000	Upon independent verification of producing a stable polyploidy within Cannabis plant.
Pegasus Agriculture Pty Ltd	D	6,000,000	Upon PolyCo (a wholly owned subsidiary of THC) achieving a minimum NPAT of A\$1,000,000 in FY2017, FY2018, FY2019 or FY2020.
Vendors of Crystal Mountain Manufacturing and Dragon Vision Limited	E	2,000,000	Upon Crystal Mountain Manufacturing and Dragon Vision Limited achieving a combined audited net profit after tax for the financial year ending December 31, 2018 of a minimum of A\$1,000,000.
Vendors of Crystal Mountain Manufacturing and Dragon Vision Limited	F	2,000,000	Upon Crystal Mountain Manufacturing and Dragon Vision Limited achieving a combined audited net profit after tax for the financial year ending December 31, 2018 of a minimum of A\$2,000,000.

The directors have considered the prospects of the milestone conditions with respect to the Performance Shares and have determined that the likelihood of the milestones being achieved and the Performance Shares converting to Shares to be:

Holder	Performance Share Class	Milestone	Probability
Agri Fibre Industries Pty Ltd	A	Highly likely, considering the advanced progress made to date.	99%
Agri Fibre Industries Pty Ltd	B	Very likely, considering the advanced progress made to date.	75%
Pegasus Agriculture Pty Ltd	C	Likely. Probability reduced as results incumbent on sufficient capital being available to progress process.	50%
Pegasus Agriculture Pty Ltd	D	Likely. Probability reduced as results incumbent on sufficient capital being available to progress process.	50%
Vendors of CMDV	E	Highly Likely. Sufficient time and resources are available to achieve the milestone, considering past performance and available resources.	99%
Vendors of CMDV	F	Very likely. Probability reduced as results dependant on rapid expansion and product development.	75%

## 9.7 Corporate Governance

The Company has adopted a Corporate Governance Plan, which forms the basis of a comprehensive system of control and accountability for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs.

To the extent they are applicable to the Company, the Board has adopted the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 3rd Edition ("Principles and Recommendations").

In light of the Company's size and nature, the Board considers that the current board is a cost effective and practical method of directing and managing the Company. As the Company's activities develop in size and scope, the size of the Board and the implementation of additional corporate governance policies and structures will be reviewed.

The Company's main corporate policies and practices as at the date of this Prospectus are outlined below and the Company's full Corporate Governance Plan is available in the corporate governance information Section of the Company's website.

### (a) Board Responsibilities

The Board is responsible for corporate governance of the Company. The Board develops strategies for the Company, reviews strategic objectives and monitors performance against those objectives. The goals of the corporate governance processes are to:

- (1) maintain and increase Shareholder value;
- (2) ensure a prudential and ethical basis for the Company's conduct and activities;
- (3) ensure compliance with the Company's legal and regulatory objectives consistent with these goals, and to achieve this the Board assumes the following responsibilities:
  - (A) developing initiatives for profit and asset growth;
  - (B) reviewing the corporate, commercial and financial performance of the Company on a regular basis;
  - (C) acting on behalf of, and being accountable to, the Shareholders; and
  - (D) identifying business risks and implementing actions to manage those risks and corporate systems to assure quality.

The Company is committed to the circulation of relevant materials to Directors in a timely manner to facilitate Directors' participation in the Board discussions on a fully-informed basis.

### (b) Composition of the Board

Election of Board members is substantially the province of the Shareholders in general meeting.

However, subject thereto, the Company is committed to the following principles:

- (1) the Board is to comprise persons with a blend of skills, experience and attributes appropriate for the Company and its business; and
- (2) the principal criteria for the appointment of new Directors are their ability to add value to the Company and its business. All incumbent Directors bring an independent judgement to bear in deliberations and the current representation is considered adequate given the stage of the Company's development. The names, qualifications and relevant experience of each Director are set out in Section 4.

### (c) Code of Conduct

As part of its commitment to recognising the legitimate expectations of stakeholders and promoting practices necessary to maintain confidence in the Company's integrity, the Company has an established Code of Conduct (the Code) to guide compliance with legal, ethical and other obligations to legitimate stakeholders and the responsibility and accountability required of THC personnel for reporting and investigating unethical practices or circumstances where there are breaches of the Code.

These stakeholders include employees, clients, customers, government authorities, creditors and the community as whole. This Code governs all of the Company's commercial operations and the conduct of Directors, employees, consultants, contractors and all other people when they represent the Company. This Code also governs the responsibility and accountability required of the Company's personnel for reporting and investigating unethical practices.

The Board, management and all employees of THC are committed to implementing this Code and each individual is accountable for such compliance. A copy of the Code is given to all employees, contractors and relevant personnel, including directors, and is available on the Company's website (under "Corporate Governance").

### (d) Diversity Policy

The Board has adopted a diversity policy which provides a framework for the Company to achieve, among other things, a diverse and skilled workforce, a workplace culture characterised by inclusive practices and behaviours for the benefit of all

staff, improved employment and career development opportunities for women and a work environment that values and utilises the contributions of employees with diverse backgrounds, experiences and perspectives.

**(e) Continuous Disclosure**

The Board has designated THC's Company Secretary as the person responsible for overseeing and co-ordinating disclosure of information to the ASX as well as communicating with the ASX.

The Board has established a written policy for ensuring compliance with ASX Listing Rule disclosure requirements and accountability at senior executive level for that compliance. A copy of the Company's continuous disclosure policy can be found on the Company's web site (under "Corporate Governance").

**(f) Audit Committee and Management of Risk**

The Company has established an Audit and Risk Committee. The Audit and Risk Committee is comprised of independent non-executive directors and is chaired by a director who is not the chair of the board.

**(g) Remuneration Arrangements**

The Board will decide the remuneration of an executive Director, without the affected executive Director participating in that decision-making process.

The constitution of THC provides that Directors are entitled to remuneration as the Directors determine, but the remuneration of the non-executive Directors must not exceed, in aggregate, a maximum amount fixed by THC in general meeting of Shareholders for that purpose. Shareholders will consider setting the aggregate amount at \$300,000 at a general meeting to be held on 20 March 2017.

This will allow the Company to attract and retain high-quality non-executive Directors with significant experience and expertise. It is not expected to pay the total approved pool but that the current allocation allows room for the board to move as necessary as the business grows profitably without the need to come back to shareholders.

A Director may be paid fees or other amounts (subject to any necessary Shareholder approval) (for example, non-cash performance incentives such as Options) as determined by the Board where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director.

Directors are also entitled to be paid reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors. The Board reviews and approves the remuneration policy to enable the Company to attract and retain executives and Directors who will create value for Shareholders having consideration to the amount considered to be commensurate for a company of its size and level of activity as well as the relevant Directors' time, commitment and responsibility. The Board is also responsible for reviewing any employee incentive and equity-based plans including the appropriateness of performance hurdles and total payments proposed.

**(h) Shareholder Communications**

The Board tries to ensure that Shareholders are provided with sufficient information to assess the performance of the Company and its Directors and to make well-informed investment decisions. Information is communicated to Shareholders through:

- (1) annual and half-yearly financial reports and quarterly reports;
- (2) annual and other general meetings convened for Shareholder review and approval of Board proposals;
- (3) continuous disclosure of material changes to ASX for open access to the public; and,
- (4) the Company maintains a website where all ASX announcements, notices and financial reports are published as soon as possible after release to ASX.

The auditor is invited to attend the annual general meeting of Shareholders. The Chairman will permit Shareholders to ask questions about the conduct of the audit and the preparation and content of the audit report.

**(i) Trading in the Company's Shares**

The Company's Share Trading Policy prohibits Directors from taking advantage of their position or information acquired, during their duties, and the misuse of information for personal gain or to cause detriment to of THC.

Directors, senior executives and employees are required to advise the Company Secretary of their intentions prior to undertaking any transaction in THC securities.

If an employee, officer or director is considered to possess material non-public information, they will be precluded from making a Security transaction until after the time of public release of that information.

A copy of the Company's Share Trading Policy is available on the Company's website (under "Corporate Governance").

**(j) Corporate Social Responsibility**

The Company is committed to conducting its operations and activities in harmony with the environment and society, and wherever practicable to work in collaboration with communities and government institutions in decision-making and activities for effective, efficient and sustainable solutions.



A copy of the Company's Environmental and Social Charter is available on the Company's website (under "Corporate Governance").

**(k) Departures from ASX Corporate Governance Council's Corporate Governance Principles & Recommendations (Principles & Recommendations)**

The Company is required to report any departures from the Principles & Recommendations in its annual financial report.

The Company's compliance and departures from Principles & Recommendations as at the date of this Prospectus are set out in the following table:

**ASX Corporate Governance Council's Corporate Governance Principles and Recommendations**

PRINCIPAL	RESPONSE
<b>PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT</b>	
<b>Recommendation 1.1</b>	
The entity should have and disclose a charter, which sets out the respective roles and responsibilities of the board, the chair and management; and includes a description of those matters expressly reserved to the board and those delegated to management.	Complies.  The Company's Corporate Governance Plan includes a Board Charter, which discloses the specific responsibilities of the Board. The responsibilities delegated to the senior management team are set out in the Board Charter.  The Board Charter can be viewed on the Company's website <a href="http://www.thcl.com.au">www.thcl.com.au</a> .
<b>Recommendation 1.2</b>	
The entity should undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director.  The entity should provide security holders with all material information relevant to a decision on whether or not to elect or re-elect a director.	Complies.  The Company conducts background and reference checks for all Directors.  These checks will be expanded to include the required checks described in Guidance Note 1, paragraph 3.15 issued by the ASX before appointing an additional person, or putting forward to Shareholders a candidate for election, as a Director.
<b>Recommendation 1.3</b>	
The entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	Complies.  All Directors have written agreements setting out the terms of their appointment (refer to Section 8.11). The services of the Chief Financial Officer are provided under the terms of the services agreement with HCL described in Section 8.13.
<b>Recommendation 1.4</b>	
The company secretary of the entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	Complies.  A Company Secretary has been appointed and is accountable directly to the Board, through the Chairperson, on all matters to do with the proper functioning of the Board.
<b>Recommendation 1.5</b>	
The entity should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	Complies.  The Board has established a Diversity Policy.
The entity should disclose in its annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	The Diversity Policy is available at the Company's website and is set out in the Company's annual report.

The entity should disclose in its annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Details of the Company's measurable objectives for achieving gender diversity and its progress towards achieving them and the entity's gender diversity figures are set out in the Company's annual report.
<b>Recommendation 1.6</b>	
The entity should have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors and disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	<p>Complies</p> <p>Currently the role of the nomination committee is undertaken by the full Board. The Company intends to establish a nomination committee once the Company's operations are of sufficient magnitude.</p> <p>The Board is responsible for evaluating the performance of the Board and individual Directors will be evaluated on an annual basis. It may do so with the aid of an independent advisor.</p> <p>Details of the performance evaluations conducted will be provided in the Company's annual reports.</p>
<b>Recommendation 1.7</b>	
The entity should have and disclose a process for periodically evaluating the performance of its senior executives and disclose in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process	<p>Complies.</p> <p>Senior executive key performance indicators are set annually, with performance appraised by the Board, and reviewed in detail by the Board.</p> <p>The internal review is to be conducted on an annual basis and if deemed necessary an independent third party will facilitate this internal review.</p> <p>Details of the performance evaluations undertaken will be set out in future annual reports.</p>
<b>PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE</b>	
<b>Recommendation 2.1</b>	
The entity's board should have a nomination committee, which has at least three members, a majority of whom are independent directors and is chaired by an independent director.	<p>Does not comply.</p> <p>The Company does not have a nomination committee.</p>
The entity should disclose the charter of the committee, the members of the committee and as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings.	Initially the role of the nomination committee will be undertaken by the full Board. The Company intends to establish a nomination committee once the Company's operations are of sufficient magnitude.
If the entity does not have a nomination committee, it should disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, experience, independence and knowledge of the entity to enable it to discharge its duties and responsibilities effectively.	The Company does not have a nomination committee. The Board evaluates the skills, experience of its members and then determines whether additional members should be invited to the Board to complement or replace the existing members.
<b>Recommendation 2.2</b>	
The entity should have and disclose a board skill matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	<p>Does not yet comply.</p> <p>The Company intends to develop a board skill matrix setting out the mix of skills and diversity the Board has and requires. The skill matrix will be available at the Company's website once finalised.</p>

<b>Recommendation 2.3</b>	
The entity should disclose the names of the directors considered by the board to be independent directors and the length of service of each director.	Complies.
The entity should disclose if a director has an interest, position, association or relationship of the type described in Box 2.3 of the ASX Corporate Governance Principles and Recommendation (3 <sup>rd</sup> Edition), but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion.	<p>The independence of directors and the length of service of each director will be set out in the Company's annual report.</p> <p>Details of any relevant interest, position, association or relationship impacting upon a director's independence will be set out in the Company's annual report.</p>
<b>Recommendation 2.4</b>	
A majority of the board of the entity should be independent directors.	Complies.
<b>Recommendation 2.5</b>	
The chair of the board of the entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	Complies.
<b>Recommendation 2.6</b>	
The entity should have a program for inducting new directors and providing appropriate professional development opportunities for continuing directors to develop and maintain the skills and knowledge needed to perform their role as a director effectively.	<p>Does not yet comply.</p> <p>Currently the induction of new Directors and plan for professional development is managed informally by the full Board.</p> <p>The Company intends to develop a formal program for inducting new Directors and providing appropriate professional development opportunities.</p>
<b>PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY</b>	
<b>Recommendation 3.1</b>	
The entity should establish a code of conduct and disclose the code or a summary of the code.	<p>Complies.</p> <p>The Board has established a Code of Conduct to guide compliance with legal, ethical and other obligations to legitimate stakeholders and the responsibility and accountability required of THC's personnel for reporting and investigating unethical practices or circumstances where there are breaches of the Code.</p> <p>The Code of Conduct can be viewed on the Company's website.</p>
<b>PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING</b>	
<b>Recommendation 4.1</b>	
The board of the entity should have an audit committee, which consists only of non-executive directors, a majority of which are independent directors and is chaired by an independent chair, who is not chair of the board.	<p>Complies.</p> <p>The Board has established an Audit and Risk Committee Charter.</p>
The entity should disclose the charter of the committee, the members of the committee and as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings	<p>A summary of the charter and details of the number of times the committee met throughout the period and the individual attendances of the members at those meetings are set out in the Company's Annual Report.</p> <p>The full Audit and Risk Committee charter can be viewed on the Company's website.</p>

<b>Recommendation 4.2</b>	
The board should disclose whether it has, before approving the entity's financial statements for a financial period received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) a declaration that the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively in all material respects in relation to financial reporting risks.	<p>Complies.</p> <p>The Board requires the Chief Executive Officer and Chief Financial Officer to provide such a statement before approving the entity's financial statements for a financial period.</p>
<b>Recommendation 4.3</b>	
When the entity has an AGM it should ensure that its external auditor attends the AGM and is available to answer questions from security holders relevant to the audit.	<p>Complies.</p> <p>The external auditor will attend the AGM and is available to answer questions from Security Holders relevant to the audit.</p>
<b>PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE</b>	
<b>Recommendation 5.1</b>	
The entity should established written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclosed those policies or a summary of those policies.	<p>Complies.</p> <p>The Company has a written policy on information disclosure. The focus of these policies and procedures is continuous disclosure and improving access to information for investors.</p> <p>Details of the entity's continuous disclosure policy can be viewed on the Company's website.</p>
<b>PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS</b>	
<b>Recommendation 6.1</b>	
The entity should provide information about itself and its governance to investors via its website.	<p>Complies.</p> <p>The Company has provided specific information about itself and its key personnel and has developed a comprehensive Corporate Governance Plan.</p> <p>Details can be found at the Company's website.</p>
<b>Recommendation 6.2</b>	
The entity should design and implement an investor relations program to facilitate effective two-way communication with shareholders.	<p>Complies.</p> <p>The Company has established a Shareholder's Communication Policy. The Company recognises the importance of forthright communications and aims to ensure that the shareholders are informed of all major developments affecting the Company.</p> <p>Details of the Shareholder's Communication Policy can be found at the Company's website.</p>
<b>Recommendation 6.3</b>	
The entity should disclose the policies and processes it has in place to facilitate and encourage participation at general meetings.	<p>Complies.</p> <p>The Shareholder's Communication Policy is available on the Company's website and details are set out in the Company's annual report.</p>

<b>Recommendation 6.4</b>	
A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	<p>Complies.</p> <p>The Company has provided the option to receive communications from, and send communications to, the entity and its security registry electronically.</p>
<b>PRINCIPLE 7: RECOGNISE AND MANAGE RISK</b>	
<b>Recommendation 7.1</b>	
The board of the entity should have a committee or committees to oversee risk each of which has at least three members, a majority of whom are independent directors and is chaired by an independent director.	<p>Complies.</p> <p>The Company is not of a size that justifies having a separate committee to oversee risk, so matters typically considered by such a committee are dealt with by the full Board.</p>
The entity should disclose the charter of the committee, the members of the committee and as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings.	<p>The full Board of the Company sits as the Audit and Risk Committee which is chaired by an independent director.</p> <p>Details of the number of times the committee met throughout the period and the individual attendances of the members at those meetings will be set out in the Company's annual report.</p>
<b>Recommendation 7.2</b>	
The board or board committee should review the entity's risk management framework with management at least annually to satisfy it that it continues to be sound, to determine whether there have been any changes in the material business risks the entity faces and to ensure that they remain within the risk appetite set by the board.	Complies.
The entity should also disclose in relation to each reporting period, whether such a review has taken place.	<p>The Board determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.</p> <p>The Board has delegated to the Audit and Risk Committee the responsibility for implementing the risk management system.</p> <p>Details of the number of times the committee conducted a risk management review in relation to each reporting period will be disclosed in its annual reports.</p>
<b>Recommendation 7.3</b>	
<p>The entity should disclose if it has an internal audit function, how the function is structured and what role it performs.</p> <p>If the entity does not have an internal audit function, the entity should disclose that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.</p>	<p>Does not yet comply.</p> <p>The Board currently undertakes the internal audit function in place of a separate Audit and Risk Committee. The Board intends to establish and implement the structure and role of the internal audit function.</p> <p>The Company will disclose the details of the internal audit function in its future annual reports.</p>
<b>Recommendation 7.4</b>	
The entity should disclose whether, and if so how, it has regard to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	<p>Complies.</p> <p>The Board sits as the Audit and Risk committee appointed to manage economic sustainability and risk.</p>

**PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY****Recommendation 8.1**

The board should establish a remuneration committee, which has at least three members, a majority of whom are independent directors and is chaired by an independent director.

Does not yet comply.

If the entity does not have a remuneration committee, the entity should disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

The Board has adopted a Remuneration Committee Charter.

However, the Company is not of a size that justifies having a separate Remuneration Committee so matters typically considered by such a committee are dealt with by the full Board.

The Board intends to engage the services of an independent adviser to review the level and composition of remuneration for Directors and senior executives to ensure that such remuneration is appropriate and not excessive.

**Recommendation 8.2**

The entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives and ensure that the different roles and responsibilities of non-executive directors compared to executive directors and other senior executives are reflected in the level and composition of their remuneration.

Complies.

The Company distinguishes the structure of Non-executive Directors' remuneration from that of Executive Directors and senior executives.

Details of the policies and practices regarding remuneration are set out in the Company's annual report.

The Remuneration Committee Charter can be viewed on the Company's website.

**Recommendation 8.3**

If the entity has an equity-based remuneration scheme, the entity should have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise), which limit the economic risk of participating in the scheme, and disclose that policy or a summary of it.

Complies.

The Company's Share Trading Policy prohibits executive staff from undertaking hedging or other strategies that could limit the economic risk associated with Company Securities issued under any equity based remuneration scheme.

The Share Trading Policy can be viewed on the Company's website.

**9.8 Litigation**

THC is not involved in any actual or threatened litigation, which could have a material effect on the Company.

**9.9 Security Holdings of Directors and associates**

Directors are not required under the Constitution to hold any Shares.

Directors hold the following Securities directly (or indirectly through their associates):

Director	Pre-Public Offer		Post Public Offer	
	Direct	Indirect	Direct	Indirect
Alan Beasley	500,000	Nil	500,000	Nil
Hamish Macdonald	1,000,000	Nil	1,000,000	2,500,000
Mary Verschuer	Nil	250,000	Nil	250,000
Ian Mutton	Nil	250,000	Nil	250,000
Peter Wallace	Nil	250,000	Nil	250,000
John Hall	Nil	Nil	Nil	4,000,000

John Hall will join the Board at the completion of the Public Offer.

#### 9.10 Directors' fees

Directors are entitled to remuneration out of the funds of the Company but the remuneration of the non-executive Directors may not exceed in any year the amount fixed by the Company in general meeting for that purpose. Subject to obtaining Shareholder approval, the maximum aggregate remuneration of the non-executive Directors will be fixed at \$300,000 per annum to be apportioned among the non-executive Directors in such manner as the Board determines. Shareholders will consider setting the aggregate amount at \$300,000 at a general meeting to be held on 20 March 2017.

Subject to obtaining the relevant Shareholder approval, Non-Executive Directors at the date of this Prospectus will be entitled to \$35,000 remuneration per annum (plus superannuation). That remuneration, at the Director's discretion, will be payable in the form of cash or, subject to Shareholder approval, in Shares. The aggregate remuneration to be paid to directors for committee attendance is \$30,000.

The Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in consequence of their attendance at the Board meetings and otherwise in the execution of their duties as Directors.

#### 9.11 Interests of experts and advisors

This Section applies to persons named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, Vendors of the Company and financial services licensees involved in the Public Offer (collectively **Prescribed Persons**). Other than as set out below or elsewhere in this Prospectus, no Prescribed Person has, or has had in the last 2 years, any interest in:

- The formation or promotion of the Company;
- any property acquired or proposed to be acquired in connection with the formation or promotion of the Company or the Public Offer; or
- the offer of Shares under this Prospectus.

Other than as set out below or elsewhere in this Prospectus, no benefit has been given or agreed to be given to any Prescribed Person for services provided by a Prescribed Person in connection with the:

- formation or promotion of the Company; or
- Offer of Shares under this Prospectus.

RSM Corporate Australia Pty Ltd has acted as Investigating Accountants to the Offers and has performed work in relation to due diligence enquiries, for which it will be paid \$15,000 (plus GST and disbursements).

Piper Alderman has acted as the Australian legal adviser to the Offers, and has performed work in relation to due diligence enquiries, for which it will be paid \$70,000 (plus GST and disbursements).

Gleneagle Securities (Aust) Pty Ltd has acted as joint lead manager to the Public Offer and will be paid:

- a cash fee of \$15,000 (plus GST);
- a management fee equal to 1% of the funds raised under the Public Offer (\$50,000 - \$80,000 (plus GST); and
- an additional fee equal to 5% of the funds raised under the Public Offer through investors introduced by Gleneagle, its related entities or employees.

Details of Shares and Options to be issued to Gleneagle are detailed in Section 8.15 of the Prospectus.

Red Leaf Securities Pty Ltd has acted as joint lead manager to the Public Offer and will be paid:

- a cash fee of \$10,000 (plus GST);
- a success fee of \$10,000 (plus GST) upon Red Leaf successfully raising \$500,000 under the Public Offer; and
- an additional fee equal to 6% of the funds raised under the Public Offer through investors introduced by Red Leaf, its related entities or employees.

Details of Shares and Options to be issued to Red Leaf are detailed in Section 8.16 of the Prospectus.

MMR Corporate Services Pty Ltd has acted as corporate advisors for which it will be paid \$75,000 (plus GST and disbursements).

Details of Shares and Options to be issued to MMR Corporate Services are detailed in Section 8.12 of the Prospectus.

#### 9.12 Expenses of the Public Offer

Other than as stated in this Prospectus, all expenses connected with the Public Offer are being borne by the proceeds from the Issue.



### 9.13 Expenses of the Offer

The estimated costs of the Offer (exclusive of GST) are summarised as follows:

Description	Amount Raised	
	\$5,000,000	\$8,000,000
Due Diligence (Australia)	\$45,000	\$45,000
Investigating Accountant (Balance)	\$10,750	\$10,750
Legal Costs (Balance)	\$50,000	\$50,000
Printing and Postage	\$10,000	\$10,000
Corporate Advisory	\$50,000	\$50,000
Broker Engagement	\$40,000	\$40,000
<b>Total</b>	<b>\$205,750</b>	<b>\$205,750</b>

The estimated costs summarised above reflect payments to be made from the existing cash reserves of the Company and do not include payments already expensed. These include special audit costs, legal and investigating accountant prepayment, advisory services, offshore due diligence, investigations regarding IP and management support services in the amount of \$150,000 excluding GST.

### 9.14 Escrow arrangements

It is anticipated that under the ASX Listing Rules, the ASX may require Shares and Options held by the Founders, Promoters, Vendors and other existing Shareholders to be escrowed for a maximum of two years.

The ASX may require other Securities issued pursuant to this Prospectus to be escrowed for a period of time determined by the ASX.

### 9.15 Consents and disclaimers

RSM Corporate Australia Pty Ltd has consented in writing to the inclusion in this Prospectus of the Investigating Accountant's in the form and context in which they appear and, at the time of lodgement of this Prospectus with ASIC, has not withdrawn that consent. It takes no responsibility for any part of the Prospectus other than the Investigating Accountant's Report.

Piper Alderman has given, and has not withdrawn before the lodgement of this Prospectus with ASIC, its written consent to be named as Australian legal adviser to the Company in the form and context in which it is named. Piper Alderman takes no responsibility for any part of this Prospectus other than any reference to its name.

KS Black & Co has given, and has not withdrawn before the lodgement of this Prospectus with ASIC, its written consent to be named as Auditors of THC in the form and context in which it is named. KS Black & Co has had no involvement in the preparation of any part of the Prospectus other than being named as Auditor of THC.

Gleneagle Securities (Aust) Pty Ltd has given, and has not withdrawn before the lodgement of this Prospectus with ASIC, its written consent to be named as joint lead manager in the form and context in which it is named. Gleneagle Securities (Aust) Pty Ltd takes no responsibility for any part of this Prospectus other than any reference to its name.

Red Leaf Securities Pty Ltd has given, and has not withdrawn before the lodgement of this Prospectus with ASIC, its written consent to be named as joint lead manager in the form and context in which it is named. Red Leaf Securities Pty Ltd takes no responsibility for any part of this Prospectus other than any reference to its name.

Computershare Investor Services Pty Limited has given, and has not withdrawn before the lodgement of this Prospectus with ASIC, its written consent to be being named as the Company's Share Registry in the form and context in which it is named.

Computershare Investor Services Pty Limited has had no involvement in the preparation of any part of the Prospectus other than being named as Share Registry to the Company. Computershare Investor Services Pty Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of the Prospectus.

### 9.16 Documents available for inspection

The following documents are available for inspection at the offices of the Company during business hours:

- Constitution; and
- material contracts referred to in Section 8.

### 9.17 Major security holders

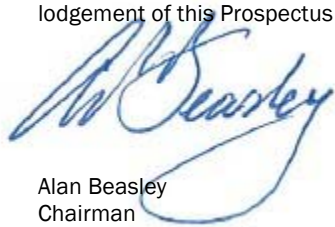
As at the date of this Prospectus there are 35,400,000 shares on issue. The major shareholders as at the date of the Prospectus ( $\geq 5\%$ ) of the Company are:

Shareholder	No Shares	% Shares held
Hamilton Hawkes Pty Ltd	3,000,000	8.47%
Tim Pears Family Pty Ltd	2,647,400	7.48%
Katja Gordon	2,000,000	5.65%
Pears Daisley Pty Ltd	2,000,000	5.65%

## 10. Directors statement

The Directors report that, in their opinion, since the date of the financial statements used in the preparation of the Investigating Accountant's Report, no circumstances have arisen that materially affect or will materially affect the profitability of the Company or the value of the Company's assets and liabilities, except as disclosed in this Prospectus. The Directors have consented to the lodgement of this Prospectus with ASIC.

Signed by Alan Beasley, a Director of the Company, pursuant to Section 351 of the *Corporations Act*, for the purposes of lodgement of this Prospectus with ASIC.



Alan Beasley  
Chairman

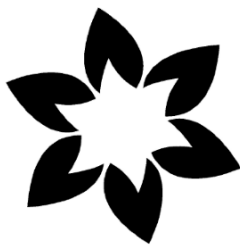
## 11. Glossary

Terms and abbreviations used in this Prospectus have the following meaning:

<b>A\$ or \$</b>	an Australian dollar
<b>A&amp;B Hydroponics or A&amp;B</b>	A&B Hydroponics International Pty Ltd (ABN 63 098 929 938)
<b>AFI</b>	Agri Fibre Industries Pty Ltd (ACN 083 537 348)
<b>Applicant</b>	a person who submits an Application
<b>Application</b>	the application form accompanying this Prospectus (and includes a copy of the application form printed from the website at which the Electronic Prospectus is located) relating to the Offer or the Secondary Offer.
<b>Application Form</b>	an application form in the form attached to this Prospectus
<b>Application Monies</b>	the Application price multiplied by the number of Shares applied for
<b>ASIC</b>	Australian Securities and Investments Commission
<b>ASX</b>	ASX Limited (ACN 008 624 691)
<b>ASX Listing Rules</b>	the official listing rules of ASX
<b>Board</b>	Board of Directors of the Company for the time being
<b>Business Day</b>	a day, other than a Saturday or Sunday, on which banks are open for general banking business in Sydney
<b>Businesses</b>	The businesses and collaborators described in Section 2.2
<b>CAGR</b>	Compound Annual Growth Rate
<b>Change of Control Event</b>	<ol style="list-style-type: none"> <li>1. the occurrence of: <ol style="list-style-type: none"> <li>(a) the offeror under a takeover offer in respect of Shares announcing that it has achieved acceptances in respect of 50.1% or more of the Shares; and</li> <li>(b) that takeover bid has become unconditional; or</li> </ol> </li> <li>2. the announcement by the Company that: <ol style="list-style-type: none"> <li>(a) shareholders of the Company have at a Court convened meeting of shareholders voted in favour, by the necessary majority, of a proposed scheme of arrangement under which all Shares are to be either: <ol style="list-style-type: none"> <li>(1) cancelled; or</li> <li>(2) transferred to a third party; and</li> </ol> </li> <li>(b) the Court, by order, approves the proposed scheme of arrangement,</li> </ol> <p>but shall not include a scheme of arrangement for the purposes of a corporate restructure (including change of domicile, consolidation, sub-division, reduction or return) of the issued capital of the Company.</p> </li> </ol>
<b>Closing Date</b>	the date by which valid acceptances must be received by the Share Registry, being 5 April 2017 or such other date determined by the Board
<b>CMM or DV or CMDV</b>	Crystal Mountain BC0844425 (British Columbia) and/or Dragon Vision (1481363) (Hong Kong) as the context provides

<b>Constitution</b>	Constitution of the Company as registered with ASIC and as amended from time to time
<b>Corporations Act</b>	the Corporations Act 2001 (Cth) – an Act to make provision in relation to corporations and financial products and services, and for other purposes
<b>Director</b>	a director of the Company
<b>EBIT</b>	earnings before interest and tax
<b>EBITDA</b>	earnings before interest, tax, depreciation and amortisation
<b>Exposure Period</b>	the period commencing on the date of lodgement of this Prospectus with ASIC and ending 7 days after that date, or 14 days after that date if the period is extended by ASIC
<b>Founders</b>	Persons instrumental in the development of the business of the Company before the Company was incorporated
<b>FY</b>	Financial Year
<b>Gleneagle</b>	Joint Lead Manager – Gleneagle Securities (Aust) Pty Ltd ACN 136 930 526 AFSL 337 985 of 25 Bligh St, Sydney NSW Australia
<b>GMO</b>	genetically modified organism
<b>Hudson Corporate Limited or HCL</b>	Hudson Corporate Limited (ACN 075 068 923) of Level 2, 131 Macquarie Street Sydney, NSW Australia
<b>Investigating Accountant's Report</b>	The Investigating Accountant's Report presented in Section 7 of this Prospectus
<b>Issue</b>	the issue of Shares in accordance with this Prospectus
<b>m</b>	million
<b>manufacture(r)</b>	Includes the production of goods and materials by toll processing
<b>Minimum Subscription</b>	\$5,000,000
<b>MMR Corporate Limited or MMR</b>	MMR Corporate Limited (ACN 160 731 519) of Level 2, 131 Macquarie Street Sydney
<b>MOU</b>	Memorandum of Understanding
<b>NPAT</b>	Net Profit After Tax as stated in the audited accounts of THC
<b>NTA</b>	“net tangible assets” as that expression is defined in ASIC regulatory guide RG 166
<b>Offer Period</b>	period from 16 March 2017 to 5 April 2017 when the Offer is made
<b>Offers</b>	The Public Offer and the Secondary Offer
<b>Official List</b>	the official list of entities that ASX has admitted and not removed
<b>Official Quotation</b>	quotation on the Official List
<b>Offshore</b>	A jurisdiction other than Australia
<b>Opening Date</b>	16 March 2017
<b>Option</b>	An option that may be exercised by the holder to acquire a Share

<b>Performance Shares</b>	a class of securities that will convert to Shares if the particular milestones described in Section 9.6 are met
<b>polyploid(y)</b>	the condition in which a normally diploid cell or organism acquires one or more additional sets of chromosomes.
<b>Promoter</b>	has the same meaning as in ASX Listing Rule 19.12
<b>Prospectus</b>	this Prospectus dated 9 March 2017 as modified or varied by any replacement or supplementary Prospectus made by the Company and lodged with ASIC from time to time, and any electronic copy of this Prospectus, replacement prospectus and supplementary Prospectus
<b>Public Offer</b>	the offer of 25,000,000 Shares and 12,500,000 Options pursuant to and in accordance with this Prospectus to raise \$5,000,000; In addition, the Company may accept over-subscriptions for up to 15,000,000 Shares and 7,500,000 Options to raise a further \$3,000,000;
<b>Red Leaf</b>	Joint Lead Manager – Red Leaf Securities Pty Ltd (ACN 606 000 800) Corporate Authorised Representative (463051) of BR Securities Australia Pty Ltd (AFSL 456663) of 1/37 Bligh St, Sydney, NSW, Australia
<b>Restricted Securities</b>	has the same meaning as in ASX Listing Rule 19.12
<b>Secondary Offer</b>	The offer set out in Section 3.2
<b>Securities</b>	has the same meaning as in Section 92 of the <i>Corporations Act</i>
<b>Security Holders or Shareholders</b>	the shareholders of the Company from time to time
<b>Seed Investors</b>	An investor of capital to fund the acquisition costs, the listing costs and initial working capital requirements of the Company
<b>Shares</b>	ordinary fully paid shares in the capital of the Company
<b>Stock at Valuation</b>	Valuation of inventory at distributor pricing being balance sheet value less defective, damaged or obsolete stock plus a \$300,000 margin.
<b>Sydney time</b>	Australian Eastern Daylight Time or Australian Eastern Standard Time in effect at the relevant time
<b>THC</b>	The Hydroponics Company Limited and where the context so permits or requires, includes any related body corporate including subsidiaries or tetrahydrocannabinol, a cannabinoid of cannabis as the context requires.
<b>The Hydroponics Company Limited or Company</b>	The Hydroponics Company Limited (ABN 33 614 508 039) of Level 2, 131 Macquarie Street Sydney and where the context so permits or requires, includes any related body corporate including subsidiaries
<b>Vendors</b>	The party selling an asset or right to THC



theHydroponicscompany  
ABN 33 614 508 039

**Return your form to:**

Computershare Investor Services Pty Limited  
GPO Box 2115  
Melbourne VIC 3001

**For all enquiries:**

within Australia 02 9251 7177  
outside Australia +61 2 9251 7177  
Monday to Friday 9.00am - 5.00pm (Sydney time)

## Application Form

### The Offer closes 5.00pm (Sydney time) on Monday, 5 April 2017.

This Application Form relates to an invitation to apply for Shares plus one Option for every two Shares subscribed for, in The Hydroponic Company Limited (ABN 33 614 508 039) (**Company**), made under this Prospectus lodged with ASIC on 9 March 2017 (or any supplementary or replacement Prospectus). This Prospectus will expire 13 months after 9 March 2017.

This Prospectus does not constitute an offer to sell, or a solicitation of any offer to buy, securities in the United States. This Prospectus has been prepared for publication in Australia. The Shares to be offered under the Offer have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state or other jurisdiction in the United States, and may not be offered or sold in the United States, or to, or for the account or benefit of a U.S. Person. This Application Form is important. If you are in doubt as to how to deal with it, please contact your financial or other professional adviser. You should read this entire Prospectus carefully before completing this Application Form. To meet the requirements of the Corporations Act, this Application Form must not be distributed unless included in, or accompanied by, this Prospectus. Capitalised terms have the same meaning given to them in this Prospectus.

\* This date is indicative only. The Company reserves the right to change it without prior notice. You are encouraged to lodge your Application Form and Application Monies as soon as possible.

**By applying under the Offer, you make the acknowledgements, declarations, representations and warranties set out in the Prospectus.**

**STEP 1****Amount applied for**

Enter the number of Shares you wish to apply for. The Application must be for a minimum of 10,000 Shares. Enter the Application Amount. To calculate this amount, multiply the number of Shares applied for by the subscription price which is A\$0.20.

**STEP 4****Application payment**

Applicants under the Offer must return this Application Form and Application Monies to Computershare Investor Services Pty Limited (CIS). The Offer is expected to close at 5.00pm (Sydney time) on Wednesday, 5 April 2017.

**STEP 2****Applicant name(s) and postal address**

Enter the full name you wish to appear on the confirmation statement. This must be either your own name or the name of a company. Up to three joint Applicants may register. You should refer to the table overleaf for the correct forms of registrable title(s). Applications using the wrong form of names may be rejected. CHESS participants should complete their name identically to that presently registered in CHESS. Enter your postal address for all correspondence. All communications to you from the Share Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered. Enter your contact name and telephone number. This information may be used to communicate other matters to you subject to the Company's privacy statement. This is not compulsory but will assist us if we need to contact you.

The Offer opens on Thursday, 16 March 2017 and is expected to close at 5.00pm (Sydney time) on Wednesday, 5 April 2017. The Company and the Joint Lead Managers may elect to extend the Offer or any part of it, or accept late Applications either generally or in particular cases. The Offer, or any part of it, may be closed at any earlier date and time, without further notice. Your Broker may also impose an earlier closing date. Applicants are therefore encouraged to submit their Applications as early as possible. Please contact your Broker for instructions.

**STEP 3****CHESS holdings only**

The Company will apply to the ASX for Shares to participate in CHESS, operated by ASX Settlement Pty Limited, a wholly owned subsidiary of the ASX. In CHESS, the Company will operate an electronic CHESS subregister of shareholdings and an electronic issuer sponsored subregister of shareholdings.

Together, the two subregisters will make up the Company's principal register of Shares. The Company will not be issuing certificates to applicants in respect of Shares allotted.

If you are a CHESS participant (or are sponsored by a CHESS participant) and you wish to hold Shares allotted to you under this Application on the CHESS subregister, enter your CHESS HIN.

Otherwise, leave the section blank and on allotment you will be sponsored by the Company and an SRN will be allocated to you.

Please note that if you supply a CHESS HIN but the name and address details on your Application Form do not correspond exactly with the registration details held at CHESS, your Application will be deemed to be made without the CHESS HIN, and any Shares issued will be held on the issuer sponsored subregister.

Broker code:      Adviser code:

[illegible]

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual – Use given name(s) in full, not initials	Mr John Alfred Smith	J.A. Smith
Joint – Use given name(s) in full, not initials	Mr John Alfred Smith & Mrs Janet Marie Smith	John Alfred & Janet Marie Smith
Company – Use company title, not abbreviations	ABC Pty Ltd	ABC P/L ABC Co
Trusts – Use trustee(s) personal name(s) – Do not use the name of the trust	Ms Penny Smith <Penny Smith Family A/C>	Penny Smith Family Trust
Deceased estates – Use executor(s) personal name(s) – Do not use the name of the deceased	Mr Michael Smith <Est John Smith A/C>	Estate of Late John Smith
Minor (a person under the age of 18) – Use the name of a responsible adult with an appropriate designation	Mr John Alfred Smith <Peter Smith A/C>	Peter Smith
Partnerships – Use partners' personal name(s) – Do not use the name of the partnership	Mr John Smith & Mr Michael Smith <John Smith & Son A/C>	John Smith & Son
Clubs/Unincorporated Bodies/Business Names – Use office bearer(s) personal name(s) – Do not use the name of the club etc	Mrs Janet Smith <ABC Tennis Association A/C>	ABC Tennis Association
Superannuation Funds – Use the name of trustee of the fund	John Smith Pty Ltd	John Smith Pty Ltd Superannuation Fund