



## CAPITAL MINING TO ACQUIRE STAKE IN REVENUE PRODUCING CANADIAN LICENSED MEDICAL MARIJUANA COMPANY

### Capital Mining Limited

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### Directors

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

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

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

### Company Secretary

Mrs Elizabeth Hunt

- **Capital Mining Limited (CMY) to acquire up to 49% of a Canadian licensed grower, manufacturer and distributor of medical cannabis products, Broken Coast Cannabis Ltd (BCC)**
- **BCC is currently producing medical cannabis and generating revenue from sales**
- **Customer base growing at 20 retail patients per day plus increasing wholesale agreements**
- **CMY's investment to fund increase in production capacity and growth in sales network**
- **CMY also to acquire 100% of Cannan Growers Inc. (CGI) of Canada**
- **Canada's medical cannabis market to grow beyond CAD\$1.3 billion in sales annually<sup>1</sup>**

Capital Mining Limited (ASX: **CMY**) is pleased to announce that, pursuant to the terms of a binding Heads of Agreement dated 4 March 2015 (**BCC Agreement**), CMY will become the first ASX listed company to hold a direct stake in a licensed grower, manufacturer and distributor of medical cannabis products under Canada's Marijuana for Medical Purposes Regulations (**MMPR**) through an investment in Broken Coast Cannabis Ltd (**BCC**) [www.brokencoast.ca](http://www.brokencoast.ca).

BCC currently has the capacity to produce 720,000 grams of cannabis annually. Through the proposed investment by CMY, BCC intends to increase production to 2,000,000 grams.

Additionally, pursuant to a second binding Heads of Agreement dated 4 March 2015 (**CGI Agreement**), CMY intends to purchase 100% of Cannan Growers Inc. (**CGI**) [www.cannan.com](http://www.cannan.com), including the rights to CGI's MMPR license application and intellectual property required to make license applications throughout the world (based on the Canadian system), including Australia.

CGI is a distributor of bulk wholesale cannabis, industrial hemp and respective bi-products and derivatives. CGI has a pipeline of initiatives in North America, South America, Europe, and Asia in anticipation of the global shift of the medicinal health, wellness and industrial cannabis industries. CGI intends to serve these sectors as the Quality Assured raw materials supplier for leading hemp based consumer goods companies.

<sup>1</sup> [http://www.huffingtonpost.ca/2013/09/29/medical-marijuana-canada-facts\\_n\\_4013456.html](http://www.huffingtonpost.ca/2013/09/29/medical-marijuana-canada-facts_n_4013456.html)



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### **Broken Coast Cannabis Ltd**

#### ***Background on BCC***

BCC is a medical cannabis producer operating and incorporated (in February 2013) in British Columbia, licensed under Canada's Controlled Drugs and Substances Act, and adhering to the MMPR. All products are hydroponically grown in a custom built facility featuring lab-grade paneling, HEPA air filtration, and hygienic surfaces. The plants are grown in small batches in single strain rooms and harvested on a rotational cycle to ensure a steady supply of fresh product. Prior to being released for sale, all of BCC's products are tested by an independent lab to ensure that they are free from harmful mould, bacteria, heavy metals, pesticides, and foreign material. BCC has an extensive system of operating procedures in place with the aim of providing the highest levels of purity, quality, and patient satisfaction.



*'Bud Lime' strain undergoing QC in final stages of production at BCC's facility*

#### ***Sales and Metrics***

BCC is on track to produce and sell 720,000 grams of medical cannabis in 2015, receiving between CAD7.00-CAD\$10.00 per gram. Price is dependent on the customer's perceived quality of the strain and the product's THC yield.

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BCC currently supplies 300 regular retail patients, growing at a rate of approximately 20 retail patients per day. BCC approximates that the average retail client consumption equates to 0.95g/day. At its current size the facility can produce enough medical cannabis to supply between 1,600 and 1,900 registered retail customers.

Due to the overwhelming demand for the product within the network of licensed MMPR sellers in Canada, BCC has been supplementing its retail sales by selling wholesale to other registered companies at a marginal discount to retail pricing.

CMY Director Dr. James Ellingford commented: "CMY's investment provides a tremendous opportunity for all shareholders to capitalise on the growth potential of BCC. The business is targeting sales of 720,000 grams of cannabis in calendar 2015. By deploying capital into the expansion of the BCC's production and sales facilities in British Columbia, BCC is confident of increasing cannabis sales to 2,000,000 grams annually in the near term."

"BCC's operations are highly and easily scalable, and the use of cutting edge manufacturing processes will ensure we are well placed now and into the future to grow this business substantially in what is a well regulated market."



*Standardised retail product packaged and ready for distribution at BCC facility, Duncan, British Columbia*

### **Production Techniques**

The plants are grown in small batches in single strain rooms and harvested on a rotational cycle to ensure steady supply of fresh product in stock.

All BCC cannabis is 100% hydroponically grown. Custom built, lab-grade growing rooms are sealed and pumped with carbon dioxide for maximum production. The air entering the room is filtered through LVL 11 Clean Room Filters that remove 99.9% of mould, bacteria, and viruses. All surfaces are sterilised and sanitised between crops.

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*'Bud Lime' Strain growing room featuring LVL Cleanroom Filters at the BCC facility, Duncan, British Columbia*

### ***The Future of BCC***

BCC currently occupies three units (approximately 13,000 sq ft) of a 10 unit industrial building in Duncan, British Columbia. BCC also maintains a Health Canada approved safe room to store and manage product.

#### Phase 1 Expansion Plans

BCC has leased three additional units. The first phase of CMY's investment will be used to expand operations into the additional 3 units, increasing the production area from 13,000 sq ft to 26,000 sq ft. The expansion will increase production 150,000 grams – 170,000 grams per month or to 2,000,000 grams annually.

Through increased efficiency and economy of scale, BCC expects cost of production to decrease by approximately 50% over the next 18 months. In addition, BCC will be implementing production improvements that will increase the average cannabinoid content of its products by about 30-40%.

#### Phase Two Expansion Plans

In 2016, BCC plans to expand production into the four remaining units of the current premises adding an additional 18,000 sq ft, totaling approximately 44,000 sq ft of potential licensed space and capacity for annual production of approximately 3,380,000 grams per annum.

#### Phase Three Expansion Plans

Beyond 2016, BCC intends to build a state of the art facility on adjacent land which will enable BCC to expand the facility to 150,000 sq ft of production space and an expected production of 11,500,000 grams per annum.

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*BCC's production facility Duncan, British Columbia.*



### **Cannan Growers Inc**

Cannan Growers Inc. (CGI) was founded in early 2013 and is a frontrunner in the emerging Global Cannabis Industry. The company specialises in commercial Cannabis development with an emphasis on Global Legislation. The management team has broad Intellectual Property on the operations of the industry and a proven track record identifying emerging opportunities. Based on CGI's IP, they have successfully advised a MMPR licensed company in attaining their full growing and selling license. Additionally, Cannan has a MMPR license application pending under the Cannan Grower's brand in relation to a facility located in North Saanich, Vancouver. Cannan has a long dated option to buy this facility for C\$1.2 million.

### ***Standardised Operating Procedure***

CGI has developed a Standardised Operating Procedure (SOP) enabling the production of consistent batches of whole cannabis flowers. Proprietary knowledge of extraction processes, designs and compounds of standardised Cannabinoids facilitates mass production of a consistent, pharmaceutical grade product. CGI specializes in the six key cannabis extracts (from more than 100) that have been shown to produce pharmacodynamics effects through their affinity for CB1 and CB2 receptors including Beta-Caryophyllene, Cannibigerol (CBG), Cannabichromene (CBC), Cannabinol (CBNA), Cannabidiol (CBD), and Tetrahydrocannabinol (THC).

SOP is applicable to Standardised Cannabis extracts and derivatives which will keep CGI as a frontrunner in the production market.

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### ***CGI International Market Potential***

As the trend toward legalising Medical Cannabis continues, there are significant market opportunities emerging. The IP developed by CGI is possessed by very few companies globally and provides a springboard to become a first mover in these new markets.

The existence of a proven QA/QC model to use as a Master Drug File for standardised whole Cannabis Flowers will enable swift applications for international licenses as they become available.

CMY envisions using Cannan's IP and skill set to apply for one of Australia's first medical cannabis license when legislation permits.

### ***Management and Board Restructure of CMY***

In the near term, CMY will be announcing a management team consisting of experienced personnel with backgrounds covering all aspects of the Cannabis industry including production and distribution of medical cannabis.

The management team will be reinforced with an advisory board of specialists in the medical field and experts in legislature who will strategically navigate CMY moving forward.

None of the shareholders or existing management of BCC or Cannan will form part of the CMY management team moving forward.

### **Canadian Government Laws**

In response to losing a lawsuit, Canadian courts ruled a legal right to possess cannabis for medical purposes. In 2001, Health Canada introduced the Marijuana Medical Access Regulations (**MMAR**). The MMAR allowed qualified people to grow their own medical cannabis at home provided the person has a doctor's approval and a permit from Health Canada.

By the end of 2013 the program had been very heavily criticised for bringing fire risks and widespread criminal activity into residential neighborhoods across the country. In response, in 2014, Health Canada repealed the MMAR and introduced the MMPR which allows for the production of cannabis for medical purposes by a limited number of commercial producers, including BCC. Medical cannabis users are now required to buy the products from a Licensed Producer under the MMPR.

Health Canada statistics indicate 40,000 medical cannabis users enrolled in the MMAR program at the end of 2013. They predict the market will grow to 450,000 users by 2024<sup>2</sup> and have a market value of greater than CAD\$1.3 billion.

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<sup>2</sup> <http://gazette.gc.ca/rp-pr/p2/2013/2013-06-19/html/sor-dors119-eng.php>

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### **Key Terms of Acquisitions**

#### ***Acquisition of Broken Coast Cannabis Ltd***

The BCC Agreement provides for (**BCC Acquisition**):

- (a) CMY to initially purchase a 24% stake in BCC as follows:
  - (i) CMY will acquire 7,065,392 BCC common shares from existing BCC shareholders (together the **BCC Sale Shares**), free from encumbrances, in consideration for a cash payment to the BCC shareholders of C\$1,511,146.12 and the issue of 12,500,000 CMY shares and 10,000,000 CMY options (\$0.30 exercise price and expiry date of two years from the date of issue); and
  - (ii) CMY (or its nominee) will subscribe for 28,001 common shares in BCC (together the **BCC Placement Shares**) and to pay the total consideration of C\$5,988,853.88 in cash (**Subscription Price**) for the BCC Placement Shares in aggregate; and
- (b) CMY to be granted an exclusive one-year option to increase the stake from 24% to 49% for an additional CAD\$18m (CAD\$6m of which will be a subscription for new shares issued by BCC and CAD\$12m will be an acquisition from existing shareholders).

Upon execution of the BCC Agreement, CMY has loaned C\$500,000 to BCC to be used by BCC for operating costs, and capital expenditure in the ordinary course of BCC's business. The loan is unsecured, interest free and either repayable in cash in twelve months' time (with 50% of the loan forgiven) or convertible into shares in BCC at a valuation of CAD\$60m (at the election of BCC). In the event that completion occurs, this loan amount will reduce the cash payment required for the BCC Placement Shares.

CMY will be given one management position in BCC and upon that person being granted MMPR approval, BCC will also offer the candidate a seat on the BCC board.

#### ***Acquisition of Cannan Growers Inc***

The CGI Agreement provides for the acquisition of 100% of the issued shares in CGI by CMY in consideration for CAD\$250,000 and 5,000,000 fully paid ordinary shares in the capital of CMY to be allocated between the shareholders of CGI (**CGI Acquisition**).

#### ***Conditions Precedent to Both Transactions***

Completion of both the BCC Acquisition and the CGI Acquisition is conditional on a number of conditions precedent, including:

- (a) Completion of due diligence by CMY;
- (b) CMY obtaining all necessary shareholder approvals required by the Corporations Act and the ASX Listing Rules in relation to the BCC Acquisition and the CGI Acquisition;
- (c) the parties obtaining all necessary regulatory approvals pursuant to the ASX Listing Rules, Corporations Act or any other law including, in the case of CMY, CMY re-complying with Chapters 1 and 2 of the ASX Listing Rules; and

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- (a) CMY completing a capital raising to raise a minimum of A\$15m (or such other amount acceptable to CMY that is sufficient to meet ASX's admission requirements) through the issue of a minimum of 75,000,000 CMY shares at an issue price of A\$0.20 each (post consolidation) pursuant to a prospectus (**Capital Raising**);

### Change in Nature and Scale of Activities

The BCC and CGI acquisitions will constitute a significant change in the nature and scale of CMY's activities. As a result, CMY will need to seek shareholder approval for the transactions and will also need to re-comply with the new listing requirements set out in Chapters 1 and 2 of the ASX Listing Rules.

This will involve a consolidation of CMY's existing shares and also the preparation of a full form prospectus.

Should the acquisitions proceed, CMY will seek to divest its existing mining interests.

### Anticipated Timetable of Key Events

The anticipated timetable for the key events around the BCC and CGI acquisitions is as follows:

Event	Date*
Announcement of the BCC Acquisition and CGI Acquisition (the <b>Acquisitions</b> )	9 March 2015
Dispatch of Notice of Meeting to CMY shareholders for approvals required under the ASX Listing Rules and Corporations Act for the Acquisitions	4 April 2015
Lodgement of Prospectus for Capital Raising	1 May 2015
General Meeting of CMY shareholders	15 May 2015
Capital Raising under Prospectus closes	18 May 2015
Completion of the Acquisitions	29 May 2015
Commencement of trading of CMY shares on ASX (subject to any re-compliance with the ASX Listing Rules required by ASX)	5 June 2015

\*The Directors of CMY reserve the right to change the above indicative timetable without requiring any disclosure to CMY's shareholders.

### Pro-forma Capital Structure of CMY

As at the date of this announcement, CMY has 1,329,156,618 fully paid ordinary shares and 269,336,524 listed options (2 cent exercise, 31 December 2016 expiry) on issue.

Under the terms of the BCC and CGI acquisitions, the following securities will be issued after a proposal consolidation:

	Shares	Options
Proposed issue pursuant to Capital Raising at \$0.20	75,000,000	0
Proposed issue of BCC Consideration Shares	12,500,000	10,000,000
Proposed issue of CGI Consideration Shares	5,000,000	0
<b>Total</b>	<b>87,500,000</b>	<b>10,000,000</b>

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The actual total number of shares and options on issue on completion of the BCC and CGI acquisitions will be dependent on the consolidation ratio undertaken by CMY. The market price of CMY's shares will largely influence the consolidation ratio CMY puts to shareholders for approval.

**Financial impact on CMY**

An unaudited pro-forma balance sheet showing the impact of BCC and CGI acquisitions is set out in an Appendix to this announcement.

Given that both the BCC and CGI business are in a growth phase, it is not possible to provide any forecast revenue or profit numbers.



*'Blue Cheese' strain drying out before being ready for packaging*



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*'Sugar Punch' strain – a standardized whole flower Cannabis harvested and ready for packaging*

**-ENDS-**

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APPENDIX – PRO-FORMA BALANCE SHEET

	Notes	Balance sheet at 31 Dec 2014 (unaudited)	Adjustments	Pro forma balance sheet at 31 December 2014 (unaudited)
<b>Current assets</b>				
Cash and cash equivalents	1, 2, 3, 5, 6	\$ 100.76	\$ 8,218,537.59	\$ 8,218,638.35
Trade and other receivables		\$ 54,346.90	\$ -	\$ 54,346.90
Financial assets at fair value		\$ 3,198.24	\$ -	\$ 3,198.24
<b>Total current assets</b>		<b>\$ 57,645.90</b>	<b>\$ 8,218,537.59</b>	<b>\$ 8,276,183.49</b>
<b>Non-current assets</b>				
Investment in BCC	3, 4, 5	\$ -	\$ 10,223,995.88	\$ 10,223,995.88
Acquisition of CGI	6, 7	\$ -	\$ 1,257,466.53	\$ 1,257,466.53
Security deposits		\$ 75,000.00	\$ -	\$ 75,000.00
Plant & equipment		\$ 1,319.10	\$ -	\$ 1,319.10
Exploration		\$ 1,740,844.61	\$ -	\$ 1,740,844.61
<b>Total non-current assets</b>		<b>\$ 1,817,163.71</b>	<b>\$ 11,481,462.41</b>	<b>\$ 13,298,626.12</b>
<b>Total assets</b>		<b>\$ 1,874,809.61</b>	<b>\$ 19,700,000.00</b>	<b>\$ 21,574,809.61</b>
<b>Current liabilities</b>				
Trade and other payables		\$ 1,055,356.66	\$ -	\$ 1,055,356.66
<b>Total current liabilities</b>		<b>\$ 1,055,356.66</b>	<b>\$ -</b>	<b>\$ 1,055,356.66</b>
<b>Total liabilities</b>		<b>\$ 1,055,356.66</b>	<b>\$ -</b>	<b>\$ 1,055,356.66</b>
<b>Net assets</b>		<b>\$ 819,452.95</b>	<b>\$ 19,700,000.00</b>	<b>\$ 20,519,452.95</b>
<b>Equity</b>				
Equity			\$ -	\$ -
Issued capital	1, 2, 4, 7	\$ 12,337,750.54	\$ 19,700,000.00	\$ 32,037,750.54
Reserves		\$ 286,825.78	\$ -	\$ 286,825.78
Accumulated losses		-\$ 11,805,123.37	\$ -	-\$ 11,805,123.37
<b>Equity</b>		<b>\$ 819,452.95</b>	<b>\$ 19,700,000.00</b>	<b>\$ 20,519,452.95</b>

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### Notes:

The above pro-forma balance sheet does not include the option payment to BCC to increase the stake from 24% to 49%

AUD\$/CAD\$ amounts converted at a rate of AUD\$1:CAD\$0.97100

1. Placement of CMY shares to raise AUD\$1.2M cash (completed 13/2/2015)
2. Proposed placement of 75M shares at AUD\$0.20 (before costs of capital raising)
3. Cash payment of CAD\$1,511,146.12 to acquire 7,065.392 BCC common shares from existing BCC shareholders (AUD\$1,556,278.19)
4. Equity payment to BCC of 12.5M CMY shares at AUD\$0.20
5. Subscription for 28,001 common shares in BCC for CAD\$5,988,853.88 (AUD\$6,167,717.69)
6. Cash payment of CAD\$250,000 to acquire 100% of CGI (AUD\$257,466.53)
7. Equity payment to BCC of 5M CMY shares at AUD\$0.20

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