

4<sup>th</sup> October 2017

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**Please note that this notice has been prepared primarily for the purpose of complying with the requirements of the Corporations Act 2001 (Cth)**

Dear Shareholder,

**QUEENSLAND BAUXITE LIMITED – PERFORMANCE SHARES**

On 12 September 2017, Queensland Bauxite Limited (ACN 124 873 507) (**Company**) announced that, at the General Meeting of the Company held that day (**Meeting**), the shareholders of the Company resolved to, amongst other things:

1. create a new class of securities in the Company, being Performance Shares (as defined in the Notice of Meeting dated 11 August 2017 in relation to the Meeting (**Notice**)) (**Performance Shares**); and
2. issue to the shareholders of Medical Cannabis Limited (or their nominees) (**MCL**) up to 50,000,000 Performance Shares on the terms and conditions set out in the Explanatory Statement of the Notice.

This share issue was part of the agreed consideration for the acquisition of 55% of MCL by the Company as per the Company's announcement on 3rd March 2017.

Accordingly, on 28 September 2017, the Company instructed its share registry, Computershare Investor Services Pty Limited, to issue to the shareholders of MCL up to 50,000,000 Performance Shares on the terms and conditions set out in the Explanatory Statement of the Notice, including without limitation the terms set out in the Schedule to this letter (being Schedule 1 of the Notice).

As stated in sections 3.2 and 3.3 of the Explanatory Statement of the Notice, the issue of the Performance Shares will be taken to vary the rights attached to ordinary shares in the capital of the Company already issued.

Accordingly, for the purposes of section 246B(3) of the Corporations Act 2001 (Cth) (**Corporations Act**) and for all other purposes, the Company hereby gives written notice of the above variation to the holders of ordinary shares in the capital of the Company already issued.

You do not need to do anything, nor is there any change to your existing holding or rights, as this is simply a notice in accordance with the Corporations Act informing you of the issue of the approved Performance Shares, which are a new class of unlisted shares. Your existing shares continue to remain listed on the ASX as previously with all their associated rights.

In practical terms, each ordinary share in the capital of the Company already issued confers on the holder the same rights as were conferred prior to the date of the issue of the Performance Shares. In broad terms, the new Performance Shares will simply convert into ordinary shares upon achievement of the Milestone set out in Schedule 1.

Yours faithfully

Sholom Feldman  
Company Secretary

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## SCHEDULE 1 – TERMS AND CONDITIONS OF PERFORMANCE SHARES

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

### **Rights attaching to the Performance Shares**

- (a) **(Performance Shares)** Each Performance Share is a share in the capital of Queensland Bauxite Limited (ACN 124 873 507) (**Company**).
- (b) **(General meetings)** Each Performance Share confers on the holder (**Holder**) the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to holders of fully paid ordinary shares in the capital of the Company (**Shareholders**). Holders have the right to attend general meetings of Shareholders.
- (c) **(No voting rights)** A Performance Share does not entitle the Holder to vote on any resolutions proposed by the Company except as otherwise required by law.
- (d) **(No dividend rights)** A Performance Share does not entitle the Holder to any dividends.
- (e) **(No rights to return of capital)** A Performance Share does not entitle the Holder to a return of capital, whether in a winding up, upon a reduction of capital or otherwise.
- (f) **(Rights on winding up)** A Performance Share does not entitle the Holder to participate in the surplus profits or assets of the Company upon winding up.
- (g) **(Not transferable)** A Performance Share is not transferable.
- (h) **(Reorganisation of capital)** If at any time the issued capital of the Company is reconstructed, all rights of a Holder will be changed to the extent necessary to comply with the applicable ASX Listing Rules at the time of reorganisation.
- (i) **(Application to ASX)** The Performance Shares will not be quoted on ASX. However, if the Company is listed on ASX at the time of conversion of the Performance Shares into fully paid ordinary shares (**Shares**), the Company must within 10 Business Days apply for the official quotation of the Shares arising from the conversion on ASX.
- (j) **(Participation in entitlements and bonus issues)** A Performance Share does not entitle a Holder (in their capacity as a holder of a Performance Share) to participate in new issues of capital offered to holders of Shares such as bonus issues and entitlement issues.
- (k) **(No other rights)** A Performance Share gives 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.

### **Conversion of the Performance Shares**

- (l) **(Conversion on achievement of milestone)** Subject to paragraph (n), a Performance Share in the relevant class will convert into one Share upon achievement of:
  - (i) Class A: the Australian Government granting a permit to MCL to grow cannabis varieties for medical cannabis research for the purposes of product development between the date of issue of the Performance Shares and 5 years after that date (**Milestone**).

- (m) **(Conversion on change of control)** Subject to paragraph (n) and notwithstanding the relevant Milestone has not been satisfied, upon the occurrence of either:
- (i) a takeover bid under Chapter 6 of the Corporations Act 2001 (Cth) having been made in respect of the Company having received acceptances for more than 50% of the Company's shares on issue and being declared unconditional by the bidder; or
  - (ii) a Court granting orders approving a compromise or arrangement for the purposes of or in connection with a scheme of arrangement for the reconstruction of the Company or its amalgamation with any other company or companies,

that number of Performance Shares that is equal to 10% of the Shares on issue immediately following conversion under this paragraph will convert into an equivalent number of Shares. The conversion will be completed on a pro rata basis across each class of Performance Shares then on issue as well as on a pro rata basis for each Holder. Performance Shares that are not converted into Shares under this paragraph will continue to be held by the Holders on the same terms and conditions.

- (n) **(Deferral of conversion if resulting in a prohibited acquisition of Shares)** If the conversion of a Performance Share under paragraph (l) or (m) would result in any person being in contravention of section 606(1) of the Corporations Act 2001 (Cth) (**General Prohibition**) then the conversion of that Performance Share shall be deferred until such later time or times that the conversion would not result in a contravention of the General Prohibition. In assessing whether a conversion of a Performance Share would result in a contravention of the General Prohibition:
- (i) Holders may give written notification to the Company if they consider that the conversion of a Performance Share may result in the contravention of the General Prohibition. The absence of such written notification from the Holder will entitle the Company to assume the conversion of a Performance Share will not result in any person being in contravention of the General Prohibition.
  - (ii) The Company may (but is not obliged to) by written notice to a Holder request a Holder to provide the written notice referred to in paragraph (n)(i) within seven days if the Company considers that the conversion of a Performance Share may result in a contravention of the General Prohibition. The absence of such written notification from the Holder will entitle the Company to assume the conversion of a Performance Share will not result in any person being in contravention of the General Prohibition.
- (o) **(Redemption if Milestone not achieved)** If the relevant Milestone is not achieved by the required date, then each Performance Share in that class will be automatically redeemed by the Company for the sum of \$0.00001 within 10 Business Days of non satisfaction of the Milestone.
- (p) **(Conversion procedure)** The Company will issue the Holder with a new holding statement for any Share issued upon conversion of a Performance Share within 10 Business Days following the conversion.
- (q) **(Ranking upon conversion)** The Share into which a Performance Share may convert will rank pari passu in all respects with existing Shares.