



28 November 2016

## SUPPLEMENTARY TARGET'S STATEMENT

This document is a supplementary target's statement under section 644 of the *Corporations Act 2001* (Cth) and is dated 28 November 2016. It is the first supplementary target's statement (**Supplementary Target's Statement**) issued by AusCann Group Holdings Ltd ACN 601 953 860 (**AusCann**) in relation to the off-market takeover bid for all the ordinary shares in the capital of AusCann, on issue as at 5.00pm (Perth time) on 4 November 2016, by TW Holdings Limited ACN 008 095 207 (**TWH**).

This Supplementary Target's Statement supplements, and should be read together with, AusCann's target's statement dated 8 November 2016 (**Target's Statement**).

Words and phrases defined in the Target's Statement have the same meaning in this Supplementary Target's Statement (unless otherwise defined).

A copy of this Supplementary Target's Statement has been lodged with ASIC. Neither ASIC nor any of its officers takes any responsibility for its contents.

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### 1. INTRODUCTION

On 10 November 2016 AusCann announced that it had entered into a binding heads of agreement with Chilean-based medical cannabis group Fundación Daya (**Daya**) to establish a for-profit joint venture (**DayaCann**) to cultivate medicinal cannabis in Chile and develop and distribute cannabis-based medicinal products (**Daya HoA**).

On 21 November 2016 TWH issued a replacement prospectus in response to an interim stop order issued by ASIC over disclosure concerns in relation to the original prospectus issued by TWH and lodged with ASIC on 31 October 2016 (**Replacement Prospectus**).

The purpose of this Supplementary Target's Statement is to address concerns raised by ASIC in relation to the Target's Statement, primarily as a result of the additional disclosure provided in the Replacement Prospectus, namely to:

- (a) update disclosure around AusCann activities contained in the Target's Statement, including in relation to the binding heads of agreement with Chilean cannabis producer Daya;
- (b) disclose the effect of AusCann entering into the Daya HoA on the Performance Milestone for Performance Shares issued under the Offer;
- (c) remove the implied value attributed to the conversion of Performance Shares; and
- (d) update disclosure relating to antecedents of the incoming directors of TWH.

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### 2. AUSCANN BUSINESS MODEL AND KEY INVESTMENTS UPDATE

#### 2.1 DayaCann

The DayaCann joint venture will, in addition to the existing AusCann business model, expand AusCann's activities into the cultivation and manufacturing of medicinal cannabis in Chile. As a result:

- (a) the following additional wording is inserted the end of section 5.3(a) of the Target's Statement (AusCann's Business Model):

*“(vi) the cultivation and manufacturing of medicinal cannabis products in Chile.”*

- (b) the following additional wording is inserted at the end of section 5.3 of the Target’s Statement (Overview of AusCann’s activities and projects):

*“(c) AusCann cultivation, production and manufacture in Chile*

*AusCann has entered into a binding heads of agreement with Fundación Daya (Daya), based in Santiago, Chile.*

*Daya has been awarded a medicinal cannabis grow permit by the Chilean Government for each of the last three years, up to and including 2016.*

*The proposal is to form a for-profit joint venture vehicle with AusCann holding a 50% stake (DayaCann). DayaCann is to hold rights to the grow permit and derive income from sale of products both domestically in Chile and over time into other international markets.*

*All necessary infrastructure is already in place from the previous year’s activities in Chile. Planting of the crop will commence immediately with harvesting expected in May 2017. This plant material will be sold to several groups conducting research, clinical trials and developing products where AusCann and Daya have long-standing relationships.”*

## **2.2 Disclosure following the issue of the Replacement Prospectus**

In accordance with the updated disclosure in the Replacement Prospectus:

- (a) the last paragraph of section 5.3(b)(iii) of the Target’s Statement (New medicinal cannabis strains, cultivation and extraction techniques) is removed and replaced with the following wording:

*“Under the current non-binding heads of agreement with Phytoplant Research SL, AusCann is granted exclusivity in the Australian market over certain strains of interest to it including, but not limited to, high yielding strains containing particular cannabis compounds of medical interest. AusCann is also granted exclusivity in the Australian market for any relevant intellectual property and know-how in terms of the extraction protocols that Phytoplant has developed.*

*The Company has not allocated funds to activities to conduct research, development and cultivation activities in Australia. If and when such activities are undertaken in Australia the Company will review its funding position and sources and, decided at that time, the nature and scope of activities to be undertaken.”*

- (b) the following wording is inserted at the end of section 5.3(b)(vii) of the Target’s Statement (Licensing applications for growing and manufacturing operations in Australia):

*“AusCann has completed its assessment of appropriate physical locations, regulatory requirements, and infrastructure and personnel requirements. The Company has engaged consultants to undertake security assessments which are being currently undertaken. Investigation of the economic potential is ongoing.”*

- (c) the words “TSX Venture exchange” in the definition of Canopy in section 13 of the Target’s Statement (Glossary) is removed and replaced with the words “Toronto Stock Exchange”.

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## **3. PERFORMANCE MILESTONE**

As stated in section 7.4 of the Target’s Statement, each Performance Share will convert into Shares at the rate of one (1) TWH Share for every one (1) Performance Share within 7 days of achievement of the Performance Milestone.

The Performance Milestone will be satisfied if, before the Milestone Date, AusCann is issued or acquires an interest of not less than 49% in a party or entity that holds a permit, licence, authority, registration or approval for the cultivation and production of cannabis and cannabis resin for medicinal and related scientific purposes in another jurisdiction.

As announced on 10 November 2016, under the Daya HoA, AusCann will acquire a 50% interest in DayaCann which is to become the holder of rights attaching to a grow permit to cultivate and produce cannabis and cannabis resin for medicinal and related scientific purposes in Chile. As a result, upon

the establishment of DayaCann and the transfer of the grow permit from Daya to DayaCann, the Performance Milestone will be satisfied and all Performance Shares will automatically convert into TWH Shares on a one for one basis. AusCann believes that conversion will occur during the first quarter in 2017.

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#### 4. IMPLIED VALUE OF TWH SHARES

Given that the Independent Expert did not ascribe a value to the Performance Shares to be issued as consideration under the Offer (due to the fact that the Performance Milestone is based on future events, the outcome of which cannot be determined as at the date of the Independent Expert's Report), the following wording is removed from section 3.1 of the Target's Statement (You will receive attractive value for your AusCann Shares):

*"The implied value of the TWH Shares that may be issued upon conversion of the Performance Shares in the event the Performance Milestone is satisfied is a further \$0.00173 per AusCann Share based on the same TWH share price assumption."*

For further information in relation to the Independent Expert's view on the value of the Performance Shares, please refer to section 8.1 of the Independent Expert's Report.

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#### 5. DIRECTOR DISCLOSURE

In accordance with the updated disclosure in the Replacement Prospectus:

- (a) the following wording is inserted at section 6.4 of the Target's Statement (Proposed Directors) at the end of the section entitled "Mr Harry Karelis - Proposed Executive Director":

*"Mr Karelis was a director of XRT Limited ACN 076 348 000 (XRT) which was placed in voluntary administration in January 2012 and creditors' voluntary liquidation on 14 February 2012. XRT was a privately-funded technology company involved in high-resolution x-ray imaging and due to the inability to raise sufficient follow-up funding as a result of a combination of the global financial crisis and insufficient demand for XRT's products, XRT was placed in voluntary administration by the directors and eventually deregistered on 22 May 2015. Mr Karelis had a role as a non-executive director of XRT."*

*Mr Karelis was also a director of Continara Limited ACN 105 040 793 (Continara) which was placed in voluntary administration on 7 June 2011. Continara was a medical device company involved in designing, developing and commercialising treatments for continence care in Australia and due to an inability to raise necessary funds to progress clinical trials Continara was placed in voluntary liquidation by creditors and deregistered on 21 February 2013. Mr Karelis had a role as a non-executive director of Continara."*

- (b) the following paragraph at section 11.4(b) of the Target's Statement (Gemelli Nominees/Mr Harry Karelis (Executive Director)) is removed:

*"At the Company's discretion and subject to obtaining applicable regulatory approvals, Gemelli Nominees is also entitled to a performance-based bonus over and above the consultancy fee."*

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#### 6. OTHER NOTICES

This Supplementary Target's Statement prevails to the extent of any inconsistency with the Target's Statement.

As announced on 25 November 2016, TWH has extended the Offer Period such that it will now close at **5.00pm (Perth time) on 6 January 2017** (unless extended or withdrawn).

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**7. APPROVAL OF SUPPLEMENTARY TARGET'S STATEMENT**

This Supplementary Target's Statement has been approved by a unanimous resolution of the directors of AusCann.

Signed for and on behalf of  
**AusCann Group Holdings Limited**



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**Elaine Darby**  
**Managing Director**