

ALTHEA GROUP HOLDINGS LIMITED
ACN 626 966 943



PROSPECTUS

INITIAL PUBLIC OFFERING OF FULLY PAID ORDINARY
SHARES IN ALTHEA GROUP HOLDINGS LIMITED

LEAD MANAGER



IMPORTANT INFORMATION

Offer

The Offer and PAC Offer contained in this Prospectus is an invitation to acquire Shares in Althea Group Holdings Limited ACN 626 966 943 (Althea Holdings). This Prospectus is issued by Althea Holdings.

Lodgement

This Prospectus is dated 4 September 2018 (Prospectus Date) and was lodged with ASIC on that date. This is a replacement prospectus which replaces the prospectus dated 22 August 2018 and lodged with ASIC on that date (Original Prospectus). None of ASIC, the ASX or their respective officers takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

Expiry Date

No Shares will be issued or sold on the basis of this Prospectus later than 13 months after the date of the Original Prospectus.

Not Investment Advice

The information contained in this Prospectus is not financial product advice and does not take into account the investment objectives, financial situation or particular needs (including financial and tax issues) of any prospective investor.

Consider risks of investment

It is important that you read this Prospectus carefully and in full before deciding whether to invest in Althea Holdings. In particular, in considering the prospects of Althea Holdings, you should consider the best estimate assumptions underlying any forward looking statement, together with the risk factors that could affect Althea Holdings' financial performance. Some of the key risk factors that should be considered by prospective investors are set out in sections 1.4 and 6. However, there may be risk factors in addition to these that should be considered in light of your personal circumstances. You should carefully consider these factors in light of your investment objectives, financial situation and particular needs (including financial and taxation issues) and seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.

Disclaimer

Except as required by law, and only to the extent so required, no person named in this Prospectus, nor any other person, guarantees the performance of Althea Group, the repayment of capital by Althea Holdings or the payment of a return on the Shares.

No person is authorised to give any information or make any representation in connection with the Offer or the PAC Offer which is not included in this Prospectus. Any information or representation not included in this Prospectus may not be relied on as having been authorised by Althea Holdings, its Directors or any other person involved in the preparation of the Prospectus or the making of the Offer or the PAC Offer. In making any investment decision you should rely only on information in this Prospectus.

Exposure Period

The *Corporations Act 2001* (Cth) (Corporations Act) prohibits Althea Holdings from processing applications to acquire Shares under this Prospectus (Applications) in the 7 day period after the date of the Original Prospectus (Exposure Period). This Exposure Period may be extended by ASIC by up to a further 7 days. Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period and no preference will be conferred on them.

Obtaining a copy of this Prospectus

A hard copy of the Prospectus is available free of charge during the Offer Period to any person who has been invited to participate in the Broker Firm Offer or Institutional Offer by calling the Lead Manager on +61 (0)3 8633 9834 between 8.30am and 5.30pm Melbourne, Australia time, Monday to Friday (Business Days only) during the Offer Period.

Hard copy and electronic versions of this Prospectus are generally not available to persons in other jurisdictions, including the United States.

Persons who access the electronic version of this Prospectus should ensure they download and read the entire Prospectus. If unsure about the completeness of this Prospectus received electronically, or a print out of it, you should contact the Lead Manager on +61 (0)3 8633 9834 between 8.30am and 5.30pm Melbourne, Australia time, Monday to Friday (Business Days only).

Statements of past performance

This Prospectus includes information regarding the past performance of Althea Group. Investors should be aware that past performance should not be relied upon as being indicative of future performance.

Financial Information

Section 5 sets out in detail the financial information referred to in this Prospectus and the basis of preparation for the financial information. The Financial Information in this Prospectus should be read in conjunction with, and is qualified by reference to, the information contained in sections 1.4 and 6.

All references to financial years appearing in this Prospectus are to financial years ended or ending 30 June (as relevant), unless otherwise indicated.

The Financial Information has been prepared in accordance with the recognition and measurement principles prescribed by the Australian Accounting Standards (AAS) issued by the Australian Accounting Standards Board (AASB), which are consistent with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB).

The Financial Information is presented in an abbreviated form. It does not include all of the presentation and disclosures required by the Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act.

All financial amounts contained in this Prospectus are expressed in Australian currency, unless otherwise stated. Any discrepancies between totals and sums of components in tables contained in this Prospectus are due to rounding.

Forward looking statements

The Directors consider that it is not possible to accurately predict Althea Holdings' future revenues or profitability or whether any revenues or profitability will eventuate. Althea Group's business is dependent upon a number of factors and many of these factors are outside the control of Althea Group.

Consequently Althea Holdings and the Directors do not make any forecast or representation in relation to Althea Holdings' future financial position or performance.

This Prospectus contains forward looking statements which are identified by words such as "believes", "considers", "could", "estimates", "expects", "intends", "may", and other similar words that involve risks and uncertainties. Certain statements, beliefs and opinions contained in this Prospectus, particularly those regarding the possible or assumed future financial or other performance of Althea Group, industry growth or other trend projections are or may be forward-looking statements.

Any forward looking statements are subject to various known and unknown risk factors that could cause Althea Holdings' actual results and circumstances to differ materially from the results and circumstances expressed or anticipated in these statements. Such statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of Althea Group and its Directors and Management. Forward looking statements should be read in conjunction with, and are qualified by reference to, risk factors as set out in sections 1.4 and 6 and other information in this Prospectus.

No assurance is given that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. Althea Holdings will not necessarily update or revise forward-looking statements, or 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, except where required by law.

This Prospectus, including the industry overview in section 2, uses market data, industry forecasts and projections. Althea Holdings has obtained significant portions of this information from market research and commentary prepared by third parties. There is no assurance that any of the forecasts or forward information contained in the reports, surveys and research of such third parties that are referred to in this Prospectus will be achieved. Althea Holdings has not independently verified this information. Estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the key risk factors in sections 1.4 and 6.

Selling restrictions in foreign jurisdictions

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. No action has been taken to register or qualify the Shares, the Offer or the PAC Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia. The distribution of this Prospectus (including in electronic form) outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

In particular, the Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (**US Securities Act**) or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, in the United States unless the Shares are registered under the US Securities Act or are offered and sold in transactions exempt from, or not subject to the registration requirements of, the US Securities Act and any other applicable US securities laws.

See section 8.18 for more detail on selling restrictions that apply to the offer of Shares in jurisdictions outside of Australia.

To the extent any person in any jurisdiction outside Australia lawfully receives an offer under this Prospectus, the taxation treatment of Australian securities may not be the same as those for securities in foreign jurisdictions.

No cooling off rights

Cooling off rights do not apply to an investment in Shares offered under this Prospectus. This means that, in most circumstances, you cannot withdraw your Application.

Photographs and diagrams

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are or, on Completion will be, owned by Althea Group. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the Prospectus Date.

Documents available on website

Any references to documents included on Althea Holdings' website at <https://www.althea.com.au/> are for convenience only, and none of the documents or other information available on these websites is incorporated in this Prospectus by reference.

Defined terms and time

Defined terms and abbreviations used in this Prospectus have the meanings given in the glossary of this Prospectus at section 11. Unless otherwise stated or implied, references to times in this Prospectus are to Victoria, Australia time.

Applications

Applications for Shares may only be made during the Offer Period on the Application Form included in, or accompanying, this Prospectus in its hard copy form, or in its electronic form which must be downloaded in its entirety, together with an electronic copy of this Prospectus. By making an Application, you declare that you were given access to the Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing the Application Form on to another person unless it is included in, or accompanied by, this Prospectus in its paper copy form or the complete and unaltered electronic version of this Prospectus. Refer to section 8 for further information.

To the extent permitted by law, each of Althea Holdings, the Registry, and the Lead Manager disclaims all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statement, whether on the basis of a confirmation of allocation provided by any of them, by a Broker or otherwise.

Privacy

By filling out the Application Form to apply for Shares, you are providing personal information to Althea Group and the Registry, which is contracted by Althea Holdings to manage Applications. Althea Holdings and the Registry on their behalf, may collect, hold, use and disclose that personal information for the purpose of processing your Application, servicing your needs as a Shareholder, providing facilities and services that you need or request and carry out appropriate administration. If you do not provide the information requested in the Application Form, Althea Holdings and the Registry may not be able to process or accept your Application.

Once you become a Shareholder, the Corporations Act and Australian taxation legislation require information about you (including your name, address and details of the Shares you hold) to be included in the Share register. In accordance with the requirements of the Corporations Act, information on the Share register will be accessible by members of the public. The information must continue to be included in the Share register if you cease to be a Shareholder.

Your personal information may also be used from time to time to inform you about other products and services offered by Althea Group, which it considers may be of interest to you. Your personal information may also be provided to Althea Group's agents and service providers on the basis that they deal with such information in accordance with Althea Holdings' privacy policy. The agents

and service providers of Althea Group may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Registry for ongoing administration of the Share register;
- the Lead Manager in order to assess your Application;
- Brokers for the purpose of providing their services;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

Information contained in Althea Holdings' Share register is also used to facilitate corporate communications (including Althea Holdings' financial results, annual reports and other information that Althea Group may wish to communicate to its Shareholders) and compliance by Althea Holdings with legal and regulatory requirements. An Applicant has a right to access, correct and update his or her personal information that Althea Holdings and the Registry hold about that person, subject to certain exemptions under law. A reasonable fee may be charged for access, subject to any applicable laws. Access requests must be made in writing or by telephone call to Althea Holdings' registered office or the Registry's office, details of which are disclosed in the corporate directory on the final page of this Prospectus. Applicants can obtain a copy of Althea Holdings' privacy policy by visiting Althea Group's website (<https://www.althea.com.au/>). By submitting an Application, you agree that Althea Holdings and the Registry may communicate with you in electronic form or to contact you by telephone in relation to the Offer.

Questions

If you have any questions about this Prospectus or how to apply for Shares, you should seek advice from your stockbroker, solicitor, accountant, financial advisor or other independent professional advisor. Instructions on how to apply for Shares are set out in section 8 and on the Application Form. Alternatively, please contact the Lead Manager to the Offer on 03 8633 9834 between 8:30am and 5:30pm Victoria, Australia time, Monday to Friday (Business Days only) during the Offer Period.

This document is important and should be read in its entirety before making any investment decision.

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KEY OFFER INFORMATION

Indicative dates

Lodgement of Original Prospectus with ASIC	Wednesday, 22 August 2018
Prospectus Date	Tuesday, 4 September 2018
Opening date of the Broker Firm Offer	Thursday, 6 September 2018
Closing Time of the Broker Firm Offer	5pm, Thursday, 13 September 2018
Issue of Shares under the Offer (Completion of the Offer)	Tuesday, 18 September 2018
Expected despatch of holding statements	Wednesday, 19 September 2018
Shares expected to begin trading on the ASX on a normal settlement basis	Friday, 21 September 2018

Dates may change

The above dates are indicative only and may be subject to change. Unless indicated, all times and dates are Melbourne, Australia time. Althea Holdings reserves the right to vary the dates and times of the Offer, including to extend the Offer, close the Offer early or to accept late Applications, without notifying any recipient of this Prospectus or any Applicants. Investors are encouraged to submit their Applications as soon as possible.

Important statistics

Total number of Shares on issue at the Prospectus Date ¹	102,000,000
Total number of New Shares to be issued under the Offer (oversubscriptions will not be accepted)	98,250,000
Offer Price	\$0.20 per Share
Amount to be raised under the Offer (before expenses)	\$19,650,000
Total number of Shares to be issued to PAC Partners under the PAC Offer ²	3,060,000
Total number of Shares on issue on Completion of the Offer and the PAC Offer ^{3,4}	203,310,000
Number of Shares to be held by existing Shareholders on Completion of the Offer ^{3,5}	119,000,000
Indicative market capitalisation on Completion of the Offer at the Offer Price ⁶	\$40,662,000

1 Please refer to section 8.5 for further details on the historical capital structure of Althea Group and the Pre-Prospectus Capital Raising.

2 The PAC Offer constitutes an offer by Althea Holdings of up to 3,060,000 Shares to PAC Partners, a related party of the Lead Manager, at an offer price of \$0 per Share as part of the consideration to be provided by Althea Company under the Lead Manager Agreement for services provided by the Lead Manager in relation to the Pre-Prospectus Capital Raising and the Offer. The PAC Offer is an offer of Shares to PAC Partners only. No funds will be raised from the issue of Shares under the PAC Offer.

3 Excludes the 5,100,000 Performance Rights proposed to be granted by Althea Holdings to Joshua Fegan under the LTI Plan subject to Listing and the 2,675,000 Pre-IPO Consultant Options granted to the Pre-IPO Consultants, subject to Listing. Please refer to sections 7.3.5 and 7.3.9 for further information on the Performance Rights and Pre-IPO Consultant Options.

4 Please refer to section 1.7 and 8.6 for details of the ownership of Shares as at the Prospectus Date and Shares on Completion of the Offer on an undiluted basis and, separately, on a fully diluted basis (i.e. assuming that all Performance Rights vest, all Pre-IPO Consultant Options are exercised and no further Shares are issued after Completion).

5 Comprising Shares held by Joshua Fegan, Aphria and the Institutional Investors who participated in the Pre-Prospectus Capital Raising.

6 Calculated as the total number of Shares on issue following the Offer multiplied by the Offer Price.

CHAIRMAN'S LETTER

Dear Investor,

On behalf of the Board of Directors, I am delighted to offer you the opportunity to become a shareholder of Althea Group Holdings Limited.

Althea Company was founded in Melbourne in 2017 with a view to acquiring the necessary licences and permits to import, cultivate, produce and supply medicinal cannabis for eligible patients across Australia. Through strategic supply and distribution partnerships, Althea Company has been able to commence sales of five Althea branded medicinal cannabis products in Australia.

Althea Group's focus on patient care underpins its business strategy and our innovative technology solution, known as Althea Concierge, is designed to educate and support patient access to medicinal cannabis in Australia. Althea Group has also engaged a team of medical science liaisons to assist medical practitioners to become prescribers, and pharmacists to become suppliers, of Althea products.

A three-stage business model built on early revenue generation, sales driven growth and scalable domestic production supports Althea Group's vision to become a leading and trusted medicinal cannabis brand in Australia.

Althea Group proposes to grow its current revenue through implementing targeted strategies aimed at increasing sales of imported medicinal cannabis products and expanding its current local operations through the construction of a 4,080m² cannabis cultivation and production facility in Skye, Victoria. The goal is to produce approximately 3 tonnes of high grade dried medicinal cannabis flower each year at the facility. Subject to future local or international demand, a supportive business case and Althea Group obtaining the relevant licences and permits described in sections 3.8 and 4.3 to export cannabis products, Althea Group may assess at the appropriate time the potential to expand the size and scale of its proposed cannabis cultivation and production facility to capitalise on increased local demand and any future available export markets.

Althea Group's business model, including Althea Group's continued importation and supply of medicinal cannabis and its aim to expand its current local operations through the construction of a cannabis cultivation and production facility, is predicated on Althea Group maintaining the necessary licences and permits to import and supply medicinal cannabis in Australia and obtaining the necessary licences and permits to construct a cannabis cultivation and production facility and ultimately cultivate and manufacture medicinal cannabis in Australia.

Althea Holdings has an experienced Board and highly skilled Management with relevant industry experience. Althea Holdings' Board and Management are committed to capitalising on the growth opportunities that are arising in the medicinal cannabis industry.

The Offer under this Prospectus is for the issue of 98,250,000 New Shares to raise up to \$19,650,000 (before expenses) at an issue price of \$0.20 per share.

I am pleased to inform you that current strategic shareholder Aphria, one of the largest Canadian cannabis companies listed on the Toronto Stock Exchange (TSX:APH) with significant cultivation, manufacturing, distribution, patient services and R&D operations in Canada, has committed to subscribe for a further 17,000,000 Shares under the Offer which, upon subscription for and allotment of these New Shares, will result in Aphria holding 25% of the total number of Shares on issue in Althea Holdings after Completion of the Offer.

The Offer is being made to provide funds to increase the growth of Althea Group's sales of medicinal cannabis products, fund construction of Althea Group's proposed initial domestic production facility in Skye, Victoria, fund cultivation and production costs at its proposed production facility and provide for administration costs and working capital.

An investment in Althea Holdings involves a number of risks, including risks associated with investing in a start up company operating in an industry which is subject to a new legislative regime, Althea Group obtaining and maintaining all relevant licences and permits required to meet its business objectives (including licences and permits to enable it to construct its proposed production facility), changes to laws or regulations, and other business specific risks. A summary of key risks are identified in section 1.4 of the Investment Overview and outlined in more detail in section 6.

I encourage you to read this Prospectus carefully and in its entirety before making an investment decision.

On behalf of the Board, I look forward to welcoming you as a Shareholder of Althea Holdings.

Yours Sincerely,



Andrew Newbold
Chairman

1.

INVESTMENT OVERVIEW



I. INVESTMENT OVERVIEW

1.1 Business overview

TOPIC	SUMMARY	FOR MORE INFORMATION
What are the key differences between this Prospectus and the Original Prospectus issued by Althea Holdings and dated 22 August 2018?	<p>This Prospectus issued by Althea Holdings is dated 4 September 2018 and was lodged with ASIC on that date. This is a replacement prospectus which replaces the prospectus issued by Althea Holdings and dated 22 August 2018 (Original Prospectus).</p> <p>The key differences between this Prospectus and the Original Prospectus are as follows:</p> <ul style="list-style-type: none"> Althea Holdings has provided further information in this Prospectus in relation to Althea Group's current and proposed business activities (please refer to the Chairman's letter, section 1.1 and section 4); Althea Holdings has provided further information in this Prospectus in relation to the status of the licences and permits that Althea Group requires for its current and proposed business activities and the key steps involved in applying for and renewing the relevant licences held by Althea Group (please refer to section 1.1 and section 4.3); Althea Holdings has included a summary of the key terms of issue of the licences held by Althea Group and further information about the key terms of the Trademark Licence Agreement between Althea Company and Aphria (please refer to sections 10.4 and 10.5); Althea Holdings has provided further information in this Prospectus about the risks associated with Althea Group's proposed cannabis cultivation and production facility given the infancy of this project, Althea Group's intentions if approvals for its proposed cannabis cultivation and production facility are not forthcoming, intellectual property risks regarding the Trademark Licence Agreement between Althea Company and Aphria, steps taken by Althea Group to mitigate "Fit and proper person" test risks and how market competition may impact Althea Group's ability to obtain an export licence (please refer to sections 1.4 and 6); Althea Holdings has updated sections 1.8 and 8.4 to show the proposed use of funds raised under the Offer excluding existing cash reserves of Althea Group; Althea Holdings has updated section 1.8 and 8.4 to provide further details and a breakdown of the aggregate costs of the Offer previously disclosed; Althea Holdings has provided further information in this Prospectus in respect of the five products currently being imported and distributed by Althea Group and the Althea Concierge application which has been developed by Althea Group (please refer to sections 4.4 and 4.5); Althea Holdings has provided further information in this Prospectus in respect of how the number of Shares to be offered to PAC Partners under the PAC Offer has been calculated (please refer to section 10.5.8.1); and Althea Holdings has provided further information in this Prospectus in respect of how the findings of the Frost & Sullivan Market Report are expected to apply to Althea Group's business model (please refer to section 4). 	Sections 1, 4, 6, 8 and 10

TOPIC	SUMMARY	FOR MORE INFORMATION
Who is Althea Group and what does Althea Group do?	<p>Althea Company was founded in Melbourne in 2017 with a view to acquiring the necessary licences and permits to import, cultivate, produce and supply medicinal cannabis for eligible patients across Australia.</p> <p>Althea Group has entered into a number of strategic partnerships which has enabled Althea Group to begin importing and distributing five Althea branded medicinal cannabis products in Australia. Althea Company generated its first sales to pharmacies for supply to eligible patients in Australia in May 2018.</p> <p>Althea Group's focus on patient care underpins its business strategy. Althea Group has developed a complementary education and patient support service through its Althea Concierge mobile application and web based platform which provides a simple pathway for health care professionals and patients to access information and support to navigate the complexities of accessing and prescribing medicinal cannabis.</p> <p>Althea Group has also engaged a team of medical science liaisons to assist medical practitioners to become prescribers, and pharmacists to become suppliers, of Althea product.</p>	Section 4
What is the industry in which Althea Group operates?	Althea Group operates in the medical cannabis industry in Australia. The Australian market for medicinal cannabis is emerging, with the current regulatory framework for cultivation, manufacturing, distribution and consumption only being enacted in 2016.	Section 2
What are Althea Group's current and proposed business activities?	<p>Althea Group has a three-stage business model built on early revenue generation, sales driven growth and scalable domestic production.</p> <p>As at the Prospectus Date, Althea Company has obtained the following licences:</p> <ul style="list-style-type: none"> • Licence (1820755) to import narcotic, psychotropic and precursor substances. • Licence (22210927) to sell or supply by wholesale Schedule 8 or Schedule 9 Poisons (other than Heroin) under the Drugs, Poisons and Controlled Substances Act 1981 (Vic). • Licence (MC015/18) to cultivate and produce cannabis, or cannabis material, for the purposes of patient supply under the Narcotic Drugs Act 1967 (Cth). <p>Please refer to section 10.4 for details of the key terms of issue of these licences.</p> <p>Althea Group has achieved the first stage of its business model having commenced importation and supply of medicinal cannabis generating its first sales revenue by the sale of Althea branded products to pharmacies for supply to eligible patients in Australia in May 2018.</p> <p>Althea Group currently distributes five products under the names "Capilano", "Champlain Indica", "Jasper", "Rideau" and "Henik". Please refer to section 4.4 for further details on the products that Althea Group currently distributes in Australia.</p> <p>As at the Prospectus Date, 57 patients in Australia have been prescribed Althea branded medicinal cannabis products. Please refer to section 4.6 for an overview of the process by which patients are prescribed medicinal cannabis products in Australia and how patients access, and Althea delivers, prescribed products. Details of the revenue generated by Althea Group from sales of its products as at 30 June 2018 is set out in section 5.</p>	Sections 4.2, 4.3, 4.4, 4.6 and 4.8

I. INVESTMENT OVERVIEW continued

TOPIC	SUMMARY	FOR MORE INFORMATION
What are Althea Group's current and proposed business activities? <i>continued</i>	<p>The second and third stages of Althea Group's business model involve implementing targeted strategies aimed at increasing Althea Group's current revenue through increased sales of imported medicinal cannabis products from Aphria and expanding its current local operations through the construction of a cannabis cultivation and production facility which will allow Althea Group to grow and manufacture its own medicinal cannabis in Australia for supply to eligible patients in Australia. Subject to future local or international demand, a supportive business case and Althea Group obtaining the relevant licences and permits described in sections 3.8 and 4.3 to export cannabis products, Althea Group may assess at the appropriate time the potential to expand the size and scale of its proposed medicinal cannabis cultivation and production facility to capitalise on increased local demand and any future available export markets.</p> <p>Althea Group's business model, including Althea Group's continued importation and supply of medicinal cannabis and Althea Group's aim to expand its current local operations through the construction of a cannabis cultivation and production facility, is contingent on Althea Group:</p> <ul style="list-style-type: none"> • maintaining the necessary licences and permits to import and supply medicinal cannabis in Australia; • obtaining the necessary approvals, licences and permits to construct its proposed cannabis cultivation and production facility and ultimately cultivate and manufacture medicinal cannabis in Australia; and • obtaining the necessary licences and permits to export cannabis products. <p>Please refer to section 3 for an overview of the relevant regulatory regime in which Althea Group operates and section 4.3 for details of the relevant licences and permits Althea Group currently holds.</p> <p>The development of Althea Group's proposed 4,080m² cannabis cultivation and production facility is at an early stage. Please refer to section 4.8 for details on the status of Althea Group's proposed cannabis cultivation and production facility.</p> <p>Investors should consider the licensing and other risks associated with Althea Group's business and an investment in Shares which are summarised in section 1.4 and described in more detail in section 6.</p>	Sections 4.2, 4.3, 4.4, 4.6 and 4.8
What is the regulatory status of medicinal cannabis in Australia?	<p>The medicinal cannabis industry is heavily regulated in Australia, both at the federal level, and at the state and territory level. The regulatory framework is new, as Australia moves from a framework which essentially prohibited the importation, storage, production, supply and export of any cannabis products, to a framework which permits but strictly regulates such actions.</p> <p>The state and territory governments and the Commonwealth Department of Health all play a part in regulating medicinal cannabis in Australia.</p>	Section 3

TOPIC	SUMMARY	FOR MORE INFORMATION																													
What is the status of the licences and permits that Althea Group requires for its current and proposed business activities?	<p>The below summarises the status of the licences required for Althea Group to carry on its proposed business activities.</p> <table><tr><th>Activity</th><th>Licences required</th><th>Obtained</th><th>Expiry and renewal process</th></tr><tr><td rowspan="2">Importation of finished products</td><td>Narcotic drug import licence</td><td>Yes</td><td>31 December 2018. Import licences are granted for particular calendar years. On expiry, Althea Company will need to renew this licence. The ODC accepts applications for renewals of licences. In respect of renewal applications, the ODC will take into account the same considerations (as summarised in section 3.3) as undertaken at the time of granting the licence. The ODC generally endeavours to process applications within 30 working days from the date of receipt.</td></tr><tr><td>Victorian wholesaling licence</td><td>Yes</td><td>1 July 2019. Wholesale licences are issued annually. On expiry, Althea Company will need to renew this licence. The renewal costs (currently) are \$239.90.</td></tr><tr><td rowspan="2">Cultivation and production</td><td>Medicinal cannabis licence</td><td>Yes</td><td>31 October 2020. This licence has a maximum term of 2 years. On expiry, Althea Company will need to re-apply for this licence. The annual fee payable for this licence is \$27,380. The ODC acknowledges that the assessment process takes some time and it strongly recommends making applications well in advance.</td></tr><tr><td>Narcotic drug import licence</td><td>Yes</td><td>31 December 2018. Import licences are granted for particular calendar years. On expiry, Althea Company will need to renew this licence. The ODC accepts applications for renewals of licences. In respect of renewal applications, the ODC will take into account the same considerations (as summarised in section 3.3) as undertaken at the time of granting the licence. The ODC generally endeavours to process applications within 30 working days from the date of receipt.</td></tr><tr><td rowspan="2">Manufacturing</td><td>Medicinal cannabis manufacturing licence</td><td>Application pending</td><td></td></tr><tr><td>Therapeutic goods manufacturing licence</td><td>Not yet applied for</td><td></td></tr><tr><td>Export</td><td>Narcotic drug export licence</td><td>Not yet applied for</td><td></td></tr></table>	Activity	Licences required	Obtained	Expiry and renewal process	Importation of finished products	Narcotic drug import licence	Yes	31 December 2018. Import licences are granted for particular calendar years. On expiry, Althea Company will need to renew this licence. The ODC accepts applications for renewals of licences. In respect of renewal applications, the ODC will take into account the same considerations (as summarised in section 3.3) as undertaken at the time of granting the licence. The ODC generally endeavours to process applications within 30 working days from the date of receipt.	Victorian wholesaling licence	Yes	1 July 2019. Wholesale licences are issued annually. On expiry, Althea Company will need to renew this licence. The renewal costs (currently) are \$239.90.	Cultivation and production	Medicinal cannabis licence	Yes	31 October 2020. This licence has a maximum term of 2 years. On expiry, Althea Company will need to re-apply for this licence. The annual fee payable for this licence is \$27,380. The ODC acknowledges that the assessment process takes some time and it strongly recommends making applications well in advance.	Narcotic drug import licence	Yes	31 December 2018. Import licences are granted for particular calendar years. On expiry, Althea Company will need to renew this licence. The ODC accepts applications for renewals of licences. In respect of renewal applications, the ODC will take into account the same considerations (as summarised in section 3.3) as undertaken at the time of granting the licence. The ODC generally endeavours to process applications within 30 working days from the date of receipt.	Manufacturing	Medicinal cannabis manufacturing licence	Application pending		Therapeutic goods manufacturing licence	Not yet applied for		Export	Narcotic drug export licence	Not yet applied for		Section 4.3 and section 10.4
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I. INVESTMENT OVERVIEW continued

TOPIC	SUMMARY	FOR MORE INFORMATION												
What is the status of the licences and permits that Althea Group requires for its current and proposed business activities? <i>continued</i>	The following table summaries the ad hoc permits that Althea Group will require for its current and proposed business operations. Althea Group notes that the following permits are not available in advance of the proposed activity and must be applied for at the relevant time the activity is proposed.	Section 4.3 and section 10.4												
	<table><tr><th>Activity</th><th>Permits required</th></tr><tr><td>Importation of finished products</td><td>Narcotic drug import permit</td></tr><tr><td rowspan="3">Cultivation and production</td><td>Medicinal cannabis cultivation permit. At this point the ODC will inspect the facility to ensure security and safety of medicinal cannabis plants and resin.</td></tr><tr><td>Narcotic drug import permit in respect of plant cuttings necessary to form nursery stock.</td></tr><tr><td>Permit from the Department of Agriculture and Water Resources to import cannabis cuttings. This is subject to strict quarantine requirements as well as phytosanitary certification.</td></tr><tr><td>Manufacturing</td><td>Medicinal cannabis manufacturing permit. At this point the ODC will inspect the facility to ensure security and safety of medicinal cannabis plants and resin.</td></tr><tr><td>Export</td><td>Narcotic drug export permit.</td></tr></table>		Activity	Permits required	Importation of finished products	Narcotic drug import permit	Cultivation and production	Medicinal cannabis cultivation permit. At this point the ODC will inspect the facility to ensure security and safety of medicinal cannabis plants and resin.	Narcotic drug import permit in respect of plant cuttings necessary to form nursery stock.	Permit from the Department of Agriculture and Water Resources to import cannabis cuttings. This is subject to strict quarantine requirements as well as phytosanitary certification.	Manufacturing	Medicinal cannabis manufacturing permit. At this point the ODC will inspect the facility to ensure security and safety of medicinal cannabis plants and resin.	Export	Narcotic drug export permit.
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Manufacturing	Medicinal cannabis manufacturing permit. At this point the ODC will inspect the facility to ensure security and safety of medicinal cannabis plants and resin.													
Export	Narcotic drug export permit.													
Why is the Offer being conducted?	<p>The primary purposes of the Offer are to:</p> <ul style="list-style-type: none">• facilitate Althea Holdings’ application for admission to the Official List of the ASX;• raise up to \$19,650,000 (before expenses) pursuant to the Offer, which will provide funding to enable Althea Holdings to:<ul style="list-style-type: none">» fund and increase the growth of Althea Group’s current sales of medicinal cannabis brands;» fund the design, construction, commissioning and completion of a fully scalable 4,080m² medicinal cannabis cultivation, extraction and manufacturing facility to be located on land leased by Althea Company from Mansfield and located in Skye, Victoria;» fund domestic production and cultivation and costs; and» provide for administration costs and working capital needs. <p>The proceeds received by Althea Holdings from the issue of Shares under the Offer will be used as set out in section 8.4.</p>	Sections 8.3 and 8.4												

1.2 Key features of Althea Group's business model

TOPIC	SUMMARY	FOR MORE INFORMATION
What is Althea Group's business objectives and strategy?	<p>Althea Group has a three-stage business model built on early revenue generation, sales driven growth and scalable domestic production:</p> <p>Stage 1: Distribution – Althea Group has achieved Stage 1 and commenced importing and supplying medicinal cannabis in Australia, generating its first sales revenue by the sale of Althea branded products to pharmacies for supply to eligible patients in Australia in May 2018.</p> <p>Stage 2: Sales – Althea Group intends to grow its current revenue and sales of imported medicinal cannabis products from Aphria through focusing on building greater understanding about medicinal cannabis and support for patients and health care professionals through the Althea Concierge mobile application and web based platform and fostering relationships with medical practitioners and pharmacists to grow Althea Group's national network of medical practitioners capable of prescribing, together with registered pharmacists capable of dispensing, Althea products.</p> <p>Stage 3: Domestic Production – Subject to receiving all necessary town planning and building approvals for the construction of the Victorian cultivation and manufacturing facility, Althea Group's intention is to grow and manufacture its own high quality medicinal cannabis in Australia for supply to eligible patients in Australia through the construction and operation of a 4,080m² cannabis cultivation and production facility in Skye, Victoria.</p>	Section 4.2
What are Althea Group's objectives?	<p>Althea Group aims to become a leading and trusted medicinal cannabis brand in Australia. Ultimately, Althea Group's success will depend on the achievement of its strategic objectives, which include:</p> <ul style="list-style-type: none"> growing revenue by expanding Althea Group's national network of registered and approved medical practitioners and pharmacists prescribing and dispensing Althea Group product; establishing a medicinal cannabis cultivation, cannabinoid extraction and manufacturing facility capable of domestic manufacture of Althea Group's five medicinal cannabis products; and continuing focus on patient care, patient access and support to open the pathways and assist medical practitioners and pharmacists navigate the complexities of prescribing and dispensing medicinal cannabis. <p>Althea Group's objectives are predicated on Althea Group maintaining the necessary licences and permits to import and supply medicinal cannabis in Australia and obtaining the necessary licences and permits to construct a cannabis cultivation and production facility and ultimately cultivate and manufacture medicinal cannabis in Australia. Please refer to section 3 for an overview of the relevant regulatory regime in which Althea Group operates and section 4.3 for details of the relevant licences and permits Althea Group currently holds.</p> <p>In addition, Althea Group's aim of establishing a medicinal cannabis cultivation and production facility is at an early stage of development and remains subject to Althea Company receiving various town planning and building approvals and cultivation and manufacturing permits from the ODC. Please refer to section 4.8 for details on the status of Althea Group's proposed cannabis cultivation and production facility.</p>	Section 4.11

I. INVESTMENT OVERVIEW continued

TOPIC	SUMMARY	FOR MORE INFORMATION
How does Althea Group propose to generate revenue?	<p>Althea Group's prescription-only products are prohibited from advertisement. As such, Althea Group's sales strategy is built on growing one-on-one patient and medical practitioner relationships through support provided by Althea Group's team of medical science liaisons provided by Hahn Healthcare and the Althea Concierge mobile application and web based platform.</p> <p>As noted above, Althea Group intends to grow and manufacture its own high quality medicinal cannabis in Australia for supply to eligible patients in Australia through the proposed construction and operation of a 4,080m² cultivation, extraction and manufacturing facility in Skye, Victoria. The proposed scalable facility aims to produce approximately 3 tonnes of cannabis each year.</p> <p>Althea Group's current business model focuses on import, distribution, cultivation and manufacture of medicinal cannabis in Australia. Subject to future local or international demand, a supportive business case and Althea Group obtaining the relevant licences and permits described in sections 3.8 and 4.3 to export cannabis products, Althea Group may assess at the appropriate time the potential to expand the size and scale of its proposed medicinal cannabis cultivation and production facility to capitalise on increased local demand and any future available export markets.</p>	Sections 4.7, 4.8 and 4.9
How does Althea Group propose to develop its products?	<p>Althea Company entered into an exclusive <i>Cannabis Product Acquisition Agreement</i> with Aphria on 25 September 2017 under which Aphria supplies Althea Company with dried cannabis and cannabis extract in oil form.</p> <p>Althea Group currently distributes products supplied by Aphria in Australia under the product names "Capilano", "Champlain Indica", "Jasper" and "Rideau". Each product is branded with the Althea logo and name. The intellectual property rights in the product names under which Althea Group currently distributes products supplied by Aphria are owned by Aphria. Aphria has provided Althea Group with a 10 year exclusive licence to use the trademarks "Capilano", "Champlain Indica", "Jasper", "Rideau", "Treasure Island" and "Henik" in Australia for the purpose of selling, distributing, promoting and marketing medicinal cannabis products manufactured or produced by Althea Company or medicinal cannabis products supplied to Althea Group by Aphria. Further details of this exclusive licensing arrangement is set out in section 10.5.7.</p> <p>Following the establishment by Althea Group of its proposed medicinal cannabis cultivation and production facility in Victoria, Althea Group aims to manufacture Australian grown versions of the five medicinal cannabis products currently produced at Aphria's facilities in Canada.</p> <p>Althea Company entered into a <i>Plant & Genetics Acquisition Agreement</i> with Aphria on 27 July 2018 for the supply of cannabis cuttings which are intended to be used as nursery stock for Althea Company's medicinal cannabis cultivation and manufacturing business. Please refer to section 10.5.6 for a summary of the key terms of the Plant & Genetics Acquisition Agreement.</p> <p>Under the Plant & Genetics Acquisition Agreement Althea Company can acquire and import clonal starting materials for its pre-existing range of products for cultivation at its proposed facility in Victoria. At the time of actually importing these materials, Althea Company will need to obtain certain permits from the Office of Drug Control (ODC) and the Department of Agriculture and Water Resources. Please refer to section 4.3 for details of the required permits.</p>	Sections 4.2, 4.8 and 4.12

TOPIC	SUMMARY	FOR MORE INFORMATION
What is Althea Concierge?	<p>Althea Concierge is a mobile application and web based platform developed by Althea Group which seeks to provide medical practitioners and patients with a simple pathway to access information and support in navigating the complexities of accessing and prescribing medicinal cannabis in Australia.</p> <p>The Althea Concierge platform provides separate registration capability and tailored information and support for medical practitioners who prescribe medicinal cannabis and patients who are prescribed medicinal cannabis.</p> <p>For medical practitioners, the platform provides assistance with the registration processes to obtain the relevant approvals and permits to prescribe medicinal cannabis products and a platform for scheduling consultations, administering prescriptions and maintaining patient treatment plans.</p> <p>For patients, Althea Concierge contains a directory of registered medical practitioners and pharmacists with the relevant experience, licences and approvals, to prescribe and supply Althea's medicinal cannabis products.</p> <p>Althea Concierge has recently been released for download by the public on Android devices from the Google Play store and the Apple app store. It is expected that Althea Concierge will be available to the public via desktop (www.althea.com.au) from 15 September 2018.</p>	Section 4.5
What is Althea Holdings' dividend policy?	Althea Holdings does not expect to pay dividends in the near future as its focus will primarily be on using cash reserves to seek to develop its business.	Section 5.16
Who does Althea Group compete with?	<p>Each of the industry sectors in which Althea Group operates (or intends to operate) are immature and evolving driven largely by legislative reform within industry sectors and jurisdictions as Australia moves from a framework which essentially prohibited the importation, storage, production, supply and export of any cannabis products, to a framework which permits but strictly regulates such actions.</p> <p>As cultivation and the manufacturing of medicinal cannabis products in Australia was only legalised in October 2016, Althea Group expects that the competitive landscape will continue to evolve over time.</p> <p>As at July 2018, 18 Medicinal Cannabis Licences (cultivation and production) and 13 Manufacture Licences have been granted in Australia, and 13 companies are listed on the ODC website as licensed suppliers.</p> <p>There are barriers to entry in the medicinal cannabis market preventing new companies establishing competing businesses. These barriers to entry are primarily regulatory, including obtaining the requisite licences, permits and approvals and attracting employees and management with the required expertise.</p>	Section 4.14
What is Althea Group's competitive position?	<p>Althea Group believes the key to cementing its competitive position is the expansion of Althea Group's national network of registered and prescribing medical practitioners, together with registered pharmacists capable of supplying Althea Group's medicinal cannabis products. These will be made possible through the education and support services of Althea Concierge.</p> <p>Althea Group has engaged Hahn Healthcare to provide a team of medical science liaisons to provide medical practitioners and pharmacists with on-site education and guidance and provide clarity and support to navigate the complexities of regulation and patient access.</p>	Section 4

I. INVESTMENT OVERVIEW continued

1.3 Summary of key strengths

Althea's highly experienced leadership team and strategic partner network has secured relevant licences and permits to import, cultivate, produce and supply medicinal cannabis in Australia and has solidified its seed-to-sale supply and distribution of five Althea branded medicinal cannabis products, with sales to eligible patients already underway. These licences, coupled with Althea's focus on patient care, underpins its business strategy.

TOPIC	SUMMARY	FOR MORE INFORMATION
Focus on patient care	<p>Althea Group's focus on patient care underpins its business strategy.</p> <p>Medicinal cannabis is highly regulated in Australia and the pathways to access treatment across states is a complexity that potential patients have to deal with. Althea Group understands this complexity and has invested in educational resources and patient support collateral to help guide patients through the pathways to access treatment.</p> <p>Althea Group has developed a complementary education and patient support service through its Concierge mobile application and web based platform. Althea Concierge provides a simple pathway for health care professionals and patients to access information and support to navigate the complexities of accessing and prescribing medicinal cannabis.</p>	Refer to Sections 4.2, 4.6 and 4.7
Highly skilled management team	<p>Joshua Fegan Chief Executive Officer and Managing Director</p> <p>Joshua is the founder of Althea Group and has extensive experience in business building, sales and marketing. He has a range of proven business and strategy skills and has previously held a number of senior management roles at national value-based retailer, Strathfield Group.</p> <p>Joshua founded Althea Health and Wellbeing in 2016, coinciding with registration of the <i>Narcotic Drugs Amendment Act 2016</i> (Cth) (ND Amendment Act), an Act to amend the <i>Narcotic Drugs Act 1967</i> (Cth) (ND Act), legalising medicinal cannabis.</p> <p>Peter Gillis Company secretary and current Chief Financial Officer</p> <p>Peter is a highly experienced Chartered Accountant and owner of an accountancy practice that is a founding member of ROCG Asia Pacific.</p> <p>He has worked for over 30 years across several industries and has previously been the auditor for a listed entity.</p> <p>Peter manages the company secretarial role for over 500 private companies and sits on several management boards as the external Chief Financial Officer.</p> <p>Peter currently provides Althea Group with company secretarial and outsourced Chief Financial Officer services under agreements between Curtain & Co Services and Althea Company.</p> <p>Peter is a fellow of the Australian Institute of Company Directors (FICD).</p>	Refer to Sections 7.1 and 7.2

TOPIC	SUMMARY	FOR MORE INFORMATION
Highly skilled management team <i>continued</i>	<p>Patty Holmes Chief Operating Officer</p> <p>Patty was previously Director of Business Management at Medicines Development for Global Health (MDGH). In that role, she was responsible for the overall business management of the company including legal, financial, HR and statutory reporting requirements. MDGH is the first Australian not-for-profit company to register a new drug with the US Food and Drug Administration (FDA) and receive an FDA Priority Review Voucher.</p> <p>Prior to her role at MDGH, Patty worked with Gilead Sciences Australia, preparing patient and health-care professional facing materials for drugs being launched in the Australian market.</p> <p>Patty has previously worked in New York as the Director of International Sales, for SLM International Inc.</p> <p>Daniel Mansfield Director of Cultivation</p> <p>Daniel was previously Business Development Manager and Operations Manager of Mansfield's Propagation Nursery. Mansfield's Propagation Nursery is a leading supplier of quality propagation tube stock in Australia, having won many industry awards including the recent 'Silver Rose' for international grower of the year, as well as best large production nursery and best propagation nursery.</p> <p>Daniel managed a team of 100+ employees at Mansfield's Propagation Nursery and was instrumental in the acquisition of its tissue culture business in 2013. When Mansfield's Propagation Nursery acquired the tissue culture business it was selling 800,000 plants per annum and is now selling over 2 million plants per annum.</p> <p>Prior to becoming Operations Manager at Mansfield's Propagation Nursery, Daniel was Head Grower at Pacific Plug & Liner in Watsonville, California, U.S.A.</p> <p>Trevor Steintal Director of Manufacturing</p> <p>Trevor was previously President of Suncliff, a leading Washington cannabis cultivation and manufacturing business in the USA. Trevor is a true pioneer of medicinal cannabis. Suncliff was one of the first licensed producers in Seattle, establishing the business in 2013 shortly after legalisation.</p> <p>Trevor is one of only a few cannabis executives in the world to successfully transition their business from medical to recreational cannabis, as a result of new legislation passed in Washington State.</p> <p>Trevor is immigrating to Australia to provide his expert knowledge in cannabis growing and manufacturing.</p>	Refer to Sections 7.1 and 7.2

I. INVESTMENT OVERVIEW continued

TOPIC	SUMMARY	FOR MORE INFORMATION
Strategic partner network	<p>Central to Althea Group's early development has been its strategic partnerships with respected and experienced experts in the fields of medicinal cannabis manufacturing, drug distribution and medical support services.</p> <p>Set out below is a summary of the strategic relations which Althea Group has established to date. Please refer to section 10.4 for a summary of the material terms of these relationships.</p> <ul style="list-style-type: none"> Aphria <p>Aphria is listed on the Toronto Stock Exchange (TSX:APH) and is one of the largest Canadian cannabis companies licensed by Health Canada with substantial cultivation, manufacturing, distribution, patient services and R&D operations.</p> <p>Aphria and Althea Company have entered into the Aphria Product Supply Agreement and Plant & Genetics Acquisition Agreement to enable Althea Company to acquire and import finished cannabis medical products into Australia and New Zealand and import clonal starting materials for cultivation. Please refer to sections 10.5.1 and 10.5.6 for a summary of the material terms of these agreements.</p> <p>The Aphria Product Supply Agreement is Althea Group's key supply contract. Althea Group's current ability to generate revenue is heavily reliant on its strategic arrangements with Aphria. The Aphria Product Supply Agreement has an initial 3 year term which expires on 25 September 2020 and will automatically renew for successive 90 day periods unless terminated earlier.</p> <p>Aphria's assistance has been instrumental in the design of Althea Group's ODC approved cultivation facility, including equipment scheduling, process layout and standard operating procedures.</p> Pharmaceutical Packaging Professionals Pty Ltd (PPP) <p>PPP is Althea Group's third-party warehousing, distribution and logistics partner. Althea Company has entered into a Warehousing and Distribution Agreement with PPP dated 17 August 2017 (Warehousing Agreement) under which PPP provides Althea Company with Good Manufacturing Practice (GMP) finished product warehousing and distribution services.</p> <p>As discussed at section 3.6 and 3.7, storage and transport of medicinal cannabis products is heavily regulated in Australia.</p> <p>While Althea Company has been issued a licence from the Victorian Department of Health and Human Services to sell or supply by wholesale Schedule 8 or Schedule 9 Poisons (other than Heroin) which permits Althea Company to sell or supply cannabis and tetrahydrocannabinols by indent, this licence does not permit Althea Company to possess or store products. Althea Company therefore relies on PPP to provide distribution services in respect of the transportation of medicinal cannabis products imported from Aphria, and warehousing services whereby PPP securely stores medicinal cannabis products imported by Althea Company in its purpose built facilities.</p> <p>PPP's Melbourne facilities have been purpose built to enable handling of a diverse range of drug substances and drug products and PPP holds the relevant state Drugs and Controlled Substances Licences required for storage of medicinal cannabis products. PPP has agreed to provide warehousing and distribution services to Althea Company until 5 August 2019. Please refer to section 10.5.2 for a summary of the material terms of this agreement.</p> 	Refer to Sections 4.12, 4.13 and 10.4

TOPIC	SUMMARY	FOR MORE INFORMATION
Strategic partner network <i>continued</i>	<ul style="list-style-type: none"> Hahn Healthcare Hahn Healthcare is Althea Group's exclusive medical education partner and is an experienced contract sales and services organisation for the medical community. Althea Company has entered into a Medical Education Services Agreement with Hahn Healthcare dated 10 November 2017 (Medical Services Agreement), under which Hahn Healthcare provides Althea Group with a full-time medical liaison team consisting of a Medical Manager, a Virtual Medical Representative, a Pharmacy Account Manager and team of Medical Science Liaisons with national coverage. Althea Company has extended the proposed expiry date of the Medical Services Agreement from 12 April 2019 to 11 April 2021. A summary of the material terms of this agreement is set out in section 10.5.2. Hahn Healthcare is working exclusively with Althea Group and is dedicated to facilitating patient access through the education of health care professionals. Althea Group's sales strategy is built on growing one-on-one patient and medical practitioner relationships through support provided by Althea Group's team of medical science liaisons provided by Hahn Healthcare and the Althea Concierge mobile application and web based platform. Accordingly, Althea Group's ability to generate revenue is reliant on its strategic arrangements with Hahn Healthcare. As noted in section 6.2.5, there is no guarantee or certainty that any agreement with Aphria, PPP or Hahn Healthcare will be renewed upon its expiry or, if any such agreement is renewed, the terms that may apply to such renewal will be acceptable to Althea Group. There is also a risk that Althea Group's agreements with Aphria, PPP or Hahn Healthcare may be terminated before the end of the relevant term or either one or more of Aphria, PPP or Hahn Healthcare cannot (or fail to) comply with their obligations under their respective arrangements with Althea Group. If any of these risks eventuate Althea Group may be unable to continue to earn revenue from the supply of medicinal cannabis in Australia unless alternative arrangements can be negotiated. As at July 2018, 13 companies are listed on the ODC website as licensed suppliers of medicinal cannabis. If Althea Group's arrangements with Aphria are terminated or expire, Althea Group would need to engage with one of these companies to put in place alternative supply arrangements. Similarly, if Althea Group's arrangements with PPP or Hahn Healthcare are terminated or expire, Althea Group would need to engage with alternative providers of, in the case of PPP, pharmaceutical warehousing and logistic service providers and, in the case of Hahn Healthcare, medical education service providers in Australia. Althea Group considers there to be reputable alternative providers for these services in Australia. 	Refer to Sections 4.12, 4.13 and 10.4

I. INVESTMENT OVERVIEW continued

TOPIC	SUMMARY	FOR MORE INFORMATION
Accreditation for medicinal cannabis cultivation and manufacturing facility	<p>Althea Company has entered into a long-term lease with D. & A. Mansfield & Sons Pty Ltd (Mansfield) for a 10 acre parcel of land in Skye, Victoria and has been granted by the ODC a Medicinal Cannabis Licence (cultivation and production) which allows Althea Company to legally cultivate and/or produce cannabis for medicinal or associated research purposes. The licence takes effect from 1 November 2018, subject to the additional conditions detailed in Schedule 2 of the licence.</p> <p>Althea Company has also entered into an <i>Early Works Contract</i> with Powerplants Australia Pty Ltd (Powerplants Australia) dated 17 August 2018 under which Althea Company has engaged Powerplants Australia to perform early works associated with the design, construction, supply of plant and equipment and commissioning of a fully scalable 4,080m² medicinal cannabis cultivation, extraction and manufacturing facility to be located on the land leased from Mansfield. The goal is for the facility to be able to ultimately produce approximately 3 tonnes of high grade dried medicinal cannabis flower each year and produce locally-made versions of its five medicinal cannabis products.</p> <p>Construction and operation of the proposed 4,080m² cultivation, extraction and manufacturing facility is subject to Althea Company receiving all necessary town planning and building approvals for the construction of the facility. In addition, various ODC permits will be required at the time when cultivation and manufacturing is intended to commence at the facility.</p>	Refer to Sections 4.2 and 4.8

1.4 Summary of key risks (see also section 6)

TOPIC	SUMMARY
Failure to obtain and retain licences and permits	<p>Althea Group's business model relies on Althea Company obtaining all necessary licences and permits required to import medicinal cannabis products into Australia and cultivate and manufacture medicinal cannabis products within Australia.</p> <p>There is no guarantee that Althea Group will be granted each licence and permit which are the subject of pending applications by Althea Group or which have not yet been applied for by Althea Group. The length of time for application approvals is currently unknown and there is no guarantee that each licence or permit will be granted to Althea Company on the terms anticipated by Althea Group.</p> <p>If any current or future application made by Althea Group for a permit or licence is not approved, or any of Althea Group's existing licences or permits are revoked or not renewed, Althea Group will not be able to undertake the activities for which the relevant licence or permit is required.</p>
Althea Group is a start-up and the medicinal cannabis industry in Australia is new	<p>Any investment in a start-up enterprise, such as Althea Group, and any investment in an industry which is in the early stages of development, such as the medicinal cannabis industry in Australia, should be considered highly speculative and involves several significant risks. These risks include under-capitalisation of the start-up enterprise, obstacles or delays in the implementation of business plans and uncertainties associated with the ability to continue to generate revenue.</p> <p>There are no guarantees or assurances that Althea Group will achieve any of its business objectives, that Althea Group will be able to continue to generate revenue or that any products that it actually cultivates will be commercially exploitable.</p>
Additional funding may be required	<p>Additional funding will be required if Althea Group's expected costs to meet its current objectives exceed its expectations.</p> <p>If additional funding is required, Althea Holdings will look to raise additional funds through equity financing, debt financing or a combination of both. Failure to obtain sufficient funding may result in delay and indefinite postponement of Althea Group's activities and/or expansion plans. There can be no assurance that additional funding will be available when needed, funding will be available on terms appropriate to Althea Holdings or that additional funding does not result in substantial dilution to Shareholders.</p>

TOPIC	SUMMARY
Uncertainty of future revenue and profitability	<p>Althea Group has only recently generated revenue from the supply of medicinal cannabis products purchased from Aphria and imported into Australia. Future sales of medicinal cannabis by Althea Group, and Althea Group's future profitability, is contingent on patient uptake of the medical cannabis supplied by Aphria, the results of further medical research and clinical trials in relation to medicinal cannabis, general economic conditions, the level of competition in the industry and regulatory factors.</p>
Contractual risks	<p>Althea Group's current ability to generate revenue is heavily reliant on strategic arrangements with Aphria, PPP and Hahn Healthcare.</p> <p>If any of the agreements with Aphria, PPP or Hahn Healthcare are terminated, Althea Group may be unable to continue to earn revenue from the supply of medicinal cannabis in Australia unless alternative arrangements can be negotiated. There is also no guarantee or certainty that any agreement with Aphria, PPP or Hahn Healthcare will be renewed or, if they are renewed, the terms that may apply to such renewal will be acceptable to Althea Group.</p>
Planning and building approval risks	<p>The ability for Althea Group to construct the proposed 4,080m² cultivation, extraction and manufacturing facility in Skye, Victoria requires Althea Group to obtain appropriate planning and building approvals (i.e. planning and buildings permits) from Frankston City Council (Council) (the relevant local council and most common planning authority for Skye, Victoria) and comply with all requirements of the Frankston Planning Scheme and any planning and building permits which are granted for the use and development of the proposed manufacturing facility.</p> <p>If the Council considers that the granting of a planning permit may possibly cause material detriment to other people, the Council is required to advertise the application. Given the proposed use and size of the manufacturing facility, it is likely that the Council will seek community engagement and advertise Althea Group's planning permit application.</p> <p>There is a risk that members of the community may oppose Althea Group's planning application and the Council may refuse to grant a permit, or if the Council decides to grant a permit (despite any objections), it is contested through proceedings in the Victorian Civil and Administrative Tribunal brought by a third party. The worst case scenario for Althea Group would be that necessary planning approvals are not obtained from the Council (or through a contested process).</p> <p>If any of these risks eventuate, Althea Group may have to reassess the location, size and/or scope of its proposed facility and seek to redeploy the services, works and assets acquired under the Early Works Contract from Powerplants Australia to a new site and/or facility. This could have a material impact on the timing and costs for executing Althea Group's own medicinal cannabis cultivation, production and supply business objectives and, ultimately, the profitability of Althea Holdings.</p> <p>There is also a risk that a planning permit, once obtained, may be cancelled or amended in certain limited circumstances.</p>
Construction risk	<p>There are a number of inherent risk associated with any construction project which equally apply to Althea Group's proposed 4,080m² cultivation, extraction and manufacturing facility. These include the feasibility studies determining that the site in Skye, Victoria is not appropriate for the facility, time and cost overruns in construction and force majeure events. If any of these risks eventuate, Althea Group may have to reassess the location, size and/or scope of its proposed facility and seek to redeploy the services, works and assets acquired under the Early Works Contract from Powerplants Australia to a new site and/or facility. This could have a material impact on the timing and costs for executing Althea Group's own medicinal cannabis cultivation, production and supply business objectives and, ultimately, the profitability of Althea Holdings.</p> <p>There is also no guarantee that Althea Group will be able to reach agreement on a <i>Design and Construct Contract</i> with Powerplants Australia to design and construct the entire proposed facility. There is also no certainty regarding the terms that may apply to such contract. If Althea is unable to agree a <i>Design and Construct Contract</i> with Powerplants Australia, or the terms of that contract are not commercially acceptable to Althea Group, Althea Group will need to source an alternate contractor to build its proposed facility which could have a material impact on the timing and costs.</p>

I. INVESTMENT OVERVIEW continued

TOPIC	SUMMARY
Agricultural risks associated with cannabis cultivation	<p>There are a number of risks inherent in operating as a primary producer in the agriculture industry, including plant diseases, storm, fire, frost, flood, water availability, water salinity, pests and force majeure events. These risks are inherent in Althea Group's existing import and supply business as they directly affect Aphria, Althea Group's supplier of medicinal cannabis products.</p> <p>There are also numerous risks associated with the construction and use of greenhouse or alternative cultivation systems to grow medicinal cannabis, including sourcing of suitable cannabis varieties, plant diseases, underestimating the costs and time for cultivation, underestimating the lighting/heating requirements and costs of installation, human error in the execution of engineering and construction, equipment failure, supplier delays and underestimating breakages and consumables.</p> <p>Any adverse outcomes in respect of these matters will adversely affect Althea Group's current and future business activities and operations, financial performance and prospects.</p>
Uncertainties associated with inputs for cannabis cultivation and product manufacture	<p>The ability for Althea Group to cultivate and manufacture products for supply in Australia is dependent on a number of key inputs and their related costs. These inputs include raw materials, electricity, water and skilled labour. As with any cultivation or manufacturing operation, the availability of reputable suppliers of key inputs and any significant interruption or change in availability or costs of key inputs could materially impact the production process and subsequently the product available for supply. This would affect the operating results of Althea Group during the period in which these risks materialise.</p> <p>In addition, the cultivation and manufacture of medicinal cannabis requires a deep understanding of cultivation and processing techniques and technologies. Althea Group's competitiveness and financial performance may be adversely affected if it fails to continue to invest in understanding and implementing innovative cultivation technologies and processes.</p>
Risk of adverse events, product liability or other safety issues	<p>There is a risk that the products sold by Althea Group may cause serious or unexpected side effects, including risk or injury to consumers. Should any of Althea Group's products be associated with safety risks such as misuse or abuse, inadvertent mislabelling, tampering by unauthorised third parties or product contamination or spoilage, a number of materially adverse outcomes could occur including:</p> <ul style="list-style-type: none"> • regulatory authorities may revoke approvals that have been granted to Althea Group, impose more onerous facility standards or product labelling requirements or force Althea Group to conduct a product recall; or • Althea Group could be subject to regulatory action or be sued and held liable for any harm caused to customers. <p>Althea Group maintains rigorous standards in respect of product safety and has insurance coverage to mitigate these risks in a manner customary with industry practice. However, Althea Holdings cannot guarantee that all such risks will be adequately managed through maintaining its rigorous standards or its insurance policies.</p>
Uncertainties associated with medicinal cannabis legislative regime	<p>The amendments to the ND Act in relation to medicinal cannabis came into full effect in Australia in October 2016.</p> <p>The ODC has published regulations and a series of guidelines which explain how the reforms will operate and the application processes for licences and permits. However, there is limited market guidance as to the specific considerations that the ODC will consider when reviewing licence and permit applications and the precise weight given to each consideration.</p> <p>Management considers that Althea Group continues to comply with all applicable industry laws and regulations. However, given the continuing developments in the relevant laws and regulations, there is a risk that a regulatory body could, in the future, change the application of these laws which may adversely impact Althea Group.</p>

TOPIC	SUMMARY
Change to laws and regulations	<p>The operations and proposed operations of Althea Group are subject to a variety of laws, regulations and guidelines. As the medicinal cannabis industry continues to evolve in Australia, it is likely that there will continue to be changes to existing legislation and/or the interpretation of the legal requirements which govern the operations and contractual obligations of Althea Group. This could impact adversely on the assets, operations and the financial performance of Althea Group and the medicinal cannabis industry in general.</p>
Fit and proper person	<p>To obtain the necessary licences required to operate in the medicinal cannabis industry, the ODC must first establish the integrity of the person applying for a licence or who has the ability to substantially influence the conduct of activities under a licence. This is known as the “fit and proper person” test.</p> <p>As at the Prospectus Date, Althea Group has submitted the following individuals to the ODC for consideration against the “fit and proper person” test:</p> <ul style="list-style-type: none"> • each of the existing Directors of Althea Holdings; • each member of the existing management team of Althea Group, details of which are included in section 7.2; and • each director of Aphria. <p>The ODC has confirmed to Althea Group that each of the individuals referred to above satisfy the “fit and proper person” test. Althea Holdings is not aware of any other individual as at the Prospectus Date who has the ability to substantially influence the conduct of Althea Holding’s activities and who should be submitted to the ODC for consideration against the “fit and proper person” test.</p> <p>If there is a change in the Board or shareholding of Althea Holdings and that change results in a person having the ability to substantially influence the conduct of Althea Holdings and that person does not pass the fit and proper person test, the ODC may determine that Althea Group is not a fit and proper person in relation to any licence or permit which Althea Company has not yet been granted and any licences granted to Althea Company may be revoked.</p> <p>As Althea Holdings is a public company and is seeking to be admitted to the official list of the ASX, the Board cannot control or prevent the transfer of shares in Althea Holdings or the election of a person or persons as new directors of Althea Holdings. In particular, a person may make a takeover bid, resulting in the acquirer being in a position to influence the management or operations of Althea Holdings, or a “board spill” resolution may be passed, requiring Althea Holdings to have elections of its directors. In these circumstances, should the ODC determine that the new person with substantial influence over the activities of Althea Holdings (i.e. the acquirer under a takeover bid or a new director) is not a fit and proper person, the licences held by Althea Company are likely to be revoked.</p> <p>If such circumstances cause Althea Company to not be granted the required licences which it does not hold or have any existing licences revoked, there will be a materially adverse impact on Althea Group’s proposed activities and operations and, consequently, Althea Group’s financial performance and prospects.</p>
Product approval risk	<p>There is a risk that the products proposed to be supplied by Althea Group are not approved for supply in Australia. Medicinal cannabis products are regulated as medicines in Australia. Generally, medicines imported, supplied in, and exported from Australia must be entered in the Australian Register of Therapeutic Goods (ARTG). However, there are mechanisms such as the Special Access Scheme (SAS) and Authorised Prescriber Schemes (APS), which provide alternative pathways while evidence to support registration through clinical trials is obtained.</p> <p>Althea Group currently provides access to its products under the SAS and APS. Althea Group cannot guarantee that any further medicinal cannabis products will be approved for supply to patients through APS (or an alternative pathway). Additionally, there is no guarantee that medical practitioners will be authorised under the APS or that they will elect to prescribe Althea Group’s products.</p>

I. INVESTMENT OVERVIEW continued

TOPIC	SUMMARY
Protection of intellectual property	<p>Aphria has provided Althea Group with a 10 year exclusive licence to use the trademarks “Capilano”, “Champlain Indica”, “Jasper”, “Rideau”, “Treasure Island” and “Henik” in Australia for the purpose of selling, distributing, promoting and marketing medicinal cannabis products manufactured or produced by Althea Company or medicinal cannabis products supplied to Althea Group by Aphria. The licence provided by Aphria permits Althea to use the trademarks alone or in combination with the Althea’s name and logo.</p> <p>Unless terminated earlier for breach (please refer to section 10.5.7), the trademark licence granted by Aphria to Althea Company will expire on the earlier of: (a) the 10th anniversary of the licence (being, 27 July 2028); and (b) when Aphria owns less than 5% of the total number of Shares on issue in Althea Holdings and delivers to Althea Company a notice of termination.</p> <p>As Althea Holdings is a public company and is seeking to be admitted to the official list of the ASX, neither Althea Holdings nor the Board can control or prevent the transfer of Shares in Althea Holdings. Aphria, like any other Shareholder in a listed public company is (subject to the mandatory and voluntary escrow arrangements contemplated in sections 8.16 and 8.17, respectively) entitled to sell their Shares at any time.</p> <p>As noted in section 8.16, Althea expects 12,250,000 of the Shares held by Aphria in Althea Holdings on Completion will be subject to will be classified by ASX as restricted securities and will be required to be held in escrow for up to 24 months from Listing. These Shares are expected to comprise 6.03% of the total number of Shares on issue in Althea Holdings on Listing or 5.8% the total number of Shares on issue in Althea Holdings on Listing on a fully diluted basis (i.e. assuming that all Performance Rights vest, all Pre-IPO Consultant Options are exercised and no further Shares are issued after Completion).</p> <p>Accordingly, if no further Shares are issued or, if new Shares are issued, Aphria’s shareholding in Althea Holdings is not substantially diluted during the term that Aphria’s shares are subject mandatory escrow arrangements, Althea Holdings considers that Aphria will not be able to divest a sufficient number of Shares to fall below 5% of the total number of Shares on issue in Althea Holdings during the term of Aphria’s escrow arrangements.</p> <p>If Aphria ultimately exercises its rights to divest sufficient number of Shares in Althea Holdings to a point where it holds less than 5% of the total number of Shares on issue in Althea Holdings and subsequently issues a notice to terminate the trademark licence, the terms of the Trademark Licence Agreement provide Althea Group with a 24 month transition period in which it is required to cease selling products with the “Capilano”, “Champlain Indica”, “Jasper”, “Rideau”, “Treasure Island” and “Henik” trademarks.</p> <p>As with any medicinal or pharmaceutical product, the loss of use of a trademark can have a material and adverse impact on sales of the relevant product to which the trademark relates having regard to prescriber, patient and market awareness and loyalty to established brands. For Althea Group, the termination of the Trademark Licence Agreement could have a material adverse effect on the sales of medicinal cannabis products and consequentially the revenues and financial performance of Althea Group.</p> <p>Althea Group has sought to mitigate this risk through negotiating a 24 month transition period with Aphria for ceasing to use the licensed trademarks in circumstances where Aphria ceases to hold at least 5% in Althea Holdings and elects to terminate the licence. Althea Group expects that during this transition period, and otherwise at the end of the 10 year licence (if it is not otherwise renewed in the circumstances contemplated in section 10.5.7), it will consider establishing its own product names and engage in a targeted awareness campaign regarding the transition by Althea Group to the new product names.</p> <p>In addition to the risks above, the “Capilano”, “Champlain Indica”, “Jasper”, “Rideau”, “Treasure Island” and “Henik” trademarks are not currently registered in Australia by Aphria. Aphria has informed Althea Company that it has made application to IP Australia to register these trademarks in Australia. If Aphria is unable to secure trademark registrations for the trademarks, Althea Group may face increased competition from competitors who use products labelled with similar names or otherwise be required to cease using certain intellectual property which is similar to intellectual property which may be registered before the Aphria trademarks.</p>

TOPIC	SUMMARY
Protection of intellectual property <i>continued</i>	<p>This competition risk also applies equally to other intellectual property rights which are developed by Althea Group in its business and for which Althea Group fails to adequately protect or any infringement of a third party's intellectual property rights.</p> <p>The risks associated with Althea Group failing to protect or have access to intellectual property rights currently, or in the future, used by Althea Group may have a material and adverse impact on Althea Group's operations, financial performance and future prospects.</p>
Loss of key management personnel and attracting key employees	<p>The success of Althea Group depends to a significant degree on its key personnel and its ability to retain experienced and high performing personnel. Current Management has a detailed understanding of the medicinal cannabis industry and, more broadly, the pharmaceutical industry.</p> <p>The loss of key management personnel, and any delay in their replacement, may adversely affect Althea Group's ability to develop and implement its business and growth strategies or increase the costs of obtaining suitable personnel. There is also a risk that Althea Group cannot attract, retain or develop the relevant skilled individuals it requires to successfully execute its business plan.</p>
Competition may increase	<p>The industry in which Althea Group operates is subject to domestic and international competition. Some of Althea Group's competitors and potential competitors may have significantly more financial resources and marketing experience than Althea Group which may lead to reduced margins and loss of revenue or loss of market share. Further, revenues in the future may be reduced as the industry consolidates and seeks revenue accretion at the expense of profit margin.</p> <p>Permits for importation, cultivation, manufacturing and export are subject to quotas established under the Convention. Increased competition in the medicinal cannabis industry may result in increased competition for permits issued by the ODC. If this occurs, it is possible that Althea Company will be unable to obtain sufficient permits to undertake all of its desired commercial activities.</p>
Reputational impact as a result of matters outside Althea Group's control	<p>There is a risk that incidents beyond the control of Althea Group could occur which would have the effect of reducing patient, medical/scientific or regulatory confidence in Althea Group or preferences for medicinal cannabis products generally. This reputational risk could result from incidents involving Althea Group, Aphria or other non-related industry participants.</p>
Other risks	<p>A number of other key risks which relate specifically to an investment in Althea Holdings, or generally to an investment in the Shares, are set out in section 6.</p>

I. INVESTMENT OVERVIEW continued

1.5 Summary of key financial information

A selected summary of Althea Group's pro forma financial information is set out below. Investors should read this information in conjunction with the more detailed discussion of the Financial Information set out in section 5, as well as the key risks set out in section 6.

TOPIC	SUMMARY	FOR MORE INFORMATION																																																												
Summary Consolidated Pro Forma Statement of Financial Position	<p>Set out below is a summary of the Consolidated Pro Forma Statement of Financial Position of Althea Group as at 30 June 2018. The Consolidated Pro Forma Statement of Financial Position has been prepared to illustrate the effects of the acquisition of Althea Company by Althea Holdings and assumes the completion of the pro forma transactions set out in section 5.5 as if they had occurred at 30 June 2018.</p> <table><tr><th></th><th></th><th>Althea Company Audited</th><th colspan="2">Pro Forma</th></tr><tr><th></th><th>Althea Holdings Audited</th><th>As at 30-Jun-18</th><th>Transactions Unaudited</th><th>Pro Forma Unaudited</th></tr><tr><th></th><th>\$</th><th>\$</th><th>\$</th><th>\$</th></tr><tr><td colspan="5">ASSETS</td></tr><tr><td>Total current assets</td><td>1</td><td>3,299,490</td><td>20,005,452</td><td>23,304,943</td></tr><tr><td>Total assets</td><td>1</td><td>3,299,490</td><td>20,005,452</td><td>23,304,943</td></tr><tr><td colspan="5">LIABILITIES</td></tr><tr><td>Total current liabilities</td><td>–</td><td>163,575</td><td>–</td><td>163,575</td></tr><tr><td>Total liabilities</td><td>–</td><td>163,575</td><td>–</td><td>163,575</td></tr><tr><td>Net Assets</td><td>1</td><td>3,135,915</td><td>20,005,452</td><td>23,141,368</td></tr><tr><td colspan="5">EQUITY</td></tr><tr><td>Total Equity</td><td>1</td><td>3,135,915</td><td>20,005,452</td><td>23,141,368</td></tr></table>			Althea Company Audited	Pro Forma			Althea Holdings Audited	As at 30-Jun-18	Transactions Unaudited	Pro Forma Unaudited		\$	\$	\$	\$	ASSETS					Total current assets	1	3,299,490	20,005,452	23,304,943	Total assets	1	3,299,490	20,005,452	23,304,943	LIABILITIES					Total current liabilities	–	163,575	–	163,575	Total liabilities	–	163,575	–	163,575	Net Assets	1	3,135,915	20,005,452	23,141,368	EQUITY					Total Equity	1	3,135,915	20,005,452	23,141,368	Section 5
		Althea Company Audited	Pro Forma																																																											
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1.6 Directors and Management

TOPIC	SUMMARY	FOR MORE INFORMATION																				
Who are the Directors?	<ul style="list-style-type: none">• Andrew Newbold, Independent Non-executive Chairman;• Joshua Fegan, Chief Executive Officer (CEO) and Executive Director;• Gregg Battersby, Non-Executive Director; and• Alan Boyd, Independent Director.	Section 7.1																				
Who are the key Management of Althea Group?	<ul style="list-style-type: none">• Joshua Fegan, CEO;• Peter Gillis, Company Secretary and current Chief Financial Officer;• Patty Holmes, Chief Operating Officer;• Daniel Mansfield, Director of Cultivation; and• Trevor Steinthal, Director of Manufacturing.	Section 7.2																				
Directors’ interests in Shares	<table><tr><th>Director</th><th>Shares at Prospectus Date</th><th>Shares on Completion of the Offer*</th><th>Completion of the Offer (%)*</th></tr><tr><td>Joshua Fegan</td><td>56,250,000</td><td>56,250,000</td><td>28%¹</td></tr><tr><td>Andrew Newbold</td><td>–</td><td>1,500,000</td><td>0.74%</td></tr><tr><td>Gregg Battersby</td><td>–</td><td>560,000</td><td>0.28%²</td></tr><tr><td>Alan Boyd</td><td>–</td><td>100,000</td><td>0.05%</td></tr></table> <p>* Assumes that the Offer is fully subscribed and excludes the 5,100,000 Performance Rights proposed to be granted by Althea Holdings to Joshua Fegan under the LTI Plan subject to Listing.</p> <p>1 In addition, Joshua Fegan’s related parties (comprising his family members and entities which they control) are expected to hold 0.59% of the total number of Shares in Althea Holdings.</p> <p>2 Gregg Battersby is the Vice President of Commercial Strategy at Aphria. The 560,000 Shares proposed to be held by Gregg Battersby on Completion exclude the 50,750,000 Shares to be held by Aphria on Completion.</p>	Director	Shares at Prospectus Date	Shares on Completion of the Offer*	Completion of the Offer (%)*	Joshua Fegan	56,250,000	56,250,000	28% ¹	Andrew Newbold	–	1,500,000	0.74%	Gregg Battersby	–	560,000	0.28% ²	Alan Boyd	–	100,000	0.05%	Section 7.3.8
Director	Shares at Prospectus Date	Shares on Completion of the Offer*	Completion of the Offer (%)*																			
Joshua Fegan	56,250,000	56,250,000	28% ¹																			
Andrew Newbold	–	1,500,000	0.74%																			
Gregg Battersby	–	560,000	0.28% ²																			
Alan Boyd	–	100,000	0.05%																			

I. INVESTMENT OVERVIEW continued

1.7 Significant interests of key people and related party transactions

TOPIC	SUMMARY					
Who are the substantial Shareholders and what will their interests be at Completion? See Sections 8.5 and 8.6 for more information		Shares at Prospectus Date	Shares on Completion of the Offers*	Completion of the Offer (%)*	Shares on Completion of the Offer – fully diluted basis**	Completion of the Offer (%) – fully diluted basis**
	Joshua Fegan ¹	56,250,000	56,250,000	28%	61,350,000	29%
	Aphria ²	33,750,000	50,750,000	25%	50,750,000	24%
	Directors (other than Joshua Fegan) ³		2,160,000	1%	2,160,000	1%
	Institutional Investors under the Pre-Prospectus Capital Raising	12,000,000	12,000,000	6%	12,000,000	6%
	PAC Adviser Shares ⁴		3,060,000	2% ⁵	3,060,000	1%
	Mancann ⁵		10,000,000	5%	10,000,000	5%
	Hootch ⁶		7,500,000	4%	7,500,000	4%
	Other investors in the Offer		61,590,000	30%	61,590,000	29%
	Pre-IPO Consultants		Nil	0%	2,675,000	1%
	Total Shares	102,000,000	203,310,000	100%	211,085,000	100%
	<p>* Assumes that the Offer is fully subscribed and excludes the 5,100,000 Performance Rights proposed to be granted by Althea Holdings to Joshua Fegan under the LTI Plan subject to Listing and the 2,675,000 Pre-IPO Consultant Options granted to the Pre-IPO Consultants subject to Listing. Please refer to sections 7.3.5 and 7.3.9 for further information.</p> <p>** Assumes that the Offer is fully subscribed, all the 5,100,000 Performance Rights proposed to be issued by Althea Holdings to Joshua Fegan under the LTI Plan subject to Listing vest, the 2,675,000 Pre-IPO Consultant Options granted to the Pre-IPO Consultants subject to Listing are exercised and no additional Shares are issued in the Althea Holdings after Completion. Please refer to sections 7.3.5 and 7.3.9 for further information on the proposed Performance Rights to be issued to Josh and the Pre-IPO Consultants Options.</p> <p>1 Please refer to section 7.3.8 for further details. Althea Holdings also proposes to grant Joshua Fegan 5,100,000 Performance Rights subject to Listing. Please refer to section 7.3.5 for further details. On a fully diluted basis (i.e. assuming that all Performance Rights vest, all Pre-IPO Consultant Options are exercised and no further Shares are issued after Completion) Joshua Fegan will hold 29% of the total number of Shares in Althea Holdings. In addition, Joshua Fegan's related parties (comprising his family members and entities which they control) are expected to hold 0.59% of the total number of Shares in Althea Holdings.</p> <p>2 The proposed increase in Aphria's holding of Shares as at the Prospectus Date compared with its holding of Shares on Completion reflects Aphria's committed to subscribe for 17,000,000 New Shares under the Offer. Please refer to the Chairman's letter and section 4.6 (<i>Distribution</i>) for further details.</p> <p>3 Comprising Shares to be held by Andrew Newbold, Alan Boyd and Gregg Battersby. Please refer to section 7.3.8 for further details.</p> <p>4 In addition to the Lead Manager's fees set out in section 10.5.8, Althea Company has agreed to offer the Lead Manager (or its nominees) the right to subscribe for such number of Shares equal in value (based on the Offer Price) to 3% of the pre-money IPO valuation of Althea Holdings. The pre-money IPO valuation of Althea Holdings is \$20,400,000 (being, the 102,000,000 Shares on issue in Althea Holdings at the Prospectus Date multiplied by the \$0.20 Offer Price). Accordingly, Althea Company has agreed to offer the Lead Manager (or its nominees) the right to subscribe for 3,060,000 Shares for nil consideration, being 3% of \$20,400,000 divided by \$0.20. This offer by Althea Holdings is being made under the PAC Offer. Please refer to sections 8.9 and 10.5.8 for further information.</p> <p>5 The Lead Manager has entered into a Voluntary Escrow Deed with each of Mancann and Hootch. Please refer to section 8.17 for further information. The Voluntary Escrow Deeds enable the Lead Manager to control the disposal of Shares held by Mancann and Hootch during the period of the relevant voluntary escrow. Accordingly, on Completion of the Offer, the Lead Manager and PAC Partners will have a total aggregate relevant interest in 11% of the total number of Shares in Althea Holdings – being, the aggregate of the 2% of Shares to be issued to PAC Partners under the PAC Offer and the relevant interest held by the Lead Manager in the 5% of Shares to be issued to Mancann and the 4% of Shares to be issued to Hootch.</p> <p>6 Mancann is an entity controlled by Daniel Mansfield. Mancann is a related party of Mansfield, the landlord under the long term lease entered into by Althea Company and summarised in section 10.4.4.</p> <p>7 Hootch is an entity controlled by Michael Smith, Peter McLeod and Roger Smith.</p>					

TOPIC	SUMMARY																	
	<p>On Completion of the Offer, it is expected that approximately 29.59% of the total number of Shares on issue in Althea Holdings will be held by related parties of Althea Holdings. The related parties of Althea Holdings at the Prospectus Date comprise each Director, each entity which is controlled by a Director, each spouse or de facto spouse of a Director and the parents and children of each Director.</p> <p>On Listing, it is expect that the Althea Holdings will have a free float of approximately 55%, reflecting the percentage of its Shares that are not subject to the mandatory or voluntary escrow arrangements contemplated in sections 8.16 and 8.17 (respectively) or held by related parties of Althea Holdings or their associates.</p>																	
What significant benefits and interests are payable to Directors and other persons connected with Althea Group or the Offer and what significant interests do they hold? See Section 7 for more information	<table><tr><th></th><th>Benefit</th><th>For more information</th></tr><tr><td>Andrew Newbold – Chairman and other Non-executive Directors</td><td>Director fees</td><td>Section 7.3.6.2</td></tr><tr><td rowspan="2">Joshua Fegan – CEO/Managing Director</td><td>Executive Remuneration</td><td>Section 7.3.1</td></tr><tr><td>Interest under long term incentive plan</td><td>Section 7.3.4</td></tr><tr><td>Advisers and other service providers</td><td>Fees for services</td><td>Section 7.3.10</td></tr><tr><td>Interests of Pre-IPO Consultants</td><td>Options for consulting services</td><td>Section 7.3.9</td></tr></table> <p>The number of Shares held by the Directors as at the Prospectus Date and the number which will be held by the Directors on Completion of the Offer is set out in section 7.3.8</p>		Benefit	For more information	Andrew Newbold – Chairman and other Non-executive Directors	Director fees	Section 7.3.6.2	Joshua Fegan – CEO/Managing Director	Executive Remuneration	Section 7.3.1	Interest under long term incentive plan	Section 7.3.4	Advisers and other service providers	Fees for services	Section 7.3.10	Interests of Pre-IPO Consultants	Options for consulting services	Section 7.3.9
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	Interest under long term incentive plan	Section 7.3.4																
Advisers and other service providers	Fees for services	Section 7.3.10																
Interests of Pre-IPO Consultants	Options for consulting services	Section 7.3.9																
What related party transactions exist?	<p>No related party transactions exist in respect of Althea Group, other than the Directors’ transactions set out in section 7.</p> <p>On Completion of the Offer, it is expected that approximately 29.59% of the total number of Shares on issue in Althea Holdings will be held by related parties of Althea Holdings. The related parties of Althea Holdings at the Prospectus Date comprise each Director, each entity which is controlled by a Director, each spouse or de facto spouse of a Director and the parents and children of each Director.</p>																	
Interests of certain Pre-IPO Consultants	<p>Althea Holdings has agreed to issue, in aggregate, 2,675,000 Options to the following 4 individuals who have provided consulting services to Althea Group in connection with the Offer and the Listing.</p> <table><tr><th>Individual</th><th>No. Options</th><th>Ownership of Althea Holdings on exercise* (%)</th><th>For more information</th></tr><tr><td>Craig Laughton</td><td>1,000,000</td><td>0.47%</td><td rowspan="4">Section 7.3.9</td></tr><tr><td>Trevor Steinthal</td><td>1,000,000</td><td>0.47%</td></tr><tr><td>David Sauer</td><td>500,000</td><td>0.24%</td></tr><tr><td>Scott Lipsky</td><td>175,000</td><td>0.08%</td></tr></table> <p>* On a fully diluted basis (i.e. assuming all Pre-IPO Consultant Options are exercised, all Performance Rights proposed to be granted to Joshua Fegan vest, and no further Shares are issued after Completion).</p>	Individual	No. Options	Ownership of Althea Holdings on exercise* (%)	For more information	Craig Laughton	1,000,000	0.47%	Section 7.3.9	Trevor Steinthal	1,000,000	0.47%	David Sauer	500,000	0.24%	Scott Lipsky	175,000	0.08%
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Scott Lipsky	175,000	0.08%																

I. INVESTMENT OVERVIEW continued

1.8 Key terms and conditions of the Offer and proposed use of funds

TOPIC	SUMMARY	FOR MORE INFORMATION																																				
Who is the issuer of this Prospectus?	Althea Group Holdings Limited ACN 626 966 943.	Section 4																																				
What is the Offer?	<p>Althea Holdings is offering to issue up to 98,250,000 New Shares at the Offer Price of \$0.20 per New Share to raise \$19,650,000 (before expenses).</p> <p>All Shares issued pursuant to this Prospectus will, from the time they are issued, rank equally with all existing Shares on issue in Althea Holdings. A summary of the rights attaching to the Shares is set out in section 10.6.</p>	Section 8.1																																				
What is the PAC Offer?	<p>This Prospectus includes an offer by Althea Holdings of up to 3,060,000 Shares to PAC Partners, a related entity of the Lead Manager, at an offer price of \$0 per Share as part of the consideration to be provided by Althea Company under the Lead Manager Agreement for services provided by the Lead Manager in relation to the Pre-Prospectus Capital Raising and the Offer.</p> <p>Please refer to section 10.5.8 for further details of the terms and conditions of the Lead Manager Agreement.</p>	Section 8.9																																				
How is the Offer structured?	<p>The Offer comprises:</p> <ul style="list-style-type: none"> the Broker Firm Offer – open to clients of Brokers who have received a firm allocation from their Broker (see section 8.10); and the Institutional Offer – an invitation to bid for Shares made to Institutional Investors (see section 8.11). 	Section 8																																				
What are the terms of the Shares offered under the Offer?	A summary of the material rights and liabilities attaching to the Shares offered under the Offer is set out in section 10.6.	Section 10.6																																				
What is the proposed use of funds raised under the Offer?	<table> <tr> <th>Funds Available</th><th>\$</th><th>%</th></tr> <tr> <td>Existing cash reserves</td><td>3,991,133</td><td>17%</td></tr> <tr> <td>Gross proceeds from the Offer</td><td>19,650,000</td><td>83%</td></tr> <tr> <td>Total</td><td>23,641,133</td><td>100%</td></tr> </table> <table> <tr> <th>Use of Funds raised under the Offer</th><th>\$</th><th>%</th></tr> <tr> <td>Marketing and patient acquisition</td><td>3,579,078</td><td>18%</td></tr> <tr> <td>Advertising and Concierge development</td><td>300,000</td><td>2%</td></tr> <tr> <td>Design, construction, commissioning and completion of a fully scalable 4,080m² medicinal cannabis cultivation and production facility</td><td>11,229,811</td><td>57%</td></tr> <tr> <td>Cultivation and production costs</td><td>1,100,000</td><td>5%</td></tr> <tr> <td>Administration and working capital</td><td>2,105,765</td><td>11%</td></tr> <tr> <td>Costs of the Offer¹</td><td>1,335,346</td><td>7%</td></tr> <tr> <td>Total</td><td>19,650,000</td><td>100%</td></tr> </table> <p>¹ The total costs of the Offer (excluding GST) are estimated to be approximately \$1,335,364 (assuming full subscription) – please refer section 8.4 for a break down of these costs.</p>	Funds Available	\$	%	Existing cash reserves	3,991,133	17%	Gross proceeds from the Offer	19,650,000	83%	Total	23,641,133	100%	Use of Funds raised under the Offer	\$	%	Marketing and patient acquisition	3,579,078	18%	Advertising and Concierge development	300,000	2%	Design, construction, commissioning and completion of a fully scalable 4,080m ² medicinal cannabis cultivation and production facility	11,229,811	57%	Cultivation and production costs	1,100,000	5%	Administration and working capital	2,105,765	11%	Costs of the Offer ¹	1,335,346	7%	Total	19,650,000	100%	Section 8.4
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TOPIC	SUMMARY	FOR MORE INFORMATION																																																						
What is the proposed use of funds raised under the Offer? <i>continued</i>	<table><tr><th>Use of Funds</th><th colspan="2">FY'19</th><th colspan="2">FY'20</th><th>Total</th></tr><tr><th></th><th>\$(m)</th><th>%</th><th>\$(m)</th><th>%</th><th>\$(m)</th></tr><tr><td>Marketing and patient acquisition</td><td>1,559,372</td><td>7%</td><td>3,579,078</td><td>15%</td><td>5,138,450</td></tr><tr><td>Advertising and Concierge development</td><td>600,000</td><td>3%</td><td>300,000</td><td>1%</td><td>900,000</td></tr><tr><td>Design, construction, commissioning and completion of a fully scalable 4,080m² medicinal cannabis cultivation, extraction and manufacturing facility</td><td>4,329,811</td><td>18%</td><td>6,900,000</td><td>29%</td><td>11,229,811</td></tr><tr><td>Cultivation and production costs</td><td></td><td></td><td>1,100,000</td><td>5%</td><td>1,100,000</td></tr><tr><td>Administration and working capital</td><td>1,814,849</td><td>8%</td><td>2,122,677</td><td>9%</td><td>3,937,526</td></tr><tr><td>Costs of the Offer</td><td>1,335,346</td><td>6%</td><td></td><td></td><td>1,335,346</td></tr><tr><td>Total</td><td>9,639,378</td><td>41%</td><td>14,001,755</td><td>59%</td><td>23,641,133</td></tr></table> <p>The development of Althea Group's proposed 4,080m² cultivation, extraction and manufacturing facility is at an early stage of development and remains subject to Althea Company receiving all necessary town planning and building approvals. In addition, various ODC permits will be required at the time when cultivation and manufacturing is intended to commence at the facility.</p> <p>There are a number of risk associated with the development, construction and operation of Althea Group's proposed cannabis cultivation and production facility, including a failure to receive the required licences and permits, construction cost overruns and agricultural risks associated with cultivation. Please refer to sections 6.2.8, 6.2.7 and 6.2.6 for a summary of some of this risks.</p> <p>If any of these risks eventuate, Althea Group may have to reassess the location, size and/or scope of its proposed facility and seek to redeploy the services, works and assets acquired under the Early Works Contract from Powerplants Australia to a new site and/or facility. In those circumstances, the \$11,229,811 of available funding on Completion which Althea Group has allocated to design, construction, commissioning and completion of Althea Holdings' proposed 4,080m² facility in Skye, Victoria would be used to terminate existing leasehold arrangements at the site in Skye, locate and secure a new site suitable for development of an appropriate alternative medicinal cannabis cultivation, extraction and manufacturing facility and fund the design, construction, commissioning and completion the of the alternative facility.</p>	Use of Funds	FY'19		FY'20		Total		\$(m)	%	\$(m)	%	\$(m)	Marketing and patient acquisition	1,559,372	7%	3,579,078	15%	5,138,450	Advertising and Concierge development	600,000	3%	300,000	1%	900,000	Design, construction, commissioning and completion of a fully scalable 4,080m ² medicinal cannabis cultivation, extraction and manufacturing facility	4,329,811	18%	6,900,000	29%	11,229,811	Cultivation and production costs			1,100,000	5%	1,100,000	Administration and working capital	1,814,849	8%	2,122,677	9%	3,937,526	Costs of the Offer	1,335,346	6%			1,335,346	Total	9,639,378	41%	14,001,755	59%	23,641,133	Section 8.4
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Will the Shares be quoted on the ASX?	Althea Holdings will apply to the ASX for admission to the Official List and quotation of Shares on the ASX (which is expected to be under the code AGH). It is expected that quotation will be on a normal settlement basis.	Section 8.19																																																						
Is there a minimum Application amount under the Offer?	The minimum Application under the Broker Firm Offer is as directed by the Applicant's Broker.	Section 8																																																						

I. INVESTMENT OVERVIEW continued

TOPIC	SUMMARY	FOR MORE INFORMATION
Is the Offer underwritten?	No. The Offer is not underwritten. However, Althea Holdings will not issue any Shares under this Prospectus unless the Offer is fully subscribed.	Section 8.15
What is the allocation policy?	<p>The allocation of Shares between the parts of the Offer will be determined by Althea Holdings and the Lead Manager in their absolute discretion having regard to the factors set out in sections 8.10 and 8.11.</p> <p>For the Broker Firm Offer Applicants, it will be a matter for each Broker how it allocates Shares among its clients.</p> <p>The allocation of Shares among Applicants in the Institutional Offer will be determined by the Lead Manager in their absolute discretion in consultation with Althea Holdings.</p> <p>The Lead Manager, in conjunction with Althea Holdings, has absolute discretion regarding the allocation of Shares to Applicants under the Offer and may reject an Application, or allocate a lesser number of Shares than applied for. The Lead Manager, in conjunction with Althea Holdings, also reserves the right to aggregate any Applications that it believes may be multiple Applications from the same person or scale back any applications (or aggregation of applications) in the Broker Firm Offer.</p>	Sections 8.10 and 8.11
Is there any brokerage, commission or stamp duty payable by Applicants?	No brokerage, commission or stamp duty is payable by Applicants on Shares allotted under the Offer.	Section 10.9.9
What are the tax implications of making an investment?	Shareholders may be subject to Australian income tax or withholding tax on any future dividends paid. The tax consequences of any investment in the Shares will depend upon and investor's particular circumstances. Applicants should obtain their own tax advice before deciding whether to invest.	Section 10.9
How can I apply?	<p>Eligible investors may apply for Shares by completing a valid Application Form attached to or accompanying this Prospectus.</p> <p>Broker Firm Offer Applicants who receive an allocation of Shares under the Broker Firm Offer should follow the instructions provided by their Broker.</p>	Sections 8.10 and 8.11
When will I know my Application has been successful?	It is expected that initial holding statements will be despatched by standard post on or around 19 September 2018.	Section 8.19
Is the Offer conditional?	<p>Yes. The contracts formed on acceptance of applications and confirmations of allocations of Shares will be conditional on ASX agreeing to admit Althea Holdings to the Official List and to quote the Shares and Completion occurring.</p> <p>Trades occurring on ASX before issue occurring will be conditional on the above matters occurring and the issue of Shares to successful Applicants under the Offer.</p>	Section 8.19

TOPIC	SUMMARY	FOR MORE INFORMATION
When are the Shares expected to commence trading?	<p>It is expected that trading of the Shares on ASX will commence on 21 September 2018 on a normal settlement basis.</p> <p>It is the responsibility of each Applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial holding statement do so at their own risk. Althea Holdings, the Registry and the Lead Manager disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial holding statement, whether on the basis of a confirmation of allocation provided by any of them, by a Broker or otherwise.</p>	Section 8.19
Can the Offer be withdrawn?	<p>Althea Holdings reserves the right not to proceed with the Offer (or any part of it) at any time before the issue of Shares to successful Applicants.</p> <p>If the Offer does not proceed, the Registry, your Broker or Althea Holdings will refund Application Monies.</p> <p>No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.</p>	Section 8.13
Are there any escrow arrangements?	<p>Yes, Mancann's and Hootch's Shares at Completion of the Offer will be subject to voluntary escrow arrangements with the Lead Manager. Mancann's Shares will be escrowed for a period of 18 months commencing on the date of quotation of the Shares on the ASX. Hootch's Shares will be escrowed for a period of 12 months commencing on the date of quotation of the Shares on the ASX. Mancann and Hootch have entered into a voluntary escrow deed with the Lead Manager.</p> <p>Althea Holdings also expects that certain Shares held by Aphria and Joshua Fegan, the Shares to be issued to PAC Partners under the PAC Offer and all Pre-IPO Consultant Options issued to the Pre-IPO Consultants and the 5,100,000 Performance Rights proposed to be granted by Althea Holdings to Joshua Fegan under the LTI Plan subject to Listing will be classified by ASX as restricted securities and will be required to be held in escrow for a period of 24 months commencing on the date of quotation of the Shares on the ASX.</p> <p>Each of the escrowed Shareholders and the Pre-IPO Consultants has agreed to enter into an escrow deed or restriction agreement in respect of their escrowed Shares, Options and Performance Rights (as relevant). The escrow deed or restriction agreement (as relevant) will prevent them from disposing of their escrowed Shares, Options and Performance Rights (as relevant) for the relevant escrow period.</p>	Sections 8.15, 8.16 and 8.17

2.

INDUSTRY OVERVIEW



2. INDUSTRY OVERVIEW

2.1 Introduction

Althea Group operates in the highly regulated medicinal cannabis industry in Australia. The Australian market for medicinal cannabis is emerging, with the current regulatory framework for cultivation, manufacturing, distribution and consumption only being enacted in 2016.

Broadly, the Australian regulatory framework has shifted from a regime which essentially prohibited the importation, storage, manufacture, supply and export of any cannabis products to a regime which permits but strictly regulates such actions in relation to medicinal cannabis products.

Please refer to section 3 for a summary of the regulatory regime which applies to the Australian medicinal cannabis industry.

2.2 Frost & Sullivan Market Report

Althea Company commissioned Frost & Sullivan to prepare a Market Report on the medicinal cannabis industry in Australia. Frost & Sullivan's mandate included considering drivers for local market growth, identifying opportunities within local and global markets for entities operating in the medicinal cannabis industry and drawing on research and experiences of other jurisdictions around the world which have previously introduced or amended legislation to facilitate the legal use of medicinal cannabis.

A copy of Frost & Sullivan's Market Report is included in this section 2.

2.3 Implications of Frost & Sullivan Market Report for Althea Group

Althea Group has considered the Frost & Sullivan Market Report and used the report to further understand market conditions and opportunities both in Australia and globally.

Please refer to section 4 below which provides a summary of how the results and findings contained in the Frost & Sullivan Market Report have been considered by Althea Holdings in formulating its three stage business plan and strategy.

Market Report

The Medicinal Cannabis Market

This report describes the medicinal cannabis market. This report has been commissioned from Frost & Sullivan by Althea Company Pty Ltd. (**Althea or the Company**).

All currency quoted in this report refers to US dollars (US\$) unless specified otherwise.

1. Introduction and Background

Over recent years, the medicinal cannabis industry in Australia has developed as the Commonwealth and state and territory governments have passed specific laws to allow the prescribing and dispensing of medicinal cannabis products, and in some cases, also allowing cannabis cultivation and manufacture for medicinal purposes. This follows a general global trend towards legalisation of the supply, cultivation and manufacture of medicinal cannabis in countries worldwide, and, in some cases, legalisation of its importation and exportation.

A parallel trend is the increasing legalisation or decriminalisation of cannabis consumption, possession, cultivation and sale for personal (non-medicinal) recreational use. For example, in the USA, eight states currently (as of March 2018) have legalised cannabis for personal use.¹ Non-medicinal cannabis, however, remains significantly more restricted than medicinal cannabis.

This report focuses on the medicinal cannabis market.

2. Market Definition

2.1 The Cannabis Plant

The cannabis genus has two primary species *Cannabis sativa* and *Cannabis indica*, although there are also many hybrids. *Cannabis sativa* is primarily known as a stimulant, whilst *Cannabis indica* primarily serves as a relaxant. The various hybrids offer different combinations of these characteristics. Cannabis has long been consumed for therapeutic and social reasons, in a variety of forms.

Cannabis contains a number of active compounds, or cannabinoids, that act on cannabinoid receptors in cells located in the brain and nervous systems of the human body. As the endocannabinoid system of the body is involved in a variety of physiological processes related to sensations such as appetite, pain and mood, the effect of cannabinoids on the system impacts these sensations.

¹ <http://www.governing.com/gov-data/state-marijuana-laws-map-medical-recreational.html>

The most abundant cannabinoid is tetrahydrocannabinol, or THC, which is responsible for the euphoric feeling generally resulting from cannabis consumption. A second cannabinoid is cannabidiol, or CBD, which has physical impacts without the psychoactive effect of THC, and which is therefore more commonly used in medicinal applications. Various formulations of THC and CBD are created to produce a variety of applications. However, in addition to these main cannabinoids, others are being researched for their potential effectiveness in a range of medical conditions.²

As well as via extraction from cannabis, some cannabinoids (primarily THC and CBD) have been manufactured synthetically, and synthetic cannabinoids are used in some regulated medicines. As these synthetic cannabinoids are not derived from cannabis itself, they avoid restrictions in markets where production, sale and / or consumption of cannabis are illegal.

Medicinal cannabis can be smoked, or ingested through other product formats. This includes the use of cannabis concentrate (extracts) where THC, CBD or other cannabinoids are extracted into a concentrated form for a range of end-products, generally using solvent-based extraction techniques, in which the essential oils of the cannabis plant are stripped using either a specific chemical solvent or a combination of heat and pressure. Typically, medicinal cannabis products are available in the form of sprays, oils, drops, capsules or buds.

2.2 Medicinal Cannabis

Medicinal cannabis is defined as cannabis products used under prescription or recommendation by a medical professional for a defined medical condition. Medicinal cannabis is supplied in the form of either regulated pharmaceutical products, or non-regulated pharmaceutical cannabis products supplied through some form of special access or non-pharmaceutical distribution scheme by licensed suppliers. In jurisdictions where sale of cannabis for personal use is permitted, patients may also procure cannabis products through these channels.

The use of cannabis (excluding synthetic cannabinoids) in regulated pharmaceuticals is currently very limited. The only currently available regulated pharmaceutical products utilising cannabis (Sativex and Eplidiox) are administered as a sublingual spray or an oral formulation (other regulated pharmaceutical products incorporating synthetic cannabinoids are also available). The limited availability of regulated pharmaceuticals containing cannabis is largely a result of limited clinical research over recent years, given regulatory and political barriers to cannabis use which have existed for many years, with extremely long timeframes for the development and commercialisation of regulated pharmaceuticals. Additionally, the medicinal benefits of cannabis are likely to be mainly the result of the synergistic impact of a variety of chemicals working together in the cannabis plant. This makes the traditional “single chemical molecule” approval approach generally used in pharmaceutical regulation difficult to apply to cannabis products.

Consequently, most medicinal cannabis is not currently supplied in the form of regulated pharmaceuticals, but rather in the form of cannabis products whose cultivation, manufacture, distribution and consumption has been licensed by an appropriate national regulatory body.

² Ackrell Capital, Cannabis Investment Report, 2016

Licensed medicinal cannabis product formats outside regulated pharmaceuticals include flos (whole dried flowers), oils, drops and solutions, sometimes in delivered capsule form. These can be made available through special access channels, or other non-pharmaceutical distribution. Cannabis producers typically sell either dried cannabis or cannabis oil directly to users or to other businesses that then incorporate this into cannabis-infused end-products.

There is growing awareness of and usage of cannabis (or more specifically cannabinoids, and in particular CBD) for its medicinal benefits. Cannabis is increasingly recognised as a therapy for a range of medical conditions. For example, in the USA, a broad range (over 40) of medical conditions are indicated as qualifying for medicinal consumption of cannabis, which is currently legal to varying degrees in over 40 US states.³

The medical conditions for which cannabis is most specifically indicated as a therapy include multiple sclerosis (MS) muscle spasticity, epilepsy, chronic pain and severe nausea caused by AIDS or cancer therapy. Most indications are currently for use of CBD.

3. Clinical Usage of Medicinal Cannabis

3.1 Indications

Overall, cannabinoid therapy is seen as a highly promising area of therapy for a broad range of medical conditions. Some of the main indications for which cannabinoid therapy is currently utilised or considered are summarised below.

Epilepsy: there is significant evidence on the use of CBD as an epilepsy treatment, particularly when used as an add-on to current treatments in drug-resistant epilepsy in children and young adults up to 25 years where use of several anti-epileptic drugs has not controlled their condition. In patients with paediatric-onset drug-resistant epilepsy, CBD products have been seen to reduce seizure frequency by 50% or more in up to half of the patients and achieved seizure freedom in a small number of patients. Several studies have reported improved quality of life in paediatric and adult groups, but overall there are few studies of how effective CBD is in treating adult epilepsy.⁴

Multiple Sclerosis (MS): there is evidence that cannabinoids may be effective for symptoms of pain and/or spasticity and provide positive effects on sleep and bladder symptoms for patients with MS. A licensed pharmaceutical product (nabiximols), containing roughly equal amounts of THC and CBD, is currently licensed for muscle spasticity in many countries under the brand Sativex.⁵

Chronic non-cancer Pain: there is evidence that cannabinoids can reduce pain in both MS-related neuropathic pain and non-MS related neuropathic pain. There is also interest in use of

³ <http://www.governing.com/gov-data/state-marijuana-laws-map-medical-recreational.html>

⁴ Australian Government, Department of Health, Guidance for the use of Medicinal Cannabis in Australia, Patient Information, December 2017

⁵ Ibid

cannabinoids to reduce the use of opioids in pain relief, particularly given the adverse outcomes that opioid use can cause.⁶

Chemotherapy induced nausea and vomiting in cancer (CINV): there is also evidence that cannabinoid therapy can reduce the side-effects of chemotherapy in cancer patients.⁷

Loss of appetite / wasting in patients with AIDS: AIDS patients taking antiviral drugs called protease inhibitors can experience nausea and vomiting similar to CINV. There is some evidence that cannabinoid therapy can help to reduce appetite loss amongst such patients, and one cannabinoid therapy is currently licensed for this application.⁸

3.2 Licensed Pharmaceuticals

There are currently two regulated pharmaceutical product containing cannabinoids from cannabis plants. Sativex (GW Pharmaceuticals) is an oromucosal spray of a formulated extract of the cannabis sativa plant that contains THC and CBD in a 1:1 ratio as well as specific minor cannabinoids and other non-cannabinoid components, and which has been launched in 21 countries.⁹ Epidiolex (GW Pharmaceuticals), an oral solution for the treatment of seizures associated with two rare and severe forms of epilepsy, Lennox-Gastaut syndrome and Dravet syndrome, in patients two years of age and older, was approved by the US FDA in June 2018.¹⁰

Additionally, two products using synthetic cannabinoids are available - Marinol (Abbvie) for chemotherapy-induced nausea and vomiting (CINV), and Cesamet (Meda Pharmaceuticals) for use by patients with CINV who did not respond to traditional medications.

Current licensed cannabinoid therapies are summarised below.

Table 1: Regulated Pharmaceutical Cannabinoid Therapies, 2018

Product	Brand	Formulation	Approved Indications
Nabiximols	Sativex (GW Pharmaceuticals)	Extract of cannabis (oil): THC and CBD, taken as a sublingual spray	MS spasticity, chronic non-cancer pain
Cannabidiol	Epidiolex (GW Pharmaceuticals)	Oral formulation	Treatment of seizures associated with two rare and severe forms of epilepsy, Lennox-Gastaut syndrome and Dravet syndrome, in patients two years of age and older
Dronabinol	Marinol (Abbvie)	Synthetic delta-9-THC, taken as a capsule	CINV, loss of appetite (anorexia) in people with

⁶ Australian Government, Department of Health, Guidance for the use of Medicinal Cannabis in Australia, Patient Information, December 2017

⁷ Ibid

⁸ <https://www.ncbi.nlm.nih.gov/books/NBK224400/>

⁹ <https://www.gwpharm.com/products-pipeline/sativex-delta-9-tetrahydrocannabinol-and-cannabidiol>

¹⁰ <https://www.fda.gov/NewsEvents/Newsroom/PressAnnouncements/ucm611046.htm>

Product	Brand	Formulation	Approved Indications
			AIDS
Nabilone	Cesamet (Meda Pharmaceuticals)	Synthetic cannabinoid similar to THC, taken as a capsule	CINV

Sources: Company websites

4. Regulatory Status

4.1 Introduction

Cannabis has been illegal in most countries, largely resulting from the International Opium Convention of 1925 which applied the international drug control system to cannabis, particularly in restricting the export of cannabis (known in the Convention as Indian Hemp) without a government certificate.¹¹ Most countries currently have or have had some form of legal controls over cannabis, but legislation differs widely by country, and within countries different regulations can apply at state level. Legislation broadly covers the cultivation, transport, sale and possession of cannabis, with the most restrictive regulations making all these aspects of the cannabis trade illegal. Currently three United Nations conventions describe the basic framework for controlling the production, trade and possession of over 240 psychoactive substances (most of which have a recognised medical use).

The United Nations conventions specify that the use of all drugs (under control) must be restricted to medical and scientific purposes. The conventions further specify that unauthorised actions, such as possession, acquisition, distribution or offering for sale, must be punishable offences, and that serious offences should be punished by the deprivation of liberty. The United Nations Single Convention on Narcotic Drugs (SCND) of 1961 established the framework which countries are required to follow when developing a cannabis programme.

International law does not prevent cannabis, or cannabis-based products, being used to treat defined medical conditions. According to the UN conventions, the drugs under international control should be limited to 'medical and scientific purposes'. Article 28 of the 1961 Convention outlines a system of controls that are needed if a country decides to permit the cultivation of cannabis that is not for industrial or horticultural purposes, while the 1971 Convention controls THC.¹² In addition to the SCND, the United Nations Convention against illicit traffic in narcotic drugs and psychotropic substances of 1988 outlines mechanisms for the legal and controlled international distribution of cannabis.¹³

The SCND provides that countries may develop a national cannabis agency to manage the use of cannabis for legitimate medicinal and scientific purposes. In several countries, legal frameworks for medicinal cannabis have been established, which can involve the allowance of cultivation, production, manufacturing, import and export of cannabis and cannabis products under

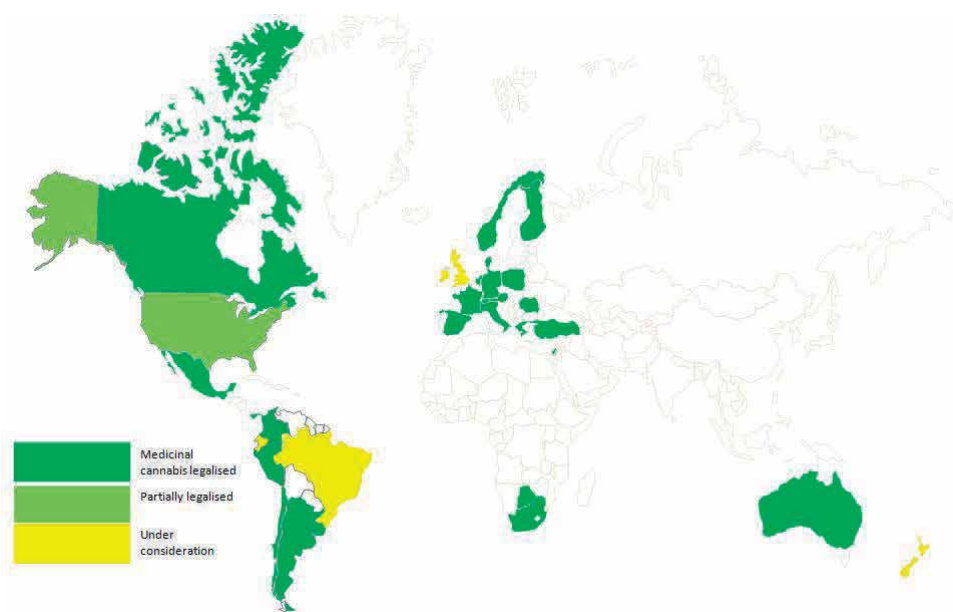
¹¹ https://www.unodc.org/documents/wdr/WDR_2008/WDR2008_100years_drug_control_league.pdf

¹² European Monitoring Centre for Drugs and Drug Addiction (2017), Cannabis legislation in Europe: an overview, Publications Office of the European Union, Luxembourg

¹³ Prohibition Partners, Medical Cannabis in Europe, the GMP Standards Guide, 2018

appropriate regulatory frameworks. Around 30 countries have now introduced regulatory frameworks for medicinal cannabis. In a number of other countries, introduction of a regulatory framework is underway or under discussion, including Brazil, New Zealand and the UK.

Figure 1: Countries with Legal Frameworks for Medicinal Cannabis, 2018



Source: Frost & Sullivan

4.2 Australia & New Zealand

4.2.1 Australia

From October 2016, cultivation, production and manufacturing of medicinal cannabis products in Australia has been legalised, and subject to a regulatory framework under the *Narcotic Drugs Amendment Act, 2016* which received royal assent in February 2016. Medicinal cannabis is regulated at both Commonwealth and state/territory level. The federal Department of Health regulates medicinal cannabis products through the Office of Drug Control (ODC), which grants licenses for medicinal cannabis. Since 2016, licenses have been issued for these activities.¹⁴ Three types of licenses are available:

- Medicinal cannabis licence authorising cultivation or production or both;
- Cannabis research licence authorising similar process for research purposes; and
- Manufacturing licence authorising the manufacture of a drug or product.¹⁵

¹⁴ <https://www.tga.gov.au/access-medicinal-cannabis-products-1>

¹⁵ <https://www.odc.gov.au/manufacturers-1>

As at May 2018, six companies are accredited licensed manufacturers, and 12 are licensed suppliers.¹⁶

The Therapeutic Goods Administration (TGA) regulates the manufacturing, quality, safety and efficacy of medicines in Australia. Regulated medicines in Australia are commonly listed on the ARTG. Only one medicinal cannabis product (Sativex) is currently listed on the ARTG. Sativex may be prescribed through normal pharmaceutical prescriptions by a medical practitioner and dispensed at a pharmacy.

However, the TGA also grants access to non-ARTG listed medicinal cannabis products through the “Authorised Prescriber” or “Special Access Scheme” arrangements. The authorised prescriber scheme allows a medical practitioner to be granted authority to become an ‘Authorised Prescriber’ of a specified unapproved therapeutic good (or class of unapproved therapeutic goods) to specific patients (or classes of recipients) with a particular medical condition. The Special Access Scheme (SAS) provides for the import and/or supply of an unapproved therapeutic good for a single patient, on a case by case basis.¹⁷

Previously, cannabis and THC were listed under Schedule 9 of the Standard for Uniform Scheduling of Medicines and Poisons (SUSMP) contained within the Poisons Standards by the TGA. However, since October 2016 a new Schedule 8 has been created for medicinal cannabis for human therapeutic use (and when cultivated, manufactured or otherwise produced within the requirements of the *Narcotic Drugs Act*).

State and territory governments also have a role in regulation of medicinal cannabis since they manage medicine scheduling and determine how controlled drugs, including medicinal cannabis, may be authorised for use by specified patient groups in their jurisdiction. This particularly impacts the authorisation for the use of Schedule 8 products.

The current status of regulation relating to medicinal cannabis in Australian states is summarised below.

Table 2: Medicinal Cannabis Regulation by State, 2018

State	Comments
NSW	Medical practitioners may apply to NSW Health for authority to prescribe and supply cannabis-based products that are not on the ARTG, in appropriate circumstances. This follows the passing of the <i>Poisons and Therapeutic Goods Amendment (Designated Non-ARTG Products) Regulation 2016</i>
QLD	The <i>Health (Drugs and Poisons) Regulation 1996 (HDPR)</i> was amended in 2015 and 2016 to allow medical practitioners to prescribe cannabis products for defined classes of patients
SA	From 1 November 2016, medical practitioners in South Australia can legally prescribe medicinal cannabis products with Commonwealth approval and relevant State approval for the purposes of South Australian Controlled Substances legislation
TAS	The Tasmanian Government has introduced a controlled access scheme (CAS) which allows unregistered cannabinoid products to be prescribed in situations

¹⁶ ODC, accessed from <https://www.odc.gov.au/manufacturers-and-suppliers-medicinal-cannabis-products>

¹⁷ <https://www.tga.gov.au/access-medicinal-cannabis-products-1>

State	Comments
	where conventional treatment has been unsuccessful
VIC	The <i>Access to Medicinal Cannabis Act 2016</i> allows the supply of medicinal cannabis products for approved medical conditions, and also allows for the lawful manufacture of medicinal cannabis products
WA	Cannabis-based products may be provided under authorisation from the WA Department of Health

Sources: State Health Department's websites

Imports

The ODC also grants licenses for the importation of finished medicinal cannabis products, with a permit required prior to each importation. Various requirements exist for a license to be granted, including storage and security of products, and record-keeping. An import license and permit is also required for the importation of nursery stock or cuttings to be used in the cultivation of medicinal cannabis.

Exports

The export of medicinal cannabis products from Australia was legalised in February 2018 through the *Narcotic Drugs Amendment (Cannabis) Regulations 2018*. The primary driver for the legalisation of exports is to enhance the viability of the medicinal cannabis industry within Australia, in turn improving supply of medicinal cannabis for Australian patients.¹⁸ It allows Australian producers to access overseas markets where importation is legal.

Requirements for the permission of exports of cannabis products under the regulations include that:

- It is done under a licence and a permit issued by the ODC under the *Customs (Prohibited Exports) Regulations 1958*;
- It is made to countries that are willing to issue import permission and who are compliant with the *Single Convention on Narcotic Drugs, 1961*;
- It is manufactured in Australia under a Good Manufacturing Practice (GMP) license; and
- The product is listed as export-only or registered for domestic supply in the ARTG.¹⁹

Extracts of cannabis or extracts of cannabis resin may also be exported, but not cannabis flowers/leaves or actual resin. Exporters are required to have an export license issued by the ODC, which allows the licensee to apply for an export permit. Each individual consignment of goods requires an export permit.²⁰

¹⁸ ODC, accessed from <https://www.odc.gov.au/publications/export-medicinal-cannabis>

¹⁹ Ibid

²⁰ Ibid

4.2.2 New Zealand

Ministerial approval is required before most cannabis based products can be prescribed, supplied or administered, in accordance with regulation 22 of the *Misuse of Drugs Regulations 1977*. The exception is the supply of Sativex for spasticity related to MS. However, the NZ Ministry of Health is currently developing a scheme that will enable domestic commercial cultivation and manufacture of medicinal cannabis, with three main elements:

- A licensing regime;
- Introduction of quality standards for medicinal cannabis products; and
- Establishment of a medicinal cannabis agency.²¹

4.3 North America

4.3.1 USA

The USA has a fragmented regulatory approach to medicinal cannabis (generally known as medical marijuana) with different laws in states and at federal level. At the federal level, marijuana remains classified as a Schedule I substance under the Controlled Substances Act, where Schedule I substances are considered to have a high potential for dependency and no accepted medical use, making distribution of marijuana a federal offence.

However, at state level, access to medical marijuana is widely available, with 30 states (plus the District of Colombia, Guam and Puerto Rico) having laws permitting access to medical marijuana. These states generally have legal frameworks that include patient registries, allowance for dispensaries to provide products, and specified conditions for which it may be used.²²

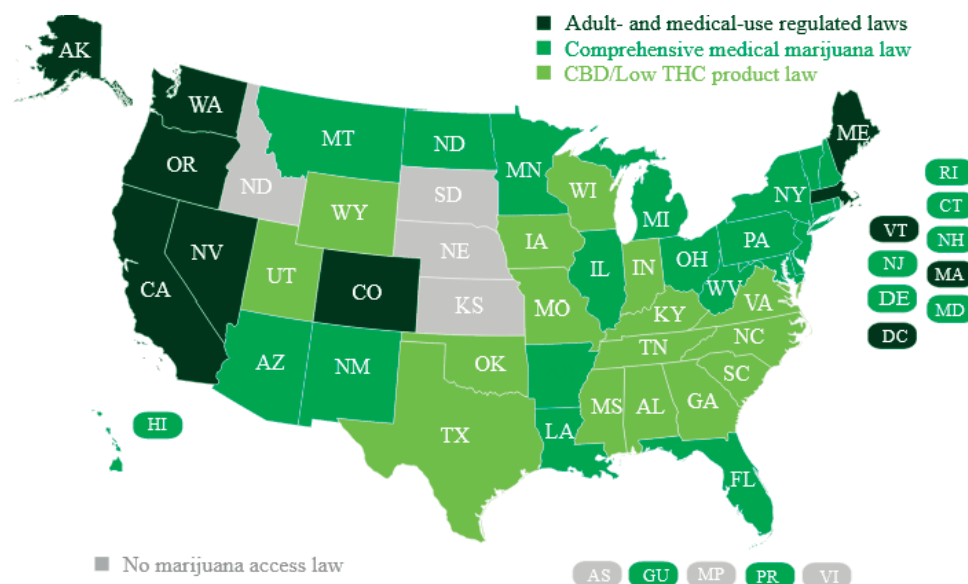
A further 16 states allow use of "low THC, high cannabidiol (CBD)" products for medical reasons in limited situations or as a legal defence. Only four states currently have no legal basis for access to medical marijuana or derivative products (Idaho, South Dakota, Nebraska and Kansas).²³

²¹ <https://www.health.govt.nz/our-work/regulation-health-and-disability-system/medicines-control/medicinal-cannabis/medicinal-cannabis-scheme>

²² <http://www.ncsl.org/research/health/state-medical-marijuana-laws.aspx>

²³ Ibid

Figure 2: US Medical Marijuana Laws by State, 2018



Source: National Conference of State Legislatures, accessed from <http://www.ncsl.org/research/health/state-medical-marijuana-laws.aspx#2>

In addition to medical usage, eight states have currently legalised possession of small amounts of marijuana for adult use, and 20 states plus the District of Colombia have decriminalised the possession of small amounts of marijuana for personal consumption, with possession generally treated as a civil or local infraction, instead of a crime.²⁴

4.3.2 Canada

In Canada, access to medicinal cannabis has been available since 2001. Canada is one of the world's most established markets for medicinal cannabis, and also the best documented, with a significant amount of official statistical data on the medicinal cannabis industry and market.

Up until 2014, only a single strain of medicinal cannabis was legally accessible in Canada, and this limited the market as this strain was ineffective for many patients. However, more recently access to medicinal cannabis has been extended, providing a significant boost to the industry. The Marijuana for Medical Purposes Regulations (MMPR) were enacted in 2014, superseding earlier access regulations, and were themselves superseded in 2016. The Access to Cannabis for Medical Purposes Regulations (ACMPR) came into effect in Canada in April 2016. This allows for reasonable access to cannabis for medical purposes for Canadians who have been authorised to use cannabis for medical purposes by their health care practitioner, in the form of fresh marijuana, dried marijuana or cannabis oil. Patients authorised by their healthcare practitioner

²⁴ <http://www.ncsl.org/bookstore/state-legislatures-magazine/marijuana-deep-dive.aspx>

can access cannabis products from a licensed producer with whom they register, or produce a limited amount of cannabis for their own use, or have someone produce it for them.

Currently, 104 licenses have been granted for production of medical cannabis.²⁵ In December 2017, there were almost 270,000 active client registrations at the end of the month, with over 114,000 authorised shipments occurring in December 2017, with an average authorised amount of 2.4 grams per day per client.²⁶

Possessing and selling cannabis for non-medical purposes is still illegal in Canada. However, the proposed Cannabis Act would legalise personal use, whilst creating a legal framework for controlling the production, distribution, sale and possession of cannabis.²⁷ The Act is currently anticipated to be enacted in the second half of 2018.

4.4 Europe

Within the European Union (EU), medicinal cannabis is regulated at the level of individual states. Currently a number of states, including Austria, the Czech Republic, Denmark, Finland, Germany, Italy, Netherlands, Poland and Spain, have created frameworks for the use of medicinal cannabis. In other states, only regulated pharmaceutical products containing cannabis (such as Sativex) are currently legally available. However, some of these states are moving in the direction of approving medicinal cannabis.²⁸ A summary of the current status of medicinal cannabis regulations Europe is given below.

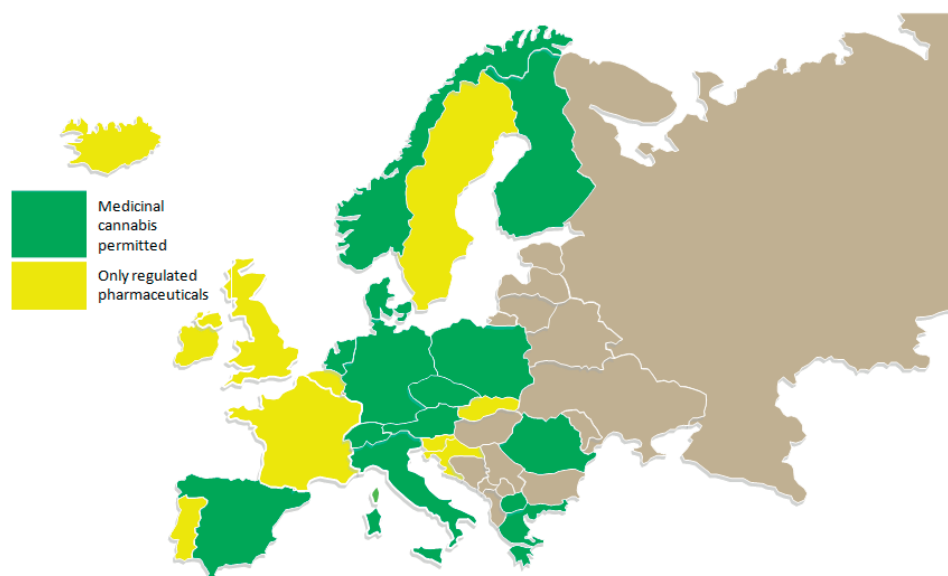
²⁵ Government of Canada, Authorized Licensed Producers of Cannabis for Medical Purposes, accessed from <https://www.canada.ca/en/health-canada/services/drugs-health-products/medical-use-marijuana/licensed-producers/authorized-licensed-producers-medical-purposes.html>

²⁶ <https://www.canada.ca/en/health-canada/services/drugs-health-products/medical-use-marijuana/licensed-producers/market-data.html>

²⁷ <https://www.canada.ca/en/services/health/campaigns/legalizing-strictly-regulating-cannabis-facts.html>

²⁸ <https://euobserver.com/health/140410>

Figure 3: Medicinal Cannabis Regulations by Country, Europe, 2018



Source: Frost & Sullivan

Within the EU, a summary of status in major states is given below.

Table 3: Medicinal Cannabis Regulations by Country, EU, 2018

Country	Comments
Austria	Cultivation and production of cannabis for medicinal purposes is allowed
Belgium	Medicinal cannabis is currently not legal, excluding regulated pharmaceuticals
France	Medicinal cannabis is currently not legal, excluding regulated pharmaceuticals
Germany	Since 2017, medical practitioners have been able to prescribe cannabis products to appropriate patients. The establishment of a licensing regime for cannabis cultivation is currently underway
Italy	The Ministry of Health can issue permits for cultivation, production, possession and use, and herbal cannabis may be prescribed with a non-repeatable prescription; the use of cannabis is only for symptomatic treatment supporting standard treatments, where results cannot be achieved with traditional treatments
Netherlands	The Office of Medicinal Cannabis (OMC) has a monopoly on supplying medical cannabis to pharmacies and general practitioners. Producers are licensed by the Dutch government and must sell all produce to the OMC, which then distributes it to pharmacies
Poland	Use of cannabis for medicinal use was approved in 2017, on medical authorisation from a physician
Portugal	Medicinal cannabis is currently not legal, excluding regulated pharmaceuticals
Spain	Use of medicinal cannabis is legal in Catalonia. Health policy is devolved to Spain's autonomous regions
UK	Medicinal cannabis is currently not legal, excluding regulated pharmaceuticals

Source: Frost & Sullivan

4.5 Asia

Currently, medicinal cannabis is not generally available in Asia. In Japan, for example, the consumption, sale and possession of cannabis is illegal. In China, whilst hemp is widely cultivated as a material, there is currently no legal framework for medicinal cannabis.

4.6 Others

Outside ANZ, Europe and North America, other countries with legal frameworks for medicinal cannabis include Argentina, Chile, Colombia, Israel, Mexico, Panama, Turkey and Uruguay.

5. Market Drivers

5.1 Market Drivers for Cannabis Usage

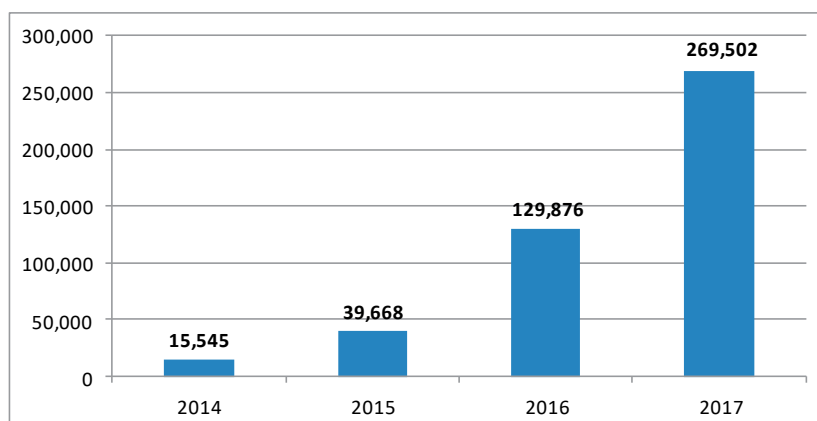
A number of factors are combining to stimulate the medicinal cannabis industry. These are summarised below.

5.1.1 Increasing Number of Countries with Legal Frameworks for Medicinal Cannabis

As described in section 4, an increasing number of countries are introducing legal frameworks that allow for the cultivation, manufacture, sale and consumption of cannabis products under appropriate licensing arrangements. This has significantly increased availability of medicinal cannabis, and has stimulated the number of users and prescribers. Over the past two years alone, countries including Germany, Poland and Australia have introduced legislated legal frameworks for medicinal cannabis. Over time, usage of medicinal in countries with these frameworks increases, and consumption is further stimulated as medicinal cannabis becomes available in additional countries. An example of how the establishment of a legal framework stimulates consumption is Canada, where the number of registered patients has increased from 15,545 in Q4 2014 to almost 270,000 by Q4 2017.²⁹ This follows the enactment of regulations in 2014 which significantly increased access to medicinal cannabis.

²⁹ Government of Canada, accessed from <https://www.canada.ca/en/health-canada/services/drugs-health-products/medical-use-marijuana/licensed-producers/market-data.html>

Figure 4: Licensed Medical Cannabis Patients in Canada, 2014 to 2017



Source: Government of Canada, accessed from <https://www.canada.ca/en/health-canada/services/drugs-health-products/medical-use-marijuana/licensed-producers/market-data.html> Data is at Q4 each year

5.1.2 Government Support for Medicinal Cannabis Industry Development

In jurisdictions with regulatory frameworks from medicinal cannabis, governments are often acting to stimulate the development of an industry which is seen as offering opportunities for local economic growth. An example is the state of Victoria, which has developed an industry development for medicinal cannabis designed to promote Victoria as the Australian hub for medicinal cannabis innovation, with the objective of creating up to 500 new jobs and adding an economic contribution of A\$90 million per year to the state by 2028.³⁰

5.1.3 Increasing Clinical Evidence for Efficacy of Cannabis in Additional Conditions

In addition to the indications mentioned above, there is increasing clinical evidence of the efficacy of cannabinoid therapy in a number of other health conditions. These include Alzheimer's disease³¹, arthritis³², Diabetic peripheral neuropathy³³, anxiety & depression³⁴. Increased evidence of clinical efficacy in these and other conditions will also act to stimulate recommendation and consumption of medicinal cannabis.

³⁰ Government of Victoria, Medicinal Cannabis Industry Development Plan, January 2018

³¹ Eubanks et al, A molecular link between the active component of marijuana and Alzheimer's disease pathology, Mol Pharm. 2006 Nov-Dec;3(6):773-7

³² Croxford et al, Cannabinoids and the immune system: potential for the treatment of inflammatory diseases? J Neuroimmunol. 2005 Sep;166(1-2):3-18

³³ Wallace et al, Efficacy of Inhaled Cannabis on Painful Diabetic Neuropathy, J Pain. 2015 Jul;16(7):616-27. doi: 10.1016/j.jpain.2015.03.008. Epub 2015 Apr 3

³⁴ Whiting et al, Cannabinoids for Medical Use: A Systematic Review and Meta-analysis, JAMA. 2015 Jun 23-30;313(24):2456-73. doi: 10.1001/jama.2015.6358

6. Market Size & Growth

6.1 Overview

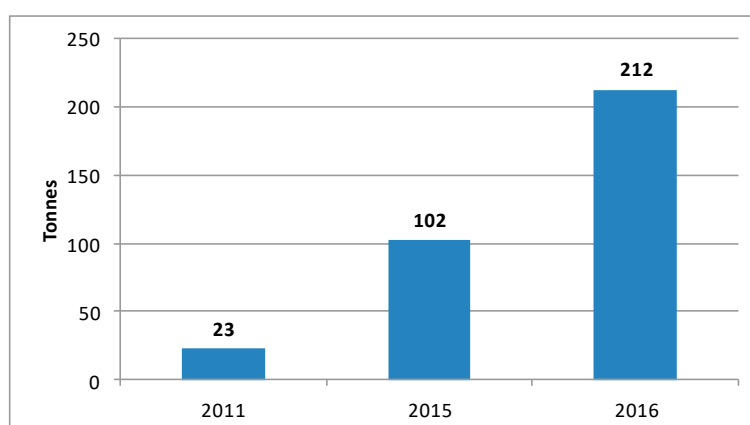
The market size for medicinal cannabis can be quantified in a number of ways, including the volume of medical cannabis produced and sold for consumption, and the total value of expenditure on medicinal cannabis. The latter is heavily dependent on the cannabis product format, as the sales price of cannabis oil differs significantly from dried cannabis. Official statistics on the volume of licit cannabis production (which is used for medicinal and scientific research purposes) are available through the UN. However, data on the value of these sales is generally not available, and relies largely on estimates from industry analysts and observers.

It is widely recognised that both production and consumption of medicinal cannabis are likely to grow significantly, given the market drivers outlined above. A further dimension is therefore estimates of the potential size of the industry, as production and consumptions increase.

6.2 Global Production of Medicinal Cannabis

The licit production and export of cannabis is recorded by the UN International Narcotics Control Board, based on statistics provided by national governments. Latest available data is for production in 2016. In 2016, licit production reached 212 tonnes globally, an increase of over 50% from 2015, and an almost tenfold increase from 2011.³⁵ This production is used for authorised medical and scientific research purposes.

Figure 5: Global Licit Cannabis Production, 2011 to 2016

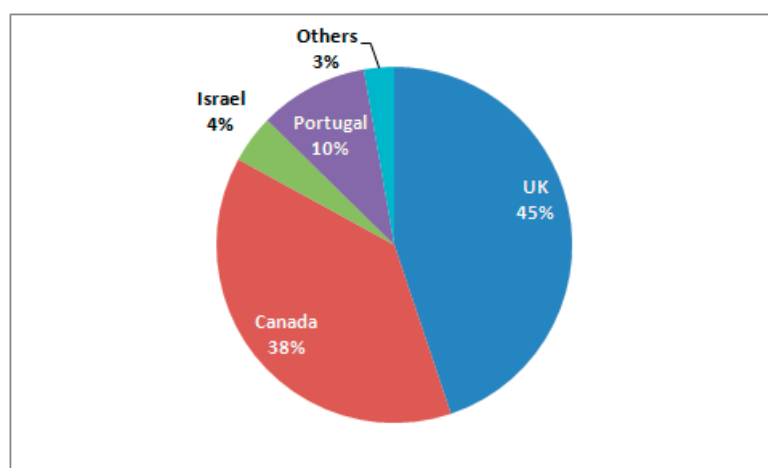


Source: International Narcotics Control Board, Narcotic Drugs, Estimated World Requirements for 2017. 2016 data excludes USA

³⁵ International Narcotics Control Board, Narcotic Drugs, Estimated World Requirements for 2017

The two largest producers of licit cannabis in 2016 were Canada and the UK, which cumulatively accounted for around for over 80% of global production. Other producers of significance include Israel and Portugal (note: no data is available for the USA in 2016).³⁶

Figure 6: Global Licit Cannabis Production by Country, 2016



Source: International Narcotics Control Board, Narcotic Drugs, Estimated World Requirements for 2017. Data excludes USA

UK production is primarily used as an ingredient in regulated pharmaceutical production (primarily Sativex), whilst Canadian production is mainly for domestic use and exports to the USA, which is reported as importing 56 tonnes in 2016. In 2017, total Canadian domestic sales (inclusive of dried cannabis and cannabis oil) are likely to exceed 55 tonnes. There has been particularly strong growth in Canada in sale of cannabis oil.³⁷

Table 4: Canadian Medicinal Cannabis Sales Data, 2017 and 2018

	FY 2016 -17	FY2017-18 YTD
Dried Cannabis Sold (kg)	20,999	18,143
Cannabis Oil Sold (kg)	13,193	23,137

Source: Government of Canada, accessed from <https://www.canada.ca/en/health-canada/services/drugs-health-products/medical-use-marijuana/licensed-producers/market-data.html> Fiscal years run from 1 April to 31 March. FY2017-18 data is up to December 2017 (i.e. 9 months)

Assuming annual sales of 55 tonnes in Canada in 2018, sales per registered user per day are approximately 0.55 grams.³⁸

³⁶ International Narcotics Control Board, Narcotic Drugs, Estimated World Requirements for 2017

³⁷ Government of Canada, accessed from <https://www.canada.ca/en/health-canada/services/drugs-health-products/medical-use-marijuana/licensed-producers/market-data.html>

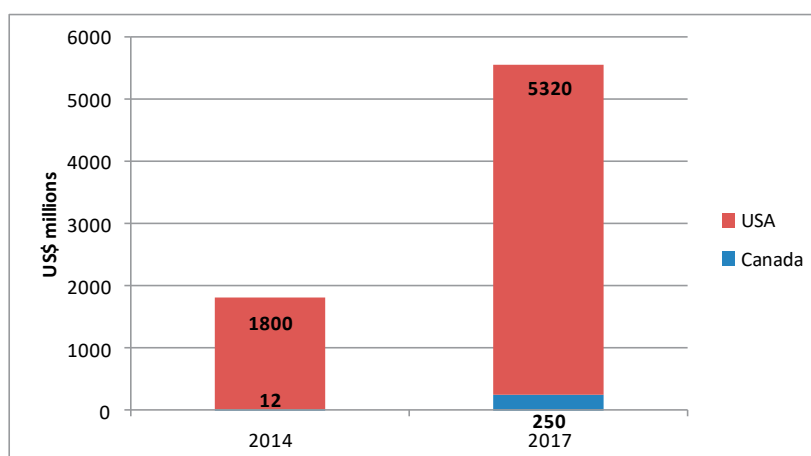
³⁸ Based on assumed total sales of 55,040 tonnes of dried cannabis and cannabis oil combined, consumed by 270,000 registered users

6.3 Consumption of Medicinal Cannabis

Official global data on medicinal cannabis consumption is not available, though it is likely to closely mirror global production in volume terms. In value terms, estimates and forecasts have been made by industry analysts at both a global and individual country level.

For example, in Canada, the retail value of medicinal cannabis is estimated at US\$250 million in 2017, a 65% increase from 2016 and a 20-fold plus increase since 2014.³⁹ In the USA, medicinal cannabis sales were estimated at US\$5.32 billion in 2017⁴⁰, an increase from US\$1.8 billion in 2014⁴¹.

Figure 7: Value of Retail Medicinal Cannabis Sales, USA and Canada, 2014 and 2017



Sources: Marijuana Business Daily, Canadian Marijuana Industry Snapshot, 2017; Marijuana Business Daily, Marijuana Business Factbook, 2016; New Frontier Data, The Cannabis Industry Annual Report, 2017 Legal Marijuana Outlook

Globally, one analyst forecasts legal cannabis sales will reach US\$57 billion by 2027, of which 33% (i.e. US\$18.8 billion) will be medicinal cannabis sales and the balance legal recreational cannabis sales.⁴²

6.4 Australian Market Opportunity

The Australian market for medicinal cannabis is just emerging, with the current regulatory framework for cultivation, production, distribution and consumption only being enacted in 2016. In its industry development plan, the Victorian government estimates the potential patient

³⁹ Marijuana Business Daily, Canadian Marijuana Industry Snapshot, 2017

⁴⁰ New Frontier Data, The Cannabis Industry Annual Report, 2017 Legal Marijuana Outlook

⁴¹ Marijuana Business Daily, Marijuana Business Factbook, 2016

⁴² Arcview Research, The Road Map to a \$57 Billion Worldwide Market, quoted in <https://www.forbes.com/sites/thomaspellechia/2018/03/01/double-digit-billions-puts-north-america-in-the-worldwide-cannabis-market-lead/#3068a53c6510>

population for medicinal cannabis in Australia at 166,000.⁴³ Assuming average consumption of 0.55 grams per day per patient,⁴⁴ this would create an annual market of approximately 33 tonnes in Australia. This is a broadly similar estimate to that derived from a comparison of Australia with Canada, where at the end of 2017 there were approximately 270,000 registered medicinal cannabis patients.⁴⁵ Adjusting for relative population sizes gives an estimated number of patients in Australia of approximately 182,000, which would generate a requirement for approximately 37 tonnes annually.⁴⁶

6.5 Global Market Opportunity

An estimation of the total potential global market opportunity for medicinal cannabis can be made using data from Canada as a benchmark. The total population of countries that currently have regulatory frameworks for medicinal cannabis is approximately 1,154 million.⁴⁷ Assuming a penetration of medicinal cannabis users at 0.75% of the population (based on the number of registered users in Canada as at December 2017)⁴⁸ and average daily consumption of 0.55 grams, the total potential global market size (assuming all countries achieve the same penetration of the population and average daily use as Canada) is approximately 8.4 million patients and consumption of 1,680 tonnes.⁴⁹ This is approximately eight times licit global production in 2016.⁵⁰ This market opportunity is based only on countries that currently have regulatory frameworks for medicinal cannabis, and does not include countries where frameworks are currently in process, or are being considered.

7. Conclusion

The medicinal cannabis industry is growing strongly worldwide, stimulated by increasing interest in the use of cannabis products for their medical benefits across a range of health conditions, and regulatory reform in many countries that is creating legal frameworks for the cultivation, manufacture, distribution and sale of medicinal cannabis products. Consequently, the volume and value of the medicinal cannabis market is rapidly increasing.

Around 30 countries have now introduced regulatory frameworks for medicinal cannabis, including several in the past couple of years. In Australia, cultivation, production and manufacturing of medicinal cannabis products in Australia has been legalised from 2016, and subject to a regulatory framework under the *Narcotic Drugs Amendment Act, 2016*. This has stimulated the emergence of a medicinal cannabis industry in Australia.

⁴³ Government of Victoria, Medicinal Cannabis Industry Development Plan, January 2018

⁴⁴ Based on the average daily sales per registered user in Canada

⁴⁵ Government of Canada, accessed from <https://www.canada.ca/en/health-canada/services/drugs-health-products/medical-use-marijuana/licensed-producers/market-data.html>

⁴⁶ Based on populations of 35 million in Canada and 25 million in Australia

⁴⁷ Worldometers, accessed May 2018

⁴⁸ Government of Canada, accessed from <https://www.canada.ca/en/health-canada/services/drugs-health-products/medical-use-marijuana/licensed-producers/market-data.html>

⁴⁹ Frost & Sullivan estimate based on Government of Canada data

⁵⁰ International Narcotics Control Board, Narcotic Drugs, Estimated World Requirements for 2017

The country with the most established framework for medicinal cannabis is Canada, where access has been legal since 2001, although it was significantly expanded by new regulations in 2014 and 2016 which have acted to stimulate the industry. Almost 270,000 Canadians have now registered for access to medicinal cannabis and there are over 100 licensed producers.⁵¹ Given the relative population sizes, this implies a market opportunity in Australia of over 180,000 users based on the current number in Canada, without accounting for future growth. This number of users generates a current potential market opportunity in Australia of 37 tonnes.

Using a similar calculation for the global market opportunity, based only on countries where regulatory frameworks for medicinal cannabis now exist, the global market opportunity is estimated at 1,680 tonnes. This is approximately eight times the volume of licit production in 2016⁵², indicating a significant opportunity for production growth. This offers potential export opportunities for licensed Australian producers, with cannabis product export recently legalised in Australia, subject to licenses and permits issued by the ODC.

Further growth in medicinal cannabis is likely as cannabis is recommended as efficacious in additional medical conditions. There is growing evidence of the benefits of cannabinoid therapy in areas including Alzheimer's disease⁵³, arthritis⁵⁴, Diabetic peripheral neuropathy⁵⁵, anxiety & depression⁵⁶. Increased evidence of clinical efficacy in these and other conditions will also act to stimulate recommendation and consumption of medicinal cannabis, and this will act to further increase the market opportunity for medicinal cannabis products.

8. Disclosure

This is an independent report prepared by Frost & Sullivan. Save for the preparation of this report and services rendered in connection with this report for which normal professional fees will be received, Frost & Sullivan has no interest in Althea Company Pty Ltd. and no interest in the outcome of the IPO. Payment of these fees to Frost & Sullivan is not contingent on the outcome of the IPO. Frost & Sullivan has not and will not receive any other benefits (including any commissions) and there are no factors which may reasonably be assumed to have influenced the contents of this report nor which may be assumed to have provided bias or influence. Frost & Sullivan consents to the inclusion of this report in the Prospectus in the form and context in which it is included. As at the date of this report, this consent has not been withdrawn. Frost & Sullivan does not hold a dealer's license or Financial Services License. This report does not constitute advice in respect of the IPO.

⁵¹ <https://www.canada.ca/en/health-canada/services/drugs-health-products/medical-use-marijuana/licensed-producers/market-data.html>

⁵² International Narcotics Control Board, Narcotic Drugs, Estimated World Requirements for 2017

⁵³ Eubanks et al, A molecular link between the active component of marijuana and Alzheimer's disease pathology, Mol Pharm. 2006 Nov-Dec;3(6):773-7

⁵⁴ Croxford et al, Cannabinoids and the immune system: potential for the treatment of inflammatory diseases? J Neuroimmunol. 2005 Sep;166(1-2):3-18

⁵⁵ Wallace et al, Efficacy of Inhaled Cannabis on Painful Diabetic Neuropathy, J Pain. 2015 Jul;16(7):616-27. doi: 10.1016/j.jpain.2015.03.008. Epub 2015 Apr 3

⁵⁶ Whiting et al, Cannabinoids for Medical Use: A Systematic Review and Meta-analysis, JAMA. 2015 Jun 23-30;313(24):2456-73. doi: 10.1001/jama.2015.6358

3.

REGULATORY OVERVIEW



3. REGULATORY OVERVIEW

3.1 Introduction

The medicinal cannabis industry is heavily regulated in Australia, both at the federal level, and at the state and territory level. The regulatory framework is new, as Australia moves from a framework which essentially prohibited the importation, storage, manufacture, supply and export of any cannabis products, to a framework which permits but strictly regulates such actions. The regulation applies to the importation, storage, manufacture, supply and export of medicinal cannabis products, as well as the importation and cultivation of cannabis plants. The various levels of regulation function largely independently.

Australia is a signatory to the following three international drug control treaties:

- Single Convention on Narcotic Drugs of 1961, as amended (**Convention**);
- Convention on Psychotropic Substances 1971; and
- United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988.

Australia's federal statutory requirements have to conform to Australia's treaty obligations, principally those contained within the Convention. The Convention seeks to limit the possession, use, trade, distribution, import, export, manufacture and production of narcotic drugs (including cannabis) exclusively to medical and scientific purposes. The obligations on Australia under the Convention are to control the cultivation, distribution and use of cannabis in a manner consistent with the licit uses provided for within the Convention, including an obligation to supervise and report on various stages of cannabis cultivation, production and manufacture. The enabling legislation in Australia for these obligations is the *Narcotic Drugs Act 1967* (Cth) (**ND Act**).

On 29 February 2016, the *Narcotic Drugs Amendments Act 2016* (Cth) (**ND Amendment Act**) was given royal assent. The purpose of the ND Amendment Act was to amend the ND Act to establish a national licensing scheme to enable safe cultivation of cannabis in Australia for medicinal and scientific purposes, giving effect to Australia's obligations under the Convention.

The *Narcotic Drugs Regulation 2016* (Cth) (**ND Regulations**) gives effect to the regulatory framework for licensing the cultivation of cannabis and the production of cannabis and cannabis resins for medicinal and scientific purposes, as well as the manufacture of drugs as provided for under the ND Act.

The Australian Government Department of Health regulates medicinal cannabis products through the Office of Drug Control (**ODC**), which regulates controlled substances (including cannabis) to prevent diversion and illicit use. The ODC is responsible for granting licences and permits for the cultivation and production, manufacture and importation of cannabis and cannabis products for medicinal and scientific purposes.

Additionally, the manufacture, registration and supply of medicinal cannabis is also regulated by the Therapeutic Goods Administration (**TGA**) under the *Therapeutic Goods Act 1989* (Cth) (**TG Act**). The TGA is responsible for assessing the quality, safety and efficacy of medicines before entry on the Australian Register of Therapeutic Goods (**ARTG**).

The state and territory governments and the Commonwealth Department of Health all play a part in regulating medicinal cannabis in Australia. The regulatory overview contained in this section 3 is focussed on the regulatory licences and permissions which Althea Group requires to carry on its business and is not intended to be a complete or exhaustive overview of the regulatory framework applicable to cannabis products.

3.2 Overview of legislative requirements

The TGA has published the below table on its website which provides an overview of how the legislative requirements regarding medicinal cannabis in Australia interact.

Table 1: Overview of legislative requirements regarding medicinal cannabis in Australia

PROCESS STEP		THERAPEUTIC GOODS ACT (TGA)	NARCOTIC DRUGS ACT (ODC)	STATES AND TERRITORIES INVOLVED?
Patient need	ACCESS ¹	✓ Special access scheme	✗ No	✓ Yes
Medical Authorisation		or ✓ Authorised prescriber		
Import (if obtaining from overseas)	IMPORT	✓ Responsibility of the sponsor	✓ Licence and permit to import controlled substances	✓ Yes
Distribution	PATIENT with medical authorisation	✗ No	✓ Responsibility of the licensee	✓ Yes
Manufacture of medicine in its dosage form	LOCAL CULTIVATION AND SUPPLY ²	✓ Licensable	✓ Licences and permits	✓ Yes
Manufacture of active ingredient		✓ Licensable	✓ Licences and permits	✓ Yes
Harvest (termed 'production' in the Narcotic Drugs Act)		✗ No	✓ Licences and permits	✗ No
Cultivation		✗ No	✓ Licences and permits	✗ No

1 These access arrangements apply unless an appropriate medicinal cannabis product is on the ARTG and available.

2 Access requirements still apply.

Source: <https://www.tga.gov.au/medicinal-cannabis-products-overview-regulation>

3. REGULATORY OVERVIEW continued

3.3 Federal requirements for importation

Licences and permits are required for the importation of finished medicinal cannabis products (that is, products which are ready for supply to patients) which Althea Group intends to supply. Licences and permits are also required for the importation of nursery stock which Althea Group intends to use in its cultivation activities.

Licences and permits for the importation of finished products are issued by the Drug Control Section of the ODC under regulation 5(5) of the *Customs (Prohibited Imports) Regulations 1956* (Cth) (**Import Regulations**). The ODC reviews the storage and security of products to be imported. In particular, the ODC assesses how the relevant storage area is secured, access methods, building and access security and transport security measures and mandates that the applicant is a fit and proper person to be granted a licence. The ODC also requires proof that the applicant is authorised to supply medicinal cannabis products within their state or territory under regulation 5(10)(b) of the Import Regulations. The ODC requires a police check of any authorised contacts for the applicant.

Once an organisation is licensed to import finished products, it is obligated to seek a permit prior to each importation under regulation 5(5) of the Import Regulations. The importation permit discloses the details of the substance to be imported, such as the name and form of the substance, strength and number of packs. The permit also needs to disclose the identity of the exporter of the product. Once the products are imported, regulations impose a number of record-keeping obligations upon importers, including maintaining a book containing the quantity of any drug held and quantities of drugs supplied. The intention of the permit provisions are to align the supply and demand of products with obligations under the Convention.

An import licence and permit is also required to import nursery stock or cuttings to be used in the cultivation of medicinal cannabis in accordance with the same provisions of the Import Regulations. The same considerations set out above apply. The import licence may be the same licence as that used for the importation of finished products.

In addition to the import licence and permit for nursery stock, a permit is also required from the Department of Agriculture and Water Resources under section 177 of the *Biosecurity Act 2015* (Cth) for the importation of plant material. Such material is subjected to extensive biosecurity requirements before being brought into Australia, and extensive quarantine requirements before being released for cultivation.

3.4 Federal requirements for cultivation

Cultivation, including production, also requires a licence under section 8F of the ND Act and permits issued by the Medicinal Cannabis Section of the ODC. Cultivation licences permit the licensee to cultivate cannabis plants in order to produce cannabis or cannabis resin as well as producing cannabis or cannabis resin for medicinal purposes in accordance with section 8E of the ND Act. The licence will also typically include the right to obtain cannabis plants for the purposes of cultivation.

The ODC will review a range of information prescribed by regulation 5 of the ND Regulations in determining whether or not to grant a cultivation licence including the details of the premises where cultivation will occur; the arrangements to ensure the physical security of, protection against theft of, and the safe and secure disposal or destruction of, the cannabis plants, cannabis or cannabis resin; details of arrangements in place with emergency services and police to deal with loss, theft, spoilage, disposal or destruction of cannabis plants, cannabis or cannabis resin; and details of any serious offences committed by the applicant or its directors within the preceding 10 years.

Once a cultivation licence is issued, the licensee is mandated to comply with a range of record-keeping requirements, particularly around the number of plants that are cultivated, obtained and maintained, and the amount of cannabis and cannabis resin that are produced and stored, supplied to a manufacturer, and any plants, cannabis and resin that are destroyed or disposed of. Licensees are prevented from employing individuals who are aged under 18 or who have been convicted of a serious offence within 5 years of beginning their employment.

Security is typically a foremost consideration of the ODC when determining a licence application. This includes consideration of how unauthorised access will be prevented, both to the location and to cannabis storage areas, as well as arrangements to control all persons entering or having access to the premises and cannabis storage areas. The ODC will also consider the equipment used to prevent, monitor and detect access to the premises and cannabis storage areas.

Cultivation licensees are subject to a 'fit and proper person' requirement under section 8G of the ND Act. This requirement, as described in sections 8A and 8B of the ND Act, takes into account any convictions or civil penalties under the laws of the Commonwealth, states or territories; the associations of the directors and officers of the licensee; previous business experience of the directors and officers of the licensee; whether the directors and officers of the licensee are of good repute, having regard to their character, honesty and integrity; the financial capacity and circumstances of the licensee; and the ability of the licensee to meet the conditions of the licence.

Fit and proper person requirements also extend to any person holding a financial interest in the company, and its officers and directors. The licensee is also obligated to disclose information regarding any connections and associations the licensee, its officers and directors have with other persons that may affect the reputation, character, honesty or integrity of the officers and directors.

When cultivation or production is due to begin, a permit is required under sections 8P and 9 of the ND Act. The cultivation permit authorises specific acts, as mandated by section 9B(1) of the ND Act, and includes details of the types and strains of plants that may be cultivated; the maximum size of the crop; the maximum number of plants that may be cultivated; the period during which plants may be cultivated; and specific details regarding the concentrations of THC and CBD that products may contain. The production permit authorises specific acts, as mandated by section 9B(2) of the ND Act, and includes details of the maximum quantity of cannabis or cannabis resin to be produced; the maximum quantity of cannabis and cannabis resin the licensee may hold; and the period during which cannabis or cannabis resin may be produced.

Permits are granted against the backdrop of Australia's obligations under the Convention, particularly to ensure that the quantities of plants and drugs are suitable to produce medicinal cannabis in Australia while providing protection against diversion of products into recreational use and export.

3.5 Federal requirements for manufacture

Manufacturing also requires a licence issued under section 11H of the ND Act and permits issued by the Medicinal Cannabis Section of the ODC. Manufacturing licences permit the licensee to manufacture a drug, as well as undertake related activities such as packaging, transport, storage, supply and destruction of the drug in accordance with section 11G of the ND Act.

The licence grant involves many of the same considerations as those set out above in respect of cultivation and production. Relevantly, security is a chief consideration of the ODC when determining a licence application. Manufacturing licensees are likewise subject to a 'fit and proper person' requirement under section 11J of the ND Act.

When manufacture is due to begin, a permit is required under sections 12 and 12A of the ND Act. The permit authorises specific acts, as prescribed by section 12C of the ND Act, and includes details of the maximum quantity of drug that may be manufactured; the maximum quantity of drug the licensee may hold; and the period during which manufacturing may occur.

Althea Group's proposed business of manufacturing medicinal cannabis must also comply with Good Manufacture Practice (**GMP**) in order to satisfy the TGA. Manufacturing of medicines must occur at facilities inspected and approved by the TGA, in accordance with Part 3-3 of the TG Act, and additionally comply with a range of requirements that underpin the manufacture of high quality medicines. Australian GMP reflects the international PIC/S standards, as specified by the *Therapeutic Goods (Manufacturing Principles) Determination 2018* made under section 36 of the TG Act, and is broadly consistent with global counterparts. GMP under the PIC/S incorporates a range of considerations, such as the maintenance of a quality system; personnel having roles in the manufacture and release of products; risk management; quality control; retention of samples; the design, location and construction of buildings and facilities used in manufacturing; management of materials; process controls; storage; validation; and change control.

The TGA has also issued a Therapeutic Goods Order which mandates certain standards for medicinal cannabis products supplied in Australia. The order relates to decontamination, identification, chemical testing, adulteration and quality testing.

3.6 Federal requirements for supply and storage

Supply of medicinal cannabis products is also heavily regulated at a federal level. Unregistered goods cannot be imported, sold or supplied without TGA approval under a range of different access schemes. Access to medicinal cannabis is controlled given that most medicinal cannabis products are not registered on the ARTG.

These schemes include the SAS and APS. Access to medicinal cannabis is also available through clinical trials which are authorised by the TGA and a human research ethics committee. A sponsor is not permitted to supply medicinal cannabis products prior to receipt of the special access or authorised prescriber approval.

The SAS is a 'named patient' supply and requires the patient to obtain a prescription from a medical practitioner who has been authorised under relevant state or territory laws to prescribe medicinal cannabis products in order to access medicinal cannabis. The SAS is regulated by the TGA and requires approval of each application prior to supply of the product to the patient. Each prescription to each patient will require a separate TGA approval. In limited circumstances, patients are able to obtain a prescription to access products without TGA approval, though these patients must be seriously ill and reasonably likely to die within a matter of months.

The APS, on the other hand, is an authorisation to a specified medical practitioner to prescribe medicinal cannabis product(s) to any number of patients, subject to certain conditions (such as the particular condition the patient is suffering from). The authorised prescriber requires approval of a human research ethics committee prior to a TGA application being made.

The unregistered status of cannabis products also impacts their importation and storage. The medicines framework prohibits the importation and supply (and manufacture) of goods which are unregistered. Importation of unregistered goods is permitted where the goods are kept under the control of the importer and supplied only in accordance with a relevant approval, such as under the SAS or by prescription of an authorised prescriber. Records of the source and supply must be maintained. These requirements are set out in item 1A of Schedule 5A, when read with sub-regulations 12(2) and (3) of the *Therapeutic Goods Regulations 1990* (Cth).

3. REGULATORY OVERVIEW^{continued}

3.7 State requirements for prescribing, supply and storage

Each State and Territory has specific requirements for companies that wish to supply medicinal cannabis products. Cannabis and THC containing products are included in the Australian Poisons Standard in schedule 8, which mandates an extremely high level of restriction on their manufacture, supply, possession and use to reduce abuse and dependence.

In Victoria, a person wishing to deal with any drug must apply for a licence with the Victorian Department of Health, issued under section 19 of the *Drugs, Poisons and Controlled Substances Act 1981* (Vic) (**DPCS Act**). The licence can authorise a range of different activities, including manufacture, supply by wholesale, sale, and sale by indent (where the supplier does not have physical custody of the drug). A Victorian licence lasts 12 months from issue and must be renewed, as specified by section 21 of the DPCS Act.

The Victorian regulatory framework prevents the sale of controlled substances by retail. Supplies can only occur to parties authorised to handle medicinal cannabis products, such as pharmacists and medical practitioners, as mandated by section 24 of the DPCS Act. Medical practitioners wishing to prescribe a medicinal cannabis product must themselves apply for a permit under regulations 10 and 17 of the *Drugs, Poisons and Controlled Substances Regulations 2017* (Vic) (**DPCS Regulations**).

The Victorian regulatory framework also imposes stringent requirements in relation to the storage of medicinal cannabis products, as provided for by regulation 74 of the DPCS Regulations. The regulatory framework also mandates that the transport of any medicinal cannabis products occur in a locked storage facility to prevent unauthorised access.

Sections 72, 72A and 72B of the DPCS Act also create an authority to cultivate cannabis plants, which is an exception to the criminal prohibition on such cultivation.

Other Australian states and territories require entities wishing to supply drugs by wholesale to be licensed to do so. Given that Althea Group will only be storing product in Victoria, and all invoicing and supply will occur from Victoria, Althea Group is not required to obtain licences in other states or territories.

3.8 Federal requirements for export

Licences and permits are required for the export of the finished medicinal cannabis products which Althea Group intends to manufacture. Additionally, the licence and permits necessary for manufacture must reflect that some of the products may be exported.

Licences and permits for the export of finished products are issued by the ODC under regulation 10 of the *Customs (Prohibited Export) Regulations 1958* (Cth) (**Export Regulations**). An export licence is subject to extensive record-keeping and reporting requirements, as specified in regulation 10B of the Export Regulations. The ODC is also likely to impose conditions to ensure that Australian domestic supply is not impacted by export. Licences must only be granted if the grant would be consistent with Australia's obligations under the Convention, as specified by regulations 10A(2) and 10C of the Export Regulations. This includes the international quotas developed under the Convention. Countries are required to submit annual estimates of requirements to the International Narcotics Control Board, established under the Convention, of cultivation of cannabis plants. The International Narcotics Control Board notes that these requirements should include amounts for export. The International Narcotics Control Board approves these estimates. The ODC will typically take into account existing stocks, projected sales, project manufacture, quantity of cannabis required to undertake proposed manufacturing and project stocks at the end of the calendar year. The estimate is intended to ensure that manufacture does not exceed that required to meet domestic medical and scientific needs. Cannabis, such as flowers and leaves, and cannabis resin cannot be exported under the Export Regulations. Only medicinal cannabis products manufactured in Australia, products listed as export-only or registered on the ARTG, and extracts of cannabis or cannabis resin manufactured under the ND Act, but not in final form, may be exported. Licences will also specify the proposed country of destination.

Once an organisation is licensed to export finished products, it is obliged to seek a permit prior to each export under regulation 10(1) of the Export Regulations. The permit requires authorisation from the governmental authority of the country to which the product is to be exported to, prior to the permit being granted. The export permit discloses the country of destination and allows up to 3 months to undertake the export. The export permit application needs to disclose the substance being exported, concentration, form, pack type and the number of packs in the shipment.

The TG Act is also relevant for the export of finished products. Section 19B and 19D of the TG Act create offences relating to the export of products from Australia which are not registered on the ARTG. There are no relevant exemptions to this position, given that the products are being exported for commercial supply and are prohibited under the Import and Export Regulations. As such, products must be registered on the ARTG prior to export.

4.

BUSINESS OVERVIEW



4. BUSINESS OVERVIEW

4.1 Overview of Althea Group

Althea Group operates in the medicinal cannabis industry in Australia and, through its strategic partnerships and current and prospective regulatory licences, aims to become a leading and trusted medicinal cannabis brand in Australia.

Althea Company holds a number of licences and permits for the importation, cultivation, production and supply of medicinal cannabis in Australia. These licences, coupled with Althea Group's focus on patient care, underpins its business strategy.

Althea Group has entered into a number of strategic partnerships which has enabled Althea Group to begin importing and distributing five Althea branded medicinal cannabis products in Australia. Althea Company generated its first sales to pharmacies for supply to eligible patients in Australia in May 2018.

Althea Group has also developed a complementary education and patient support service through its Althea Concierge mobile application and web based platform which provides a simple pathway for health care professionals and patients to access information and support to navigate the complexities of accessing and prescribing medicinal cannabis.

Althea Holdings has an experienced Board and highly skilled Management with relevant industry experience. Althea Holdings' Board and Management are committed to capitalising on the growth opportunities that are arising in the medicinal cannabis industry.

4.2 Business objectives and strategy

Althea Group has a three-stage business model built on early revenue generation, sales driven growth and scalable domestic production.

Please refer to section 3 for an overview of the relevant regulatory regime in which Althea Group operates and section 4.3 for details of the relevant licences and permits Althea Group currently holds.

Stage 1 – Distribution

Althea Group has commenced importing and supplying medicinal cannabis in Australia generating its first sales revenue by the sale of Althea branded products to pharmacies for supply to eligible patients in Australia in May 2018.

Althea Group's five products are currently distributed under the product names "Capilano", "Champlain Indica", "Jasper", "Rideau" and "Henik". Please refer to section 4.4 for further details on the five products that Althea Group currently distributes in Australia.

As at the prospectus Date, 57 patients in Australia have been prescribed Althea branded medicinal cannabis products. Please refer to section 4.6 for an overview of the process by which patients are prescribed medicinal cannabis products in Australia and how patients access, and Althea delivers, prescribed products. Details of the revenue generated by Althea Group from sales of its products as at 30 June 2018 is set out in section 5.

Althea Group has been able to establish its current local operations and generate its first sales revenue through:

- The entry into the Aphria Product Supply Agreement with Aphria Inc. (**Aphria**) for the supply of five Althea branded finished medicinal cannabis products.
- Obtaining a licence to sell or supply by wholesale schedule 8 or schedule 9 poisons (other than Heroin).
- Obtaining a licence to import medicinal cannabis products.
- The entry into the Warehousing Agreement with PPP for warehousing, logistics and distribution services.
- Establishing a medical science liaison team with national coverage through the entry into the Medical Services Agreement with Hahn Healthcare to educate health care professionals about medicinal cannabis and provide support to navigate the complexities of regulation and patient access.

The intellectual property in the product names under which Althea Group's products are distributed in Australia is owned by Aphria. Aphria has provided Althea Group with a 10 year exclusive licence to use the trademarks "Capilano", "Champlain Indica", "Jasper", "Rideau", "Treasure Island" and "Henik" in Australia for the purpose of selling, distributing, promoting and marketing medicinal cannabis products manufactured or produced by Althea Company or medicinal cannabis products supplied to Althea Group by Aphria. The licence provided by Aphria permits Althea Group to use the trademarks alone or in combination with the Althea's name and logo. Unless terminated earlier for breach (please refer to section 10.5.7), the trademark licence granted by Aphria to Althea Company will expire on the earlier of: (a) the 10th anniversary of the licence (being, 27 July 2028); and (b) when Aphria owns less than 5% of the total number of Shares on issue in Althea Holdings and delivers to Althea Company a notice of termination.

Stage 2 – Sales

The Australian market for medicinal cannabis is emerging, with the current regulatory framework for cultivation, manufacturing, distribution and consumption only being enacted in 2016.

Frost & Sullivan, in Part 5 of its Market Report included in section 2, highlights a number of key market drivers which are likely to continue to stimulate the medicinal cannabis industry in Australia, including the deregulation of cultivation, manufacture, sale and consumption of medicinal cannabis and increasing clinical evidence for the efficacy of medicinal cannabis for certain health conditions. Frost & Sullivan also refers in Part 6.4 of its Market Report to estimates by the Victorian government as to the potential patient population for medicinal cannabis in Australia.

Althea Group plans to leverage the expected growth in the Australian medicinal cannabis market described in Frost and Sullivan's Market Report by growing its current revenue through increased sales of imported medicinal cannabis products from Aphria.

Althea Group proposes to increase its revenue through a strategic plan focussed on:

- Building greater understanding about medicinal cannabis and support for patients and health care professionals through Althea Concierge – please refer to section 4.5 for further details on Althea Concierge.
- Increasing Australian medical practitioner relationships and supporting more doctors to gain “practitioner medicinal cannabis authorisation” to prescribe medicinal cannabis products – please refer to section 3 for further details on the current regime governing patient access to medicinal cannabis products.
- Fostering Australian pharmacist relationships to grow the network of pharmacies supplying Althea products.

Althea Group believes the key to increasing its revenue through increased sales of imported medicinal cannabis products from Aphria is the expansion of Althea Group's national network of registered and approved medical practitioners capable of prescribing, together with registered pharmacists capable of dispensing, Althea products. Althea Company has engaged Hahn Healthcare to provide a medical science liaison team to assist Althea Group in engaging with medical practitioners and pharmacists to educate healthcare professionals regarding medicinal cannabis and support them through the regulatory process.

The other key cornerstone of Althea Group's sales strategy is the Althea Concierge service. Althea Concierge is a mobile application and web based platform which provides a simple pathway for health care professionals and patients to access information about, and support to navigate the complexities of, accessing and prescribing medicinal cannabis.

Althea Group is committed to increasing Althea Concierge downloads and usage amongst its target community through targeted awareness campaigns and on ground awareness activities.

Stage 3 – Domestic Production

Althea Group intends to grow and manufacture its own high quality medicinal cannabis in Australia for supply to eligible patients in Australia through the proposed construction and operation of a 4,080m² medicinal cannabis cultivation and production facility in Skye, Victoria.

The goal of Althea Group's cannabis cultivation and production facility is to produce approximately 3 tonnes of high grade dried medicinal cannabis flower each year. Please refer to section 4.8 for details on the status of Althea Group's proposed facility.

Frost & Sullivan in Part 6.4 of its Market Report uses estimates by the Victorian government as to the potential patient population for medicinal cannabis in Australia to forecast an annual market for medicinal cannabis in Australia of approximately 33 tonnes. Althea Group aims to ultimately supply a proportion of this anticipated market demand through products cultivated and produced at its proposed medicinal cannabis cultivation, cannabinoid extraction and manufacturing facility.

The establishment by Althea Group of medicinal cannabis cultivation and production, facilities is a key revenue milestone in Althea Group's business plan as it begins to manufacture Australian grown versions of its five medicinal cannabis products.

Subject to future local or international demand, a supportive business case and Althea Group obtaining the relevant licences and permits described in sections 3.8 and 4.3 to export cannabis products, Althea Group may assess at the appropriate time the potential to expand the size and scale of its proposed medicinal cannabis cultivation and production facility to capitalise on increased local demand and any future available export markets. Frost & Sullivan in Part 6.5 of its Market Report uses medicinal cannabis penetration figures for Canada to estimate the potential global consumption of medicinal cannabis in countries that currently have regulatory frameworks for medicinal cannabis supply as 1,680 tonnes. While this presents as potentially a significant opportunity for Althea Group, Althea's short term focus is on import and domestic production for Australian supply. The exporting of medicinal cannabis is regulated and would require Althea Group to obtain certain licences and permits. Please refer to 3.8 for further details.

4. BUSINESS OVERVIEW continued

4.3 Licences

Althea Company currently holds the following licences in relation to the importation, cultivation, production and supply of medicinal cannabis in Australia:

- Licence (MC015/18) to cultivate and produce cannabis, or cannabis material, for the purposes of patient supply under the ND Act.
- Licence (22210927) to sell or supply by wholesale Schedule 8 or Schedule 9 Poisons (other than Heroin) under the DPCS Act.
- Licence (1820755) to import narcotic, psychotropic and precursor substances issued by the ODC under the Import Regulations.

Althea Company has applied to the ODC for a licence to manufacture narcotic drugs involving cannabis under the ND Act. This licence will allow Althea to apply for permits, which cover the cultivation of cannabis, and the manufacture of medicinal cannabis products, respectively.

Licences required for Althea Group's activities

ACTIVITY	LICENCES REQUIRED	OBTAINED	EXPIRY AND RENEWAL PROCESS
Importation of finished products	Narcotic drug import licence	Yes	31 December 2018. Import licences are granted for particular calendar years. On expiry, Althea Company will need to renew this licence. The ODC accepts applications for renewals of licences. In respect of renewal applications, the ODC will take into account the same considerations (as summarised in section 3.3) as undertaken at the time of granting the licence. The ODC generally endeavours to process applications within 30 working days from the date of receipt.
	Victorian wholesaling licence	Yes	1 July 2019. Wholesale licences are issued annually. On expiry, Althea Company will need to renew this licence. The renewal costs (currently) are \$239.90.
Cultivation and production	Medicinal cannabis licence	Yes	31 October 2020. This licence has a maximum term of 2 years. On expiry, Althea Company will need to re-apply for this licence. The annual fee payable for this licence is \$27,380. The ODC acknowledges that the assessment process takes some time and it strongly recommends making applications well in advance.
	Narcotic drug import licence	Yes	31 December 2018. Import licences are granted for particular calendar years. On expiry, Althea Company will need to renew this licence. The ODC accepts applications for renewals of licences. In respect of renewal applications, the ODC will take into account the same considerations (as summarised in section 3.3) as undertaken at the time of granting the licence. The ODC generally endeavours to process applications within 30 working days from the date of receipt.
Manufacturing	Medicinal cannabis manufacturing licence	Application pending	
	Therapeutic goods manufacturing licence	Not yet applied for	
Export	Narcotic drug export licence	Not yet applied for	

Althea Holdings notes that, given the infancy of the current regulatory framework for cultivation, manufacturing, distribution and consumption of medicinal cannabis in Australia, there is limited regulatory or practical precedent available in respect of the renewal processes for many of the licences held by Althea Group.

Ad-hoc permits required

Althea Group notes that the following permits are not available in advance of the proposed activity and must be applied for at the relevant time the activity is proposed.

ACTIVITY	PERMITS REQUIRED
Importation of finished products	Narcotic drug import permit.
Cultivation and production	Medicinal cannabis cultivation permit. At this point the ODC will inspect the facility to ensure security and safety of medicinal cannabis plants and resin.
	Narcotic drug import permit in respect of plant cuttings necessary to form nursery stock
	Permit from the Department of Agriculture and Water Resources to import cannabis cuttings. This is subject to strict quarantine requirements as well as phytosanitary certification.
Manufacturing	Medicinal cannabis manufacturing permit. At this point the ODC will inspect the facility to ensure security and safety of medicinal cannabis plants and resin.
Export	Narcotic drug export permit.

Please refer to section 10.4 for details of the terms and conditions of issue of each licence referred to above which Althea Group currently holds.

4.4 Althea Products

Althea Group's five medicinal cannabis products are currently imported and distributed in Australia under the product names "Capilano", "Champlain Indica", "Jasper", "Rideau" and "Henik". The products differ by the relative concentrations of THC and CBD in each, as well as the form (dried flower or oil). The products have the following THC:CBD ratios:

- Rideau Cannabis oil (THC 1mg/mL: CBD 23mg/mL);
- Jasper Cannabis Oil (THC 5mg/mL: CBD 8mg/mL);
- Capilano Cannabis Oil (THC 9mg/mL: CBD 13mg/mL);
- Champlain Indica Cannabis Oil (THC 20mg/mL: CBD <1mg/mL); and
- Henik Cannabis Dried Flower THC 20%.

The primary customers of Althea Company's products are community pharmacists. Patients seeking access to medicinal cannabis must present at a pharmacy with a prescription issued by a medical practitioner authorised by State law, as described in further detail in section 4.6. The pharmacist then places an order for products with Althea Company, which is dispatched and delivered by PPP on a 'just in time' basis under the Warehousing Agreement.

4.5 Althea Concierge

Althea Concierge is a mobile application and web based platform developed by Althea Group which seeks to provide medical professionals and patients with a simple pathway to access information and support in navigating the complexities of accessing and prescribing medicinal cannabis in Australia.

Please refer to section 4.6 (*Patient Access*) for an overview of the steps required for a patient to access medicinal cannabis and the process for medical practitioners to gain the relevant approvals and permits to prescribe and supply medicinal cannabis products.

The Althea Concierge platform provides separate registration capability and tailored information and support for medical practitioners who prescribe medicinal cannabis and patients who are prescribed medicinal cannabis. For medical practitioners, the platform provides assistance with the registration processes to obtain the relevant approvals and permits to prescribe and supply medicinal cannabis products and a platform for scheduling consultations, administering prescriptions and maintaining patient treatment plans. For patients, Althea Concierge contains a directory of registered medical practitioners and pharmacies with the relevant experience, licences and approvals, to prescribe and supply Althea's medicinal cannabis products.

4. BUSINESS OVERVIEW continued

Althea Concierge has recently been released for download by the public on Android devices from the Google Play store and the Apple app store. It is expected that Althea Concierge will be available to the public via desktop (www.althea.com.au) from 15 September 2018.

Althea Group aims to position Althea Concierge as one of the primary drivers of patient access to medicinal cannabis by clearly communicating the steps involved for a patient to access medicinal cannabis.

Althea Concierge was developed by a third party software developer. Althea Group owns all intellectual property (including the source code) associated with the Althea Concierge platform and its development.

4.6 Distribution

Import

Althea Company has entered into the Aphria Product Supply Agreement with one of the largest Canadian cannabis companies listed on the Toronto Stock Exchange with substantial cultivation, manufacturing, distribution, patient services and R&D operations. Aphria provides cannabis products to registered patients and is focussed on patient care, product consistency, safety and efficacy across their pharma grade products.

The Aphria Product Supply Agreement provides Althea Group with exclusive rights to acquire and import finished cannabis products in Australia and New Zealand.

As noted above, Althea Group's five medicinal cannabis products are currently imported and distributed in Australia under the product names "Capilano", "Champlain Indica", "Jasper", "Rideau" and "Henik". Aphria has informed Althea Company that it has made trademark applications to IP Australia in respect of each product name and has granted Althea Company an exclusive 10 year licence to use the trademarks in Australia for the purpose of selling, distributing, promoting and marketing medicinal cannabis products manufactured or produced by Althea Company or medicinal cannabis products supplied to Althea Group by Aphria.

All of Althea Group's products are currently produced at Aphria's facilities in Leamington, Ontario, Canada. Aphria has adopted a "seed to sale" certified promise of strict quality management which includes 509 steps.

As at the Prospectus Date, Aphria holds 33,750,000 Shares in Althea Holdings. Aphria has committed to subscribe for 17,000,000 New Shares under the Offer which, upon subscription and allotment, will result in Aphria holding 25% of the total number of Shares on issue on Completion assuming the Offer is fully subscribed.

Logistics

Althea Company holds a *Licence to Sell Or Supply By Wholesale Schedule 8 Or Schedule 9 Poisons (other Than Heroin)*. The licence is limited to cannabis and THC's by indent only. Althea Company has also been granted an Import Licence from the ODC. These licences permit Althea Group to import medicinal cannabis products and supply products to its customers throughout Australia.

Althea Company has entered into the Warehousing Agreement with PPP.

PPP also holds relevant licences to import and store medicinal cannabis, including a *Licence to Manufacture and Sell Or Supply By Wholesale Schedule 8 Or Schedule 9 Poisons (other Than Heroin)* issued by the Victorian Government Department of Health and Human Services and a *Licence to Import* from the Commonwealth Department of Health's Drug Control Section. Upon receipt of cannabis products sourced from Aphria, PPP securely stores the products at PPP's holding facility in Port Melbourne.

Orders are placed by pharmacies to Althea Group and products are dispatched from PPP directly to the destination pharmacy on a "just in time" basis.

Patient access

The TGA regulates the manufacturing, quality, safety and efficacy of medicines in Australia. Regulated medicines in Australia are commonly listed on the ARTG.

The TGA also grants access to non-ARTG listed medicinal cannabis products through the SAS and APS.

The APS allows a medical practitioner to be granted authority to become an 'Authorised Prescriber' of a specified unapproved therapeutic good (or class of unapproved therapeutic goods) to specific patients (or classes of patients) with a particular medical condition.

The SAS provides for the import and/or supply of an unapproved therapeutic good for a single patient on a case by case basis.

Previously, cannabis and THC were listed under Schedule 9 of the *Standard for Uniform Scheduling of Medicines and Poisons (SUSMP)* contained within the Poisons Standards by the TGA. However, since October 2016 a new Schedule 8 has been created for medicinal cannabis for human therapeutic use (and when cultivated, manufactured or otherwise produced within the requirements of the ND Act).

State and territory governments also have a role in regulation of medicinal cannabis since they manage medicine scheduling and determine how controlled drugs, including medicinal cannabis, may be authorised for use by specified patient groups in their jurisdiction. This particularly impacts the authorisation for the use of Schedule 8 products.

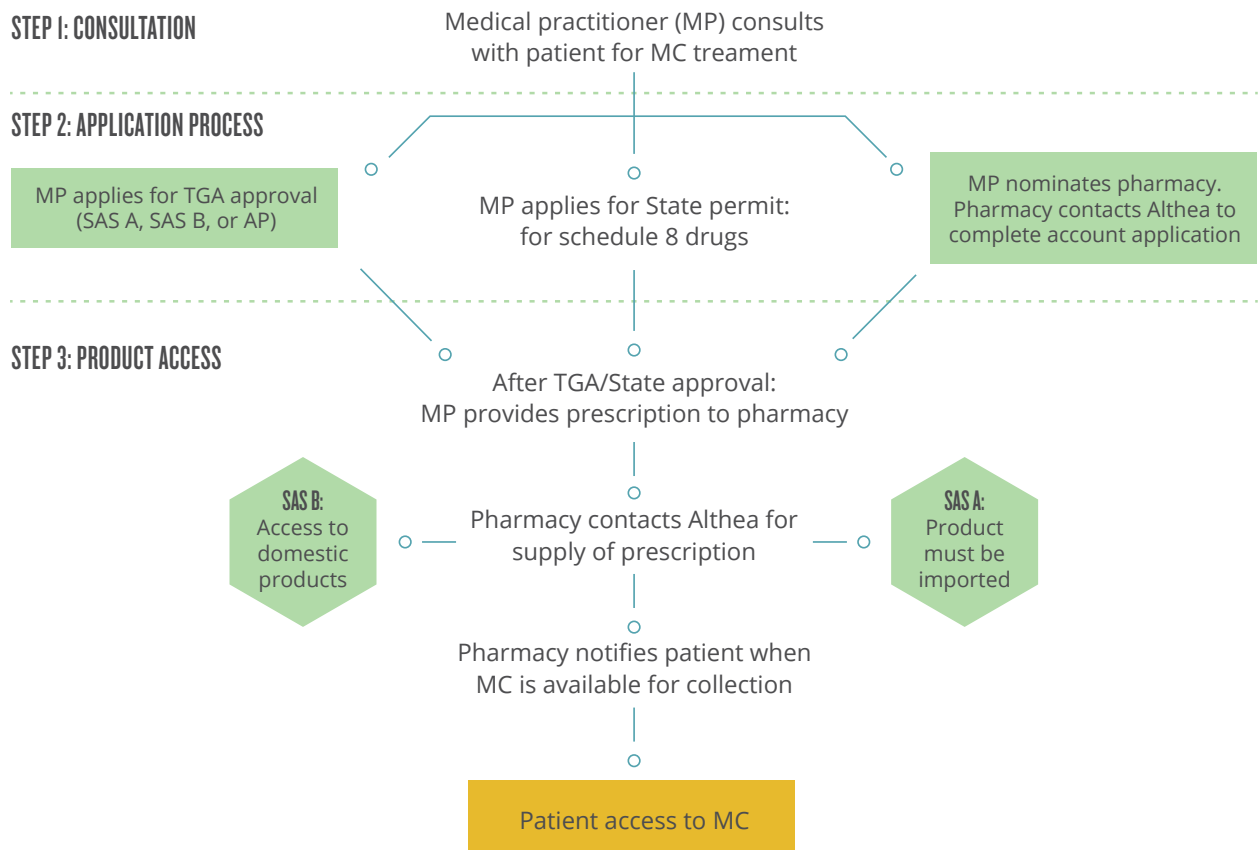
The current status of regulation relating to medicinal cannabis in Australian states is summarised below:

STATE	COMMENTS
NSW	Medical practitioners may apply to NSW Health for authority to prescribe and supply cannabis-based products that are not on the ARTG, in appropriate circumstances. This follows the passing of the <i>Poisons and Therapeutic Goods Amendment (Designated Non-ARTG Products) Regulation 2016</i> (NSW).
QLD	The <i>Health (Drugs and Poisons) Regulation 1996</i> (Qld) was amended in 2015 and 2016 to allow medical practitioners to prescribe cannabis products for defined classes of patients.
SA	From 1 November 2016, medical practitioners in South Australia can legally prescribe medicinal cannabis products with Commonwealth approval and relevant State approval for the purposes of South Australian Controlled Substances legislation.
TAS	The Tasmanian Government has introduced a controlled access scheme which allows unregistered cannabinoid products to be prescribed in situations where conventional treatment has been unsuccessful.
VIC	The <i>Access to Medicinal Cannabis Act 2016</i> (Vic) allows the supply of medicinal cannabis products for approved medical conditions, and also allows for the lawful manufacture of medicinal cannabis products.
WA	Cannabis-based products may be provided under authorisation from the WA Department of Health.

Patient access Step-by-step

Medicinal cannabis is highly regulated in Australia and the pathways to access treatment across states is a complexity that potential patients have to deal with. Althea Group understands this complexity and has invested in educational resources and collateral to help guide healthcare professionals through the pathways to access treatment.

The below diagram outlines the steps required for a patient to access medicinal cannabis and the process for medical practitioners to gain the relevant approvals and permits to prescribe and supply medicinal cannabis products.



4. BUSINESS OVERVIEW continued

4.7 Sales

Sales strategy

Althea Group's prescription-only products are prohibited from advertisement to the general public, as stipulated by the requirements of the TG Act and the *Competition and Consumer Act 2010*.

As such, Althea Group's sales strategy is built on growing one-on-one patient and medical practitioner relationships through support provided by Althea Group's team of medical science liaisons provided by Hahn Healthcare and the Althea Concierge mobile application and web based platform.

Medical Science Liaison Team

Hahn Healthcare, an experienced contract sales and services organisation for the medical community, is working exclusively in relation to medicinal cannabis with Althea Group and is dedicated to educating health care professionals about medicinal cannabis.

Althea Group's immediate aim is to educate health care professionals about medicinal cannabis and provide clarity and support to navigate the complexities of regulation and patient access.

The Medical Services Agreement incorporates a full-time support team consisting of a Medical Manager, a Virtual Medical Representative, a Pharmacy Account Manager and team of Medical Science Liaisons with national coverage.

Althea Concierge

Althea Group intends to accelerate its efforts to supply more medicinal cannabis products to pharmacists in Australia by investing in Althea Concierge to increase user engagement and provide regular updates to the platform.

As with any prescription only medication, Althea Group customers must obtain a prescription from a qualified medical practitioner with the products dispensed by a pharmacist.

As noted in section 4.5 above, Althea Group aims to position Althea Concierge as one of the primary drivers of patient access to medicinal cannabis by clearly communicating the steps involved for a patient to access medicinal cannabis. Althea Group also aims for Althea Concierge to become an increasingly integral tool for medical practitioners, providing assistance with the registration processes, scheduling consultations, administering prescriptions and maintaining treatment plans.

4.8 Production

As noted above, Althea Group intends to grow and manufacture its own high quality medicinal cannabis in Australia for supply to eligible patients in Australia through the proposed construction and operation of a 4,080m² cannabis cultivation and production facility in Skye, Victoria.

The development of Althea Group's proposed 4,080m² cannabis cultivation and production facility is at an early stage of development and remains subject to Althea Company receiving all necessary town planning and building approvals. In addition, various ODC permits will be required at the time when cultivation and manufacturing is intended to commence at the facility.

As at the Prospectus Date, Althea Group has achieved the following key milestones in relation to the development of its proposed cannabis cultivation and production facility:

- Althea Company has entered into a long-term lease with Mansfield for a 10 acre parcel of land in Skye, Victoria.
- Althea Company has obtained licences from the ODC in respect of cultivation, and has applied for a licence to manufacture. Both licence applications included extensive details on the proposed building design and layout.
- Althea Company has entered into an *Early Works Contract* with Powerplants Australia under which Althea Company has engaged Powerplants Australia to perform early works associated with the design, construction, supply of plant and equipment and commissioning of a fully scalable 4,080m² medicinal cannabis cultivation and production facility to be located on the land leased from Mansfield. The goal is to produce approximately 3 tonnes of high grade dried medicinal cannabis flower each year at the facility. The scope of works to be performed by Powerplants Australia includes preliminary consulting work, design, engineering and project management services and sourcing and purchasing for Althea Group certain construction and production assets required to construct and operate the facility. Following Listing, Althea Company intends to enter into a *Design and Construct Contract* with Powerplants Australia to design and construct the entire facility. Please refer to section 10.5.5 for further details of the *Early Works Contract*.

- Althea Company has entered into the Plant & Genetics Acquisition Agreement with Aphria under which Althea Company can acquire and import clonal starting materials for its pre-existing range of products for cultivation at its proposed cultivation and production facility. At the time of actually importing these materials, Althea Company will need to obtain certain permits from the ODC and the Department of Agriculture and Water Resources.

The key remaining steps which Althea Group needs to complete before it can commence construction of its proposed cultivation and production facility and, ultimately, cultivation and production of medicinal cannabis are as follows:

- Preparation of facility design and plans in consultation with Powerplants Australia under terms of Design *Early Works Contract*.
- Application to the Frankston City Council for a planning permit for buildings and works associated with the construction of the cultivation, extraction and manufacturing facility, the use of the facility for the production of medical cannabis, the removal of any River Red Gum trees, the creation of access to Hall Street (which will also require approval from VicRoads) and the removal of native vegetation, in relation to the land which is leased from Mansfield.
- Confirmation as to whether any cultural heritage approval is required and whether any approval is required under the *Environment Protection and Biodiversity Conservation Act 1999*.
- Finalise facility quote and design with Powerplants Australia based on requirements and conditions in the planning permit issued by Frankston City Council.
- Issue notice to proceed to Powerplants Australia to commence construction.
- Following completion of construction of the facility, the facility must be inspected by the ODC to ensure adherence to security plans accepted by the ODC prior to being granted a permit to cultivate and/or manufacture.
- Althea Company also requires an importation permit, issued by the ODC, in respect of the importation of nursery stock. The nursery stock is subject to strict quarantine and phytosanitary certification requirements prior to nursery stock being permitted into Australia.

The proposed scalable facility is expected to feature greenhouse areas of approximately one acre, a processing laboratory and climate-controlled vaults for storing materials and finished products. The goal is to produce approximately 3 tonnes of high grade dried medicinal cannabis flower each year at the facility.

Althea Group's cultivation and manufacturing infrastructure is expected to cost \$10.365 million (or \$11.2 million including typical project construction contingency costs).

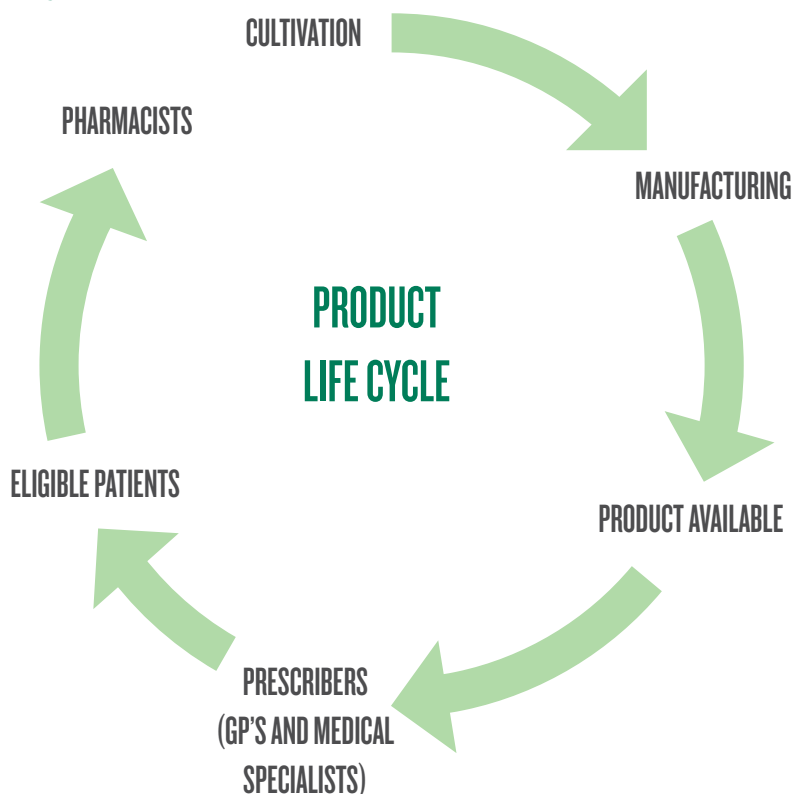
As with any proposed medicinal cannabis cultivation and production facility, there are a number of risks associated with the development, construction and operation of Althea Group's proposed cannabis cultivation and production facility, including a failure to receive the required licences and permits, construction cost overruns and agricultural risks associated with cultivation. Please refer to sections 6.2.8, 6.2.7 and 6.2.6 for a summary of some of this risks.

4.9 Export

Althea Group's current business model focuses on import, distribution, cultivation and manufacture of medicinal cannabis in Australia. Subject to Althea Group's proposed cultivation and manufacture operations being constructed, Australian demand is sufficiently supplied and Althea Group obtaining the relevant licences and permits described in sections 3.8 and 4.3 to export cannabis products Althea Group may consider and assess the potential to extend its business model to access potential export demand.

4. BUSINESS OVERVIEW continued

4.10 Product Life Cycle



4.11 Key success factors

Althea Group aims to become a leading and trusted medicinal cannabis brand in Australia. Ultimately, Althea Group's success will depend on the achievement of its strategic objectives, which include:

- Growing revenue by expanding Althea Group's national network of registered and approved medical practitioners and pharmacists prescribing and supplying Althea Group product.
- Establishing a medicinal cannabis cultivation, cannabinoid extraction and manufacturing facility capable of domestic manufacture of Althea Group's five medicinal cannabis products.
- Continuing focus on patient care, patient access and support to open the pathways for medical practitioners and pharmacists.

4.12 Strategic relationships

Central to Althea Group's development has been its strategic partnerships with respected and experienced experts in the fields of medicinal cannabis manufacturing, propagation and medical support services.

Set out below is a summary of the key strategic relations which Althea Group has established to date. Please refer to section 10.4 for a summary of the material terms of these relationships.

Aphria

Aphria is listed on the Toronto Stock Exchange (TSX:APH) and is one of the largest Canadian cannabis companies licensed by Health Canada with substantial cultivation, manufacturing, distribution, patient services and R&D operations.

Aphria and Althea Company have entered into the Aphria Product Supply Agreement to enable Althea Group to acquire and import finished medicinal cannabis products into Australia and New Zealand. The Aphria Product Supply Agreement is Althea Group's key supply contract, therefore Althea Group's current ability to generate revenue is heavily reliant on its strategic arrangements with Aphria. The Aphria Product Supply Agreement has an initial 3 year term which expires on 25 September 2020 and will automatically renew for successive 90 day periods unless terminated earlier.

Aphria and Althea Company have also entered into the Plant & Genetics Acquisition Agreement, which provides Althea Group with the ability to import clonal starting materials for cultivation. Aphria is providing 200 cuttings of its Henik and Treasure Island strains of cannabis. These cannabis cuttings are intended to be used as nursery stock for Althea Company's medicinal cannabis cultivation and manufacturing business.

Pharmaceutical Packaging Professionals Pty Ltd

PPP is Althea Group's third-party warehousing, distribution and logistics partner. Althea Company has entered into the Warehousing Agreement under which PPP provides Althea Group with GMP finished product warehousing and distribution services.

PPP's Melbourne facilities have been purpose built to enable handling of the diverse range of drug substances and drug products and hold the relevant state Drugs and Controlled Substances Licences.

While Althea Company has been issued a licence from the Victorian Department of Health and Human Services to sell or supply by wholesale Schedule 8 or Schedule 9 Poisons (other than Heroin) which permits Althea Company to sell or supply cannabis and tetrahydrocannabinols by indent, this licence does not permit Althea Company to possess or store cannabis products. Althea Company therefore relies on PPP to provide distribution services in respect of the transportation of medicinal cannabis products imported from Aphria, and warehousing services whereby PPP securely stores medicinal cannabis products imported by Althea Company in its purpose built facilities.

Hahn Healthcare

Hahn Healthcare is Althea Group's exclusive medical education partner. Founded in 1994, Hahn Healthcare is an experienced contract sales and services organisation for the medical community.

Althea Company has entered into the Medical Services Agreement under which Hahn Healthcare provides Althea Group with a full-time medical science liaison team consisting of a Medical Manager, a Virtual Medical Representative, a Pharmacy Account Manager and team of Medical Science Liaisons with national coverage.

Hahn Healthcare is working exclusively with Althea Group and is dedicated to facilitating patient access to medicinal cannabis through the education of health care professionals.

As noted in section 4.7, Althea Group's sales strategy is built on growing one-on-one patient and medical practitioner relationships through support provided by Althea Group's team of medical science liaisons provided by Hahn Healthcare and the Althea Concierge mobile application and web based platform. Althea Group's ability to generate revenue is reliant on its strategic arrangements with Hahn Healthcare.

4.13 Alternative suppliers

As noted in section 6.2.5, there is no guarantee or certainty that any agreement with Aphria, PPP or Hahn Healthcare will be renewed upon its expiry or, if any such agreement is renewed, the terms that may apply to such renewal will be acceptable to Althea Group. There is also a risk that Althea Group's agreements with Aphria, PPP or Hahn Healthcare may be terminated before the end of the relevant term or either one or more of Aphria, PPP or Hahn Healthcare cannot (or fail to) comply with their obligations under their respective arrangements with Althea Group. If any of these risks eventuate Althea Group may be unable to continue to earn revenue from the supply of medicinal cannabis in Australia unless alternative arrangements can be negotiated.

As at July 2018, 13 companies are listed on the ODC website as licensed suppliers of medicinal cannabis. If Althea Group's arrangements with Aphria are terminated or expire, Althea Group would need to engage with one of these companies to put in place alternative supply arrangements.

Similarly, if Althea Group's arrangements with PPP or Hahn Healthcare are terminated or expire, Althea Group would need to engage with alternative providers of, in the case of PPP, pharmaceutical warehousing and logistic service providers and, in the case of Hahn Healthcare, medical education service providers in Australia. Althea Group considers there to be reputable alternative providers for these services in Australia.

4.14 Competition

Each of the industry sectors in which Althea Group operates (or intends to operate) are immature and evolving driven largely by legislative reform within industry sectors and jurisdictions as Australia moves from a framework which essentially prohibited the importation, storage, production, supply and export of any cannabis products, to a framework which permits but strictly regulates such actions.

As cultivation and the manufacturing of medicinal cannabis products in Australia was only legalised in October 2016, Althea Group expects that the competitive landscape will continue to evolve over time.

As at July 2018, 18 Medicinal Cannabis Licences (cultivation and production) and 13 Manufacture Licences have been granted in Australia, and 13 companies are listed on the ODC website as licensed suppliers.

There are barriers to entry in the medicinal cannabis market preventing new companies establishing competing businesses. These barriers to entry are primarily regulatory, including the need to obtain the requisite licences, permits and approvals and attracting employees and management with the required expertise.

5.

FINANCIAL INFORMATION



5. FINANCIAL INFORMATION

5.1 Introduction

This section contains a summary of the Historical Financial Information and the Pro Forma Historical Financial Information (together, the **Financial Information**) of Althea Holdings and Althea Company.

- The **Historical Financial Information** is the:
 - » Audited Statement of Profit or Loss and Other Comprehensive Income of Althea Company for the 15-month period from incorporation (being 24 March 2017) to 30 June 2018 (**FY18**);
 - » Audited Statement of Cash Flows of Althea Company for FY18;
 - » Audited Statement of Financial Position of Althea Company as at 30 June 2018; and
 - » Audited Statement of Financial Position of Althea Holdings as at 30 June 2018.
- The **Pro Forma Historical Financial Information** is the Consolidated Pro Forma Statement of Financial Position of Althea Group at 30 June 2018, assuming completion of the transactions summarised in section 5.5.

Also summarised in this section 5 are:

- the basis of preparation and presentation of the Financial Information (section 5.2); and
- Althea Holdings' proposed dividend policy (section 5.16).

The Financial Information has been reviewed in accordance with the Australian Standard in Assurance Engagements ASAE 3450 *Assurance Engagements involving Fundraising and/or Prospective Financial Information* by the Investigating Accountant, whose report is contained in section 9. Investors should note the scope and limitations of the Investigating Accountant's Report.

The information in this section 5 must be read in conjunction with the Key Risks set out in section 6 and other information contained in this Prospectus.

5.2 Basis of preparation and presentation of the Financial Information

Overview

The Directors are responsible for the preparation of the Financial Information.

The Financial Information has been prepared and presented in accordance with the recognition and measurement principles of the AAS issued by the AASB, which are consistent with IFRS and interpretations issued by the IASB.

Preparation of Financial Information

The Financial Information has been prepared and presented in accordance with the accounting policies set out in section 5.6.

Althea Holdings was incorporated in Victoria, Australia on 21 June 2018, primarily for the purpose of becoming a listing vehicle and holding company for the business operated by Althea Company. Althea Holdings has no trading history.

The Historical Financial Information for Althea Holdings has been extracted from Althea Holdings' financial statements for the period 21 June 2018 to 30 June 2018, which were audited by RSM Australia Partners (Auditor), and on which an unqualified audit opinion was issued.

The Financial Information of Althea Holdings has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles described in AAS and Althea Holdings' adopted accounting policies.

The Historical Financial Information for Althea Company has been extracted from Althea Company's financial statements for FY18, which were audited by the Auditor and on which an unqualified audit opinion was issued.

The Financial Information has been solely prepared for inclusion in this Prospectus and is presented in an abbreviated form insofar as it does not include all the presentation and disclosures required by AAS and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act.

The Pro Forma Historical Financial Information has been prepared solely for inclusion in this Prospectus.

5. FINANCIAL INFORMATION continued

5.3 Historical Financial Information

5.3.1 Historical Statement of Profit or Loss and Other Comprehensive Income

The table below sets out Althea Company's historical Statement of Profit or Loss and Other Comprehensive income for FY18.

	Audited Period from 24-Mar-17 to 30-Jun-18 \$
Sales revenue	10,720
Cost of sales	(10,172)
Gross profit	548
Other income	5,384
Distribution expense	(14,009)
Employee benefits expense	(191,971)
Marketing expense	(1,079,069)
Occupancy expense	(45,484)
Administration expense	(237,024)
Accounting & consulting expense	(232,074)
Finance costs	(1,867)
Other expenses	(76,019)
Loss for the period	(1,871,585)
Total other comprehensive income for the period	-
Total comprehensive income for the period	(1,871,585)

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

5.3.2. Historical Statement of Cash Flows

The table below sets out Althea Company's historical Statement of Cash Flows for FY18.

	Audited Period from 24-Mar-17 to 30-Jun-18 \$
Cash flows from operating activities	
Receipts from customers	1,095
Payments to suppliers and employees	(2,004,839)
Interest paid	(1,305)
Net cash used in operating activities	(2,005,049)
Cash flows from financing activities	
Proceeds from issue of shares	4,300,000
Interest received	5,384
Net cash from financing activities	4,305,384
Net increase/(decrease) in cash and cash equivalents	2,300,335
Cash and cash equivalents at the beginning of financial period	–
Cash and cash equivalents at the end of financial period	2,300,335

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

5. FINANCIAL INFORMATION continued

5.4 Pro Forma Historical Financial Information

The Consolidated Pro Forma Statement of Financial Position as at 30 June 2018, set out below, has been prepared to illustrate the effects of the acquisition of Althea Company by Althea Holdings, and assumes the completion of the pro forma transactions set out in section 5.5 as if they had occurred at 30 June 2018.

		Althea Holdings Audited	Althea Company Audited	Pro Forma	
	Notes	As at 30-Jun-18 \$	As at 30-Jun-18 \$	Transactions Unaudited \$	Pro Forma Unaudited \$
ASSETS					
Current assets					
Cash and cash equivalents	5.7	1	2,300,335	20,005,452	22,305,788
Trade and other receivables		–	66,348	–	66,348
Inventories		–	84,656	–	84,656
Other current assets	5.8	–	648,151	–	648,151
Financial assets	5.9	–	200,000	–	200,000
Total current assets		1	3,299,490	20,005,452	23,304,943
Total assets		1	3,299,490	20,005,452	23,304,943
LIABILITIES					
Current liabilities					
Trade and other payables		–	151,075	–	151,075
Employee provisions		–	12,500	–	12,500
Total current liabilities		–	163,575	–	163,575
Total liabilities		–	163,575	–	163,575
Net Assets		1	3,135,915	20,005,452	23,141,368
Equity					
Issued capital	5.10	1	5,007,500	20,414,313	25,421,814
Reserves	5.11	–	–	267,500	267,500
Accumulated losses	5.13	–	(1,871,585)	(676,361)	(2,547,946)
Total Equity		1	3,135,915	20,005,452	23,141,368

The Consolidated Pro Forma Statement of Financial Position represents the unaudited Statement of Financial Position of Althea Group as at 30 June 2018, adjusted for the pro forma transactions outlined in section 5.5 relating to the issue of Shares pursuant to this Prospectus and other transactions.

The Audited Statement of Financial Position of Althea Holdings and Althea Company has been extracted from the audited financial statements of Althea Holdings and Althea Company for FY18.

5.5 Pro Forma Adjustments

The Pro Forma Historical Financial Information comprises Althea Holdings' consolidated pro forma statement of financial position as at 30 June 2018, including the following pro forma transactions to reflect the financial effects of the following transactions as if they had occurred at 30 June 2018:

- (a) the issue of 90,000,000 Shares in Althea Holdings to acquire the 12,000 fully paid ordinary shares in Althea Company under the Top Hatting Arrangement;
- (b) the Pre-Prospectus Capital Raising comprising the issue of 12,000,000 Shares to Institutional Investors at an issue price of \$0.1667 per Share to raise \$2,000,400, less costs of undertaking the Pre-Prospectus Capital Raising of \$100,000;
- (c) the Offer issue of 98,250,000 Shares at an issue price of \$0.20 per Share to raise \$19,650,000, before expenses of the capital raising. The pro forma adjustments assume that the Offer is fully subscribed and all Shares pursuant to the Prospectus will be issued as fully paid;
- (d) expected cash costs of undertaking the Offer of \$1,335,346, comprising \$1,136,087 recognised through equity and \$199,259 in expenses recognised through the Statement of Profit or Loss;
- (e) the issue of the PAC Adviser Shares, comprising 3,060,000 Shares to be issued to PAC Partners under PAC Offer;
- (f) the issue of Pre-IPO Consultant Options, comprising 2,675,000 Options to be issued to the Pre-IPO Consultants; and
- (g) material expenses incurred subsequent to 30 June 2018 to the date of the Prospectus of \$209,602.

5.6 Summary of Significant Accounting Policies

Basis of Preparation

These general purpose financial statements have been prepared in accordance with the Corporations Act, the AAS and interpretations of the AASB and IFRS as issued by the IASB. Althea Holdings is a for-profit entity for financial reporting purposes under the AAS. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements, except for cash flow information, have been prepared on an accrual basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The amounts presented in the financial statements have been rounded to the nearest dollar.

(a) Principles of consolidation

Subsidiaries

Subsidiaries are all entities over which Althea Holdings has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Althea Holdings controls the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to Althea Holdings and de-consolidated from the date that control ceases. The financial performance of those activities is included only for the period of the year that subsidiaries were controlled.

Intercompany transactions, balances and unrealised gains on transactions between consolidated entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by Althea Holdings.

Business Combinations

The acquisition of a 100% equity interest in Althea Company by Althea Holdings does not constitute a business combination as outlined in AASB 3 Business Combinations (**AASB 3**) as the standard does not apply to a business combination of entities under common control. A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

Althea Holdings was incorporated primarily for the purpose of becoming a listing vehicle and holding company for the business operated by Althea Company and has no trading history. Accordingly, the acquisition of Althea Company is a common control transaction and is in effect, a restructure of Althea Group. There is no specific guidance on the accounting treatment of common control transactions. In accordance with generally accepted practice, the acquisition of Althea Company has been accounted for using book value accounting whereby the assets and liabilities of Althea Company are recognised at their previous carrying amounts. No adjustments were made to reflect fair values and no new assets and liabilities of Althea Company were recognised at the date of the acquisition.

5. FINANCIAL INFORMATION^{continued}

(b) Fair Value of Assets and Liabilities

Althea Holdings measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable accounting standard.

Fair value is the price Althea Holdings would receive to sell an asset or would have to pay to transfer a liability in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instruments, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate proportion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity.

Costs are assigned on the basis of weighted average costs.

(d) Financial Instruments

Initial Recognition and Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is the date that the entity commits itself to either purchase or sell the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are recognised as expenses in profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Classification and Subsequent Measurement

Financial instruments are subsequently measured at fair value, less amortised cost using the effective interest method, or cost. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

Regular purchases and sales of financial assets are recognised and derecognised at settlement date in accordance with the entity's accounting policy.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

Impairment of financial assets

At the end of each reporting period, the company assesses whether there is objective evidence that a financial asset has been impaired. A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a 'loss event') having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

Financial assets, other than those measured at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial assets, such as trade receivables, assets that are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account.

Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

At the end of each reporting period the company assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired (other than financial assets classified as at fair value through profit or loss).

(e) Foreign Currency Translations and Balances

Functional and presentation currency

The functional currency is the currency of the primary economic environment in which the entity operates. The financial statements are presented in Australian dollars, which is the entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on translation of are recognised directly in other comprehensive income to the extent that the underlying gain or loss is directly recognised in other comprehensive income, otherwise the exchange difference is recognised in profit or loss.

5. FINANCIAL INFORMATION^{continued}

(f) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(g) Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest method, which for floating rate financial assets is the rate inherent in the instrument.

All revenue is stated net of the amount of goods and services tax (GST).

(h) Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to section 5.6(d) for further discussion on the determination of impairment losses.

(i) Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the company that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

Trade and other payables are initially measured their fair value and subsequently measured at amortised cost using the effective interest method.

(j) GST

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 Taxation Office (ATO).

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 ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities, which are recoverable from or payable to the ATO, are presented as operating cash flows included in receipts from customers or payments to suppliers.

(k) Comparative Figures

The 15-month period is the first period of trading for Althea Company, there are therefore no comparatives for 2017.

5.7 Cash and cash equivalents

	Note	As at 30-Jun-18 \$	Unaudited Pro Forma \$
Cash and cash equivalents		1	22,305,788
Cash as at 30 June 2018			1
<i>Adjustments arising in the preparation of the Pro Forma Statement of Financial Position are summarised as follows:</i>			
Cash acquired in Althea Company			2,300,335
Pre-Prospectus Capital Raising	5.5(b), 5.10		2,000,400
Less costs of undertaking the Pre-Prospectus Capital Raising	5.5(b), 5.10		(100,000)
Proceeds from the Offer pursuant to this Prospectus	5.5(c), 5.10		19,650,000
Less costs of undertaking the Offer	5.5(d), 5.10, 5.13		(1,335,346)
Less material expenses incurred subsequent to 30 June 2018	5.5(g), 5.13		(209,602)
Pro Forma Balance			22,305,788

5.8 Other current assets

	As at 30-Jun-18 \$	Unaudited Pro Forma \$
Other current assets	–	648,151
Other current assets as at 30 June 2018		–
<i>Adjustments arising in the preparation of the Pro Forma Statement of Financial Position are summarised as follows:</i>		
Other current assets acquired from Althea Company		648,151
Pro Forma Balance		648,151
Other current assets in the unaudited pro forma comprises:		
Prepayments		226,120
Prepayment (inventory) – Aphria		422,031
Pro Forma Balance		648,151

On 11 January 2018, Aphria was issued 2,500 shares in Althea Company for \$2,500,000, of which \$1,800,000 was received in cash and \$500,000 was a prepayment on inventory to be delivered at a future date, with a further \$200,000 to be settled in cash or inventory depending on Althea Company's inventory requirements (refer Note 5.9).

5. FINANCIAL INFORMATION continued

5.9 Financial assets

	As at 30-Jun-18 \$	Unaudited Pro Forma \$
Financial assets	–	200,000
Financial assets as at 30 June 2018		–
<i>Adjustments arising in the preparation of the Pro Forma Statement of Financial Position are summarised as follows:</i>		
Financial assets acquired from Althea Company		200,000
Pro Forma Balance		200,000

The contractual receivable relates to an agreement between Althea Company and its major supplier, Aphria, which, depending upon Althea Company's inventory requirements, will be settled in inventory or cash to the value of \$200,000 (refer Note 5.8)

5.10 Issued Capital

	Note	Number of ordinary shares	\$
Issued capital at 30 June 2018		1	1
<i>Adjustments arising in the preparation of the Pro Forma Statement of Financial Position are summarised as follows:</i>			
The issue of 90,000,000 Shares to acquire Althea Company	5.5(a)	90,000,000	5,007,500
Pre-Prospectus Capital Raising	5.5(b), 5.7	12,000,000	2,000,400
Less costs to undertake the Pre-Prospectus Capital Raising	5.5(b), 5.7	-	(100,000)
		102,000,001	6,907,901
Shares issued under the Offer pursuant to this Prospectus	5.5(c), 5.7	98,250,000	19,650,000
Less costs of undertaking the Offer	5.5(d), 5.7, 5.13	-	(1,136,087)
PAC Adviser Shares to be issued to PAC Partners under the PAC Offer	5.5(e)	3,060,000	612,000
Cost of PAC Adviser Shares issued to PAC Partners	5.5(e)	-	(612,000)
Pro Forma Balance		203,310,001	25,421,814

5.11 Reserves

	Note	As at 30-Jun-18 \$	Unaudited Pro Forma \$
Options reserve		–	267,500
Options reserve at 30 June 2018			–
<i>Adjustments arising in the preparation of the Pro Forma Statement of Financial Position are summarised as follows:</i>			
Fair value of 2,675,000 Pre-IPO Consultant Options issued to the Pre-IPO Consultants	5.5(f), 5.13		267,500
Pro Forma Balance			267,500
Details of Pre-IPO Consultant Options to be issued are set out in section 7.3.9.			
Fair values at grant date are determined using a Black-Scholes option pricing model using the following assumptions:			
Pre-IPO Consultant Options			
Risk free rate			2.6%
Expected dividend yield			0%
Expiry date			4 years
Expected volatility			90%
Fair value per option issued			\$0.10
Number of options on issue			2,675,000

5.12 Long Term Incentive Plan

Details of Performance Rights to be issued under the Long Term Incentive Plan (**LTI Plan**) are set out in section 7.3.5.

No adjustment has been made in the Consolidated Pro Forma Statement of Financial Position for the 5,100,000 Performance Rights proposed to be granted to Joshua Fegan under the LTI Plan subject to Listing on the basis that, in accordance with AASB 2 Share-based Payment, the total expense in relation to the Performance Rights will be recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied.

5. FINANCIAL INFORMATION continued

5.13 Accumulated losses

	Note	Audited 30-Jun-18 \$	Unaudited Pro Forma \$
Accumulated losses		–	(2,547,946)
Accumulated losses at 30 June 2018			–
<i>Adjustments arising in the preparation of the Pro Forma Statement of Financial Position are summarised as follows:</i>			
Accumulated losses acquired in Althea Company			(1,871,585)
Costs of undertaking the Offer (expensed)	5.5(d), 5.7, 5.10		(199,259)
Issue of 2,675,000 Pre-IPO Consultant Options to the Pre-IPO Consultants	5.5(f), 5.11		(267,500)
Material expenses incurred subsequent to 30 June 2018	5.5(g), 5.7		(209,602)
Pro Forma Balance			(2,547,946)

5.14 Related party disclosure

As at the Prospectus Date, the related parties of Althea Holdings comprise each Director, each entity which is controlled by a Director, each spouse or de facto spouse of a Director and the parents and children of each Director.

The Directors of Althea Holdings at the Prospectus Date are:

- Andrew Newbold
- Joshua Fegan
- Gregg Battersby
- Alan Boyd

The number of Shares which are expected to be held by each Director on Completion of the Offer, remuneration to be paid by the Althea Group to each Director and the other interests of the Directors are set out in section 7 of this Prospectus.

There have been no related party transactions other than the Directors' transactions set out in section 7.

On Completion of the Offer, it is expected that approximately 29.59% of the total number of Shares on issue in Althea Holdings will be held by related parties of Althea Holdings.

5.15 Commitments and contingent liabilities

Althea Holdings has no commitments or contingent liabilities as at the Prospectus Date.

5.16 Dividend policy

Althea Holdings anticipates that significant expenditure will be incurred on various activities over the two years following the Prospectus Date, as described in section 8.4. Consequently, Althea Holdings does not expect to declare any dividends during that period.

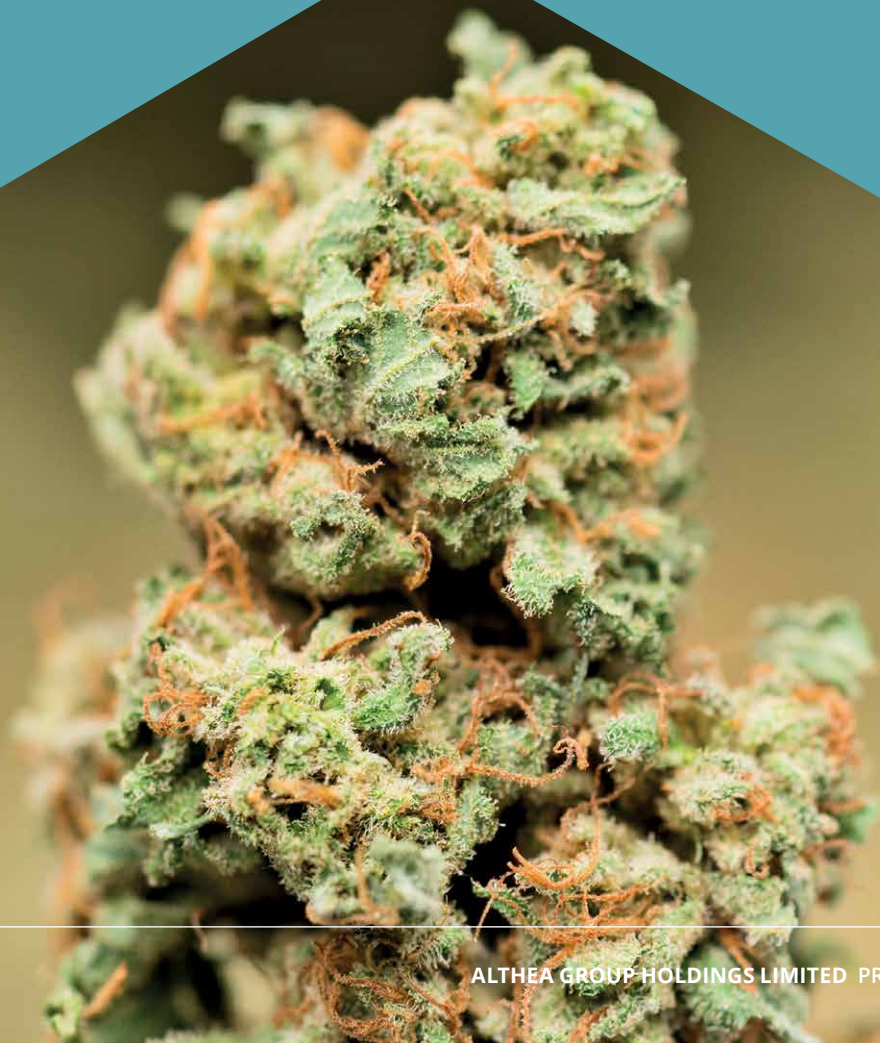
Any future determination as to the payment of dividends by Althea Holdings will be at the discretion of the Directors and will depend on the availability of distributable earnings, operating results, the financial condition of Althea Holdings, future capital requirements and general business and other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

5.17 Foreign Exchange Hedging Policy

Althea Group does not maintain a formal foreign currency hedging policy.

6.

KEY RISKS



6. KEY RISKS

6.1 Introduction

This section 6 describes potential risks associated with Althea Group's business and an investment in Shares. It does not list every risk that may be associated with Althea Group and the occurrence or consequences of some of the risks described in this section 6 are partially or completely outside the control of Althea Group and its Directors and Management.

The selection of risks has been based on an assessment of a combination of the probability of the risk occurring and the impact of the risk if it did occur. The assessment is based on the knowledge of the Directors and Management as at the Prospectus Date. The risks may change or other risks may emerge after that date.

Before applying for Shares, you should be satisfied that you have a sufficient understanding of the risks involved in making an investment in Althea Holdings and whether it is a suitable investment, having regard to your investment objectives, financial situation and particular needs (including financial and taxation issues). It is recommended that you seek professional guidance from your stockbroker, solicitor, accountant or other independent and qualified professional adviser before deciding whether to invest.

Prospective investors should be aware that the risks outlined in this section 6 should be considered in conjunction with the other information disclosed in this Prospectus. There can be no guarantee that Althea Group will achieve its stated objectives or that any forward looking statements contained in this Prospectus will be realised or otherwise eventuate.

6.2 Risks specific to an investment in Althea Group

6.2.1 Failure to obtain and retain licences and permits

Althea Group's business model relies on Althea Company obtaining all necessary licences and permits required to import medicinal cannabis products in Australia, cultivate and manufacture medicinal cannabis products in Australia and sell and supply medicinal cannabis products in Australia (see section 3 for an overview of the current regulatory regime in Australia).

The status of the various licences and permits required by Althea Group to undertake its business activities are summarised in section 4.3. There is no guarantee that Althea Group will be granted each licence and permit referred to in section 3 which are subject to pending applications by Althea Group or which have not yet been applied for by Althea Group. The length of time for application approvals is currently unknown and there is no guarantee that each licence or permit will be granted to Althea Company on the terms anticipated by Althea Group.

There is also no guarantee that any licence or permit already issued to Althea Group will not be revoked during the term of the relevant licence or permit, or that the licence or permit will be renewed for a further period of time or renewed on terms anticipated by Althea Group.

If any current or future application made by Althea Company for a permit or licence is not approved, or any of Althea Company's existing licences or permits are revoked or not renewed, Althea Group will not be able to undertake the activities for which the relevant licence or permit is required. This will adversely affect Althea Group's ability to generate revenue, which will reduce Althea Group's overall profitability and adversely impact its financial performance.

6.2.2 Althea Group is start-up and medicinal cannabis industry in Australia is new

Potential investors should be aware that any investment in a start-up enterprise, such as Althea Group, and any investment in an industry which is in the early stages of development, such as the medicinal cannabis industry in Australia, should be considered highly speculative and involves several significant risks. These risks include under-capitalisation of the start-up enterprise, obstacles or delays in the implementation of business plans and uncertainties associated with the ability to continue to generate revenue.

There are no guarantees or assurances that Althea Group will achieve any of its business objectives, that Althea Group will be able to continue to generate revenue (including the amount of such revenue) or that any products that it actually cultivates will be commercially exploitable.

6.2.3 Additional funding may be required

The Directors consider that the funds to be raised under the Offer are sufficient to meet Althea Group's current business objectives. However, additional funding will be required if Althea Group's expected costs to meet its current objectives exceed its expectations.

If additional funding is required, Althea Holdings will look to raise additional funds through equity financing, debt financing or a combination of both. Failure to obtain sufficient funding may result in delay and indefinite postponement of Althea Holdings' activities or expansion plans. There can be no assurance that additional financing will be available when needed, on terms appropriate to Althea Holdings or that do not involve substantial dilution to Shareholders.

6.2.4 Uncertainty of future revenue and profitability

Althea Group has only recently generated revenue from the supply of medicinal cannabis products purchased from Aphria and imported into Australia. Future sales of medicinal cannabis by Althea Group, and Althea Group's future profitability, is contingent on patient uptake of the medical cannabis supplied by Aphria, the results of further medical research and clinical trials in relation to medicinal cannabis, general economic conditions, the level of competition in the industry and regulatory factors.

Consequently, the level of any future sales by Althea Group of medicinal cannabis cannot be accurately determined and Althea Group cannot provide any guarantee that future sales will be achieved. Even if future sales are achieved, they may not result in Althea Group being profitable. These risks may affect the profitability of Althea Holdings and its financial prospects.

6.2.5 Contractual risks

Althea Group's current ability to generate revenue is heavily reliant on strategic arrangements with Aphria, PPP and Hahn Healthcare. The material terms of each arrangement are summarised in section 10.4.

There is always a risk that any one or more of Aphria, PPP and Hahn Healthcare may terminate their respective agreements with Althea Company or that they may be unable to provide the products or services contemplated by those agreements. There is also no guarantee or certainty that any agreement with Aphria, PPP or Hahn Healthcare will be renewed or, if they are renewed, the terms that may apply to such renewal. Similarly to the risks set out in section 6.2.1, there is a risk that these parties will be unable to obtain or retain all necessary licences and permits required to perform their respective services.

The ability of Althea Company any one or more of Aphria, PPP and Hahn Healthcare to comply with their obligations under the strategic arrangements may also be contingent on external factors, including but not limited to the uncertainties and changes associated with medical cannabis legislative regime discussed in section 6.2.12.

If any of the agreements with Aphria, PPP or Hahn Healthcare are terminated, Althea Group may be unable to continue to earn revenue from the supply of medicinal cannabis in Australia unless alternative arrangements can be negotiated. The inability of Althea Group to generate revenue from the supply of medicinal cannabis product will have a material adverse impact on Althea Holdings' financial performance and prospects.

While Althea Group may be able pursue a legal remedy in the event of any default or may be to negotiate alternate arrangements with third parties, these processes are likely to be time consuming, costly and disruptive to Althea Group's business.

6.2.6 Planning and building approval risks

The ability for Althea Group to construct the proposed 4,080m² cultivation, extraction and manufacturing facility in Skye, Victoria requires Althea Group to obtain appropriate planning and building approvals (including, planning and buildings permits) from Frankston City Council (**Council**) (the relevant local council and most common planning authority for Skye, Victoria) and comply with all requirements of the Frankston Planning Scheme and any planning and building permits which are granted for the use and development of the proposed manufacturing facility.

If the Council considers that the granting of a planning permit may possibly cause material detriment to other people, the Council is required to advertise the application. Given the proposed use and size of the manufacturing facility, it is likely that the Council will seek community engagement and advertise Althea Group's planning permit application.

There is a risk that members of the community may oppose Althea Group's planning application and the Council may refuse to grant a permit, or if the Council decides to grant a permit (despite any objections), it is contested through proceedings in the Victorian Civil and Administrative Tribunal brought by a third party. The worst case scenario for Althea Group would be that necessary planning approvals are not obtained from the Council (or through a contested process).

If any of these risks eventuates, Althea Group may have to reassess the location, size and/or scope of its proposed facility and seek to redeploy the services, works and assets acquired under the Early Works Contract from Powerplants Australia to a new site and/or facility. This could have a material impact on the timing and costs for executing Althea Group's own medicinal cannabis cultivation, production and supply business objectives and, ultimately, the profitability of Althea Holdings.

There is also a risk that a planning permit, once obtained, may be cancelled or amended in certain limited circumstances.

6.2.7 Construction risk

Althea Group intends to grow and manufacture its own high quality medicinal cannabis in Australia for supply to eligible patients in Australia. Althea Company has entered into a long-term lease with Mansfield for a 10 acre parcel of land in Skye, Victoria and has also entered into the Early Works Contract with Powerplants Australia for the design, construction, supply of plant and equipment and commissioning of a fully scalable 4,080m² medicinal cannabis cultivation, extraction and manufacturing facility. Following Listing, Althea Company intends to enter into a *Design and Construct Contract* with Powerplants Australia to design and construct the entire proposed facility.

Construction and operation of the proposed 4,080m² cultivation, extraction and manufacturing facility is subject to Althea Company receiving all necessary town planning and building approvals. In addition, various ODC permits will be required at the time when cultivation and manufacturing is intended to commence at the facility.

6. KEY RISKS_{continued}

There are a number of inherent risk associated with any construction project which equally apply to Althea Group's proposed 4,080m² cultivation, extraction and manufacturing facility. These include the failure to obtain all necessary town planning and building approvals, feasibility studies determining that the site in Skye, Victoria is not appropriate for the facility, time and cost overruns in construction and force majeure events. If any of these risks eventuates, Althea Group may have to reassess the location, size and/or scope of its proposed facility and seek to redeploy the services, works and assets acquired under the Early Works Contract from Powerplants Australia to a new site and/or facility. This could have a material impact on the timing and costs for executing Althea Group's own medicinal cannabis cultivation, production and supply business objectives and, ultimately, the profitability of Althea Holdings.

There is also no guarantee that Althea Group will be able to reach agreement on a *Design and Construct Contract* with Powerplants Australia to design and construct the entire proposed facility. There is also not certainty regarding the terms that may apply to such contract. If Althea is unable to agree a *Design and Construct Contract* with Powerplants Australia, or the terms of that contract are not commercially acceptable to Althea Group, Althea Group will need to source an alternate contractor to build its proposed facility. This could have a material impact on the timing and costs for executing Althea Group's own medicinal cannabis cultivation, production and supply business objectives and, ultimately, the profitability of Althea Holdings.

6.2.8 Agricultural risks associated with cannabis cultivation

The cultivation and supply of medicinal cannabis relies on agricultural processes and inputs. As noted above, Althea Group intends to grow and manufacture its own high quality medicinal cannabis in Australia for supply to eligible patients in Australia.

There are a number of risks inherent in operating as a primary producer in the agriculture industry, including plant diseases, storm, fire, frost, flood, water availability, water salinity, pests and force majeure events. These risks are inherent in Althea Group's existing import and supply business as they directly affect Aphria, Althea Group's supplier of medicinal cannabis products.

There are also numerous risks associated with the construction and use of greenhouse or alternative cultivation systems to grow medicinal cannabis, including sourcing of suitable cannabis varieties, plant diseases, underestimating the costs and time for cultivation, underestimating the lighting/heating requirements and costs of installation, human error in the execution of engineering and construction, equipment failure, supplier delays and underestimating breakages and consumables.

Any adverse outcomes in respect of these matters will adversely affect Althea Group's current and future business activities and operations, financial performance and prospects.

6.2.9 Uncertainties associated with inputs for cannabis cultivation and product manufacture

The ability for Althea Group to cultivate and manufacture products for supply in Australia is dependent on a number of key inputs and their related costs. These inputs include raw materials, electricity, water and skilled labour. As with any cultivation or manufacturing operation, the availability of reputable suppliers of key inputs and any significant interruption or change in availability or costs of key inputs could materially impact the production process and subsequently the product available for supply. This would affect the operating results of Althea Group during the period which these risks materialise.

In addition, the cultivation and manufacture of medicinal cannabis requires a deep understanding of cultivation and processing techniques and technologies. Althea Group's competitiveness and financial performance may be adversely affected if it fails to continue to invest in understanding and implementing innovative cultivation technologies and processes.

6.2.10 Risk of adverse events, product liability or other safety issues

There is a risk that the products sold by Althea Group may cause serious or unexpected side effects, including risk or injury to consumers. Should any of Althea Group's products be associated with safety risks such as misuse or abuse, inadvertent mislabelling, tampering by unauthorised third parties or product contamination or spoilage, a number of materially adverse outcomes could occur.

These adverse outcomes include the risk that regulatory authorities may revoke approvals that have been granted to Althea Group, impose more onerous facility standards or product labelling requirements or force Althea Group to conduct a product recall. Althea Group could also be subject to regulatory action or be sued and held liable for any harm caused to customers.

Althea Group maintains rigorous standards in respect of product safety and has insurance coverage to mitigate these risks in a manner customary with industry practice. However, Althea Group cannot guarantee that all such risks will be adequately managed through maintaining its rigours standards or its insurance policies. These risks could result in the loss or delay in generating revenue, loss of market share, failure to achieve market acceptance, diversion of development resources, and damage to Althea Group's reputation or increased insurance costs.

6.2.11 Uncertainties associated with medicinal cannabis legislative regime

The amendments to the ND Act in relation to medicinal cannabis came into full effect in Australia in October 2016. The ODC has published regulations and a series of guidelines which explain how the reforms will operate and the application processes for licences and permits. Although this guidance is quite prescriptive, as with any new legislative regime, there remains some uncertainty as to the interpretation and application of the new laws and regulations and the review methodology that the ODC will adopt. There is limited market guidance as to the specific considerations that the ODC will consider when reviewing licence and permit applications and the precise weight given to each consideration. There is also some risk that the ODC is constrained by Australia's obligations under the Convention as to global supply and demand.

Management considers that Althea Holdings and Althea Company comply with all applicable industry laws and regulations. Notwithstanding this, given the continuing developments in the relevant laws and regulations, there is a risk that a regulatory body could, in the future, change the application of these laws which may adversely impact Althea Group.

6.2.12 Change to laws and regulations

The operations and proposed operations of Althea Group are subject to a variety of laws, regulations and guidelines. As the medicinal cannabis industry continues to evolve in Australia, it is likely that there will continue to be changes to existing legislation and/or the interpretation of the legal requirements which govern the operations and contractual obligations of Althea Group. This could impact adversely on the assets, operations and the financial performance of Althea Group and the medicinal cannabis industry in general.

6.2.13 Fit and proper person

To obtain the necessary licences required to operate in the medicinal cannabis industry, the ODC must first establish the integrity of the person applying for a licence or who has the ability to substantially influence the conduct of activities under a licence. This is known as the "fit and proper person" test. In respect of an applicant who is a company, this test is applied to the directors of the company and any shareholder (or ultimate holder) who has the ability to influence the conduct of the company.

As at the Prospectus Date, Althea Group has submitted the following individuals to the ODC for consideration against the "fit and proper person" test:

- each of the existing Directors of Althea Holdings;
- each member of the existing management team of Althea Group, details of which are included in section 7.2; and
- each director of Aphria.

The ODC has confirmed to Althea Group that each of individuals referred to above satisfy the "fit and proper person" test. Althea Holdings is not aware of any other individual as at the Prospectus Date who has the ability to substantially influence the conduct of activities of Althea Holdings and who should be submitted to the ODC for consideration against the "fit and proper person" test.

If there is a change in the board or shareholding of Althea Group and that change results in a person having the ability to substantially influence the conduct of Althea Group and that person does not pass the fit and proper person test, the ODC may determine that Althea Group is not a fit and proper person to hold relevant licences or permits, and any licences granted to Althea Group will be revoked.

As Althea Holdings is a public company and is seeking to be admitted to the official list of the ASX, the Board cannot control or prevent the transfer of shares in Althea Holdings or the election of a person or persons as new directors of Althea Holdings. In particular, a person may make a takeover bid, resulting in the acquirer being in a position to influence the management or operations of Althea Holdings, or a "board spill" resolution may be passed, requiring Althea Holdings to have elections of its directors. In these circumstances, should the ODC determine that the new person with substantial influence over the activities of Althea Holdings (i.e. the acquirer under a takeover bid or a new director) is not a fit and proper person, the licences held by Althea Company are likely to be revoked.

If such circumstances cause Althea Company to not be granted the required licences which it does not hold or have any existing licences revoked, there will be a materially adverse impact on Althea Group's proposed activities and operations, and consequently, Althea Group's financial performance and prospects.

6. KEY RISKS_{continued}

6.2.14 Product approval risk

Medicinal cannabis products are regulated as medicines in Australia. Generally, medicines imported, supplied in, and exported from Australia must be entered in the ARTG. However, there are mechanisms such as the SAS and APS which provide exemptions to the registration requirement.

Althea Group currently provides access to its products under SAS and APS. Althea Group cannot guarantee that any further medicinal cannabis products will be approved for supply to patients through the SAS (or an alternative pathway). Additionally, there is no guarantee that medical practitioners will be authorised under the APS or that they will elect to prescribe Althea Group's products.

Further, if another medicinal cannabis product does become registered on the ARTG, it is likely that the use of the SAS to access unregistered medicinal cannabis products will either cease, or be heavily constrained. As such, Althea Group may not be able to continue to supply products without obtaining registration on the ARTG. As noted in section 6.2.5, the inability of Althea Group to generate revenue from the supply of medicinal cannabis product will have an adverse impact on Althea Group's financial performance and prospects.

6.2.15 Protection of intellectual property

The protection of intellectual property rights is a key factor that underpins the success of products and their suppliers in the pharmaceutical industry.

Aphria has provided Althea Group with a 10 year exclusive licence to use the trademarks "Capilano", "Champlain Indica", "Jasper", "Rideau", "Treasure Island" and "Henik" in Australia for the purpose of selling, distributing, promoting and marketing medicinal cannabis products manufactured or produced by Althea Company or medicinal cannabis products supplied to Althea Group by Aphria. The licence provided by Aphria permits Althea to use the trademarks alone or in combination with the Althea's name and logo.

Unless terminated earlier for breach (please refer to section 10.5.7), the trademark licence granted by Aphria to Althea Company will expire on the earlier of: (a) the 10th anniversary of the licence (being, 27 July 2028); and (b) when Aphria owns less than 5% of the total number of Shares on issue in Althea Holdings and delivers to Althea Company a notice of termination.

As Althea Holdings is a public company and is seeking to be admitted to the official list of the ASX, neither Althea Holdings nor the Board can control or prevent the transfer of Shares in Althea Holdings. Aphria, like any other Shareholder in a listed public company is (subject to the mandatory and voluntary escrow arrangements contemplated in sections 8.16 and 8.17, respectively) entitled to sell their Shares at any time.

As noted in section 8.16, Althea expects that 12,250,000 of the Shares held by Aphria in Althea Holdings will be subject to will be classified by ASX as restricted securities and will be required to be held in escrow for up to 24 months from Listing. These Shares are expected to comprise 6.03% of the total number of Shares on issue in Althea Holdings on Listing or 5.8% the total number of Shares on issue in Althea Holdings on Listing on a fully diluted basis (i.e. assuming that all Performance Rights vest, all Pre-IPO Consultant Options are exercised and no further Shares are issued after Completion).

Accordingly, if no further Shares are issued or, if new Shares are issued, Aphria's shareholding in Althea Holdings is not substantially diluted during the term that Aphria's shares are subject mandatory escrow arrangements, Althea Holdings considers that Aphria will not be able to divest a sufficient number of Shares to fall below 5% of the total number of Shares on issue in Althea Holdings during the term of Aphria's escrow arrangements.

If Aphria ultimately exercises its rights to divest sufficient number of Shares in Althea Holdings to a point where it holds less than 5% of the total number of Shares on issue in Althea Holdings and subsequently issues a notice to terminate the trademark licence, the Trademark Licence Agreement provides Althea Group with a 24 month transition period to cease selling products with the "Capilano", "Champlain Indica", "Jasper", "Rideau", "Treasure Island" and "Henik" trademarks.

As with any medicinal or pharmaceutical product, the loss of use of a trademark can have a material and adverse impact on sales of the relevant product to which the trademark relates having regard to prescriber, patient and market awareness and loyalty to established brands. For Althea Group, the termination of the Trademark Licence Agreement could have a material adverse effect on the sales of medicinal cannabis products and consequentially the revenues and financial performance of Althea Group.

Althea Group has sought to mitigate this risk through negotiating a 24 month transition period with Aphria for ceasing to use the licensed trademarks in circumstances where Aphria ceases to hold at least 5% in Althea Holdings and elects to terminate the licence. Althea Group expects that during this transition period, and otherwise at the end of the 10 year licence (if it is not otherwise renewed in the circumstances contemplated in section 10.4.7), it will consider establishing its own product names and engage in a targeted awareness campaign regarding the transition by Althea Group to the new product names.

In addition to the risks above, the trademarks are not currently registered in Australia by Aphria. Aphria has informed Althea Company that it has made application to IP Australia to register these trademarks in Australia. If Aphria is unable to secure trademark registrations for the trademarks, Althea Group may face competition from competitors who use products labelled with similar names or otherwise be required to cease using certain intellectual property which is similar to intellectual property which may be registered before the Aphria trademarks.

The competition risk also applies equally to other intellectual property rights which are developed by Althea Group in its business and for which Althea Group fails to adequately protect or any infringement of a third party's intellectual property rights.

The risks associated with Althea Group failing to protect or have access to intellectual property rights currently, or in the future, used by Althea Group may have a material and adverse impact on Althea Group's operations, financial performance and future prospects.

6.2.16 Loss of key management personnel and attracting key employees

The success of Althea Group depends to a significant degree on its key personnel and its ability to retain experienced and high performing personnel. The current Management of Althea Group has a detailed understanding of the medicinal cannabis industry and, more broadly, the pharmaceutical industry. The loss of key management personnel, and any delay in their replacement, may adversely affect Althea Group's ability to develop and implement its business and growth strategies or increase the costs of obtaining suitable personnel.

There is also a risk that Althea Group cannot attract, retain or develop the relevant skilled individuals it requires to successfully execute its business plan. Should this occur, it is likely to have a materially adverse impact on Althea Group's operations, financial performance and future prospects.

6.2.17 Competition may increase

The industry in which Althea Group operates is subject to domestic and international competition. While Althea Group will undertake all reasonable due diligence in its business decisions and operations, Althea Group 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 Althea Holdings.

Some of Althea Group's competitors and potential competitors may have significantly more financial resources than Althea Group, which may lead to reduced margins and loss of revenue or loss of market share. Further, revenues in the future may be reduced as the industry consolidates and seeks revenue accretion at the expense of profit margin.

Permits for importation, cultivation, manufacturing and export are subject to quotas established under the Convention. Increased competition in the medicinal cannabis industry may result in increased competition for permits issued by the ODC. If this occurs, it is possible that Althea Company will be unable to obtain sufficient permits to undertake all of its desired commercial activities.

6.2.18 Reputational impact as a result of matters outside Althea Group's control

There is a risk that incidents beyond the control of Althea Group could occur which would have the effect of reducing patient, medical/scientific or regulatory confidence in Althea Group or preferences for medicinal cannabis products generally. This reputational risk could result from incidents involving Althea Group, Aphria or other non-related industry participants.

6.3 Risks associated with an investment in Althea Holdings' Shares

6.3.1 Macro-economic risks

Althea Group's business is exposed to changes in general global economic conditions. For example, adverse macroeconomic conditions such as economic recessions, downturns or extended periods of uncertainty or volatility, which may influence pricing of medicinal cannabis, may affect Althea Holdings' future financial performance and operating performance and the price of the Shares.

6.3.2 Trading in Shares may not be liquid

Once the Shares are quoted on the ASX, there can be no guarantee that an active trading market for the Shares will develop or that the price of the Shares will increase. There may be relatively few potential buyers or sellers of the Shares on the ASX at any time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less than the price that Shareholders paid.

Additionally, it is expected that some of the Shares will be classified by ASX as restricted securities and be subject to escrow restrictions for up to 24 months from the date of quotation. During this period, these Shares will be prohibited from being transferred. This will impact the liquidity of the market for Althea Holdings' Shares. Prior to the Shares commencing trading on ASX, Althea Holdings will announce to ASX full details of the Shares that have been classified as restricted securities, including the number of escrowed Shares and the relevant periods of the escrow restrictions.

6. KEY RISKS_{continued}

6.3.3 Adverse taxation changes may occur

There is the potential for changes to tax laws. Any change to the current rates of taxes imposed on Althea Group is likely to affect returns to Shareholders.

An interpretation of taxation laws by the relevant tax authority that is contrary to Althea Group's view of those laws may increase the amount of tax to be paid or cause changes in the carrying value of tax assets in Althea Group's financial statements. In addition, any change in tax rules and tax arrangements could have an adverse effect on the level of dividend franking and Shareholder returns.

6.3.4 Australian Accounting standards may change

The AAS are set by the AASB and are outside the control of either Althea Holdings or its Directors and Management. The AASB is due to introduce new or refined AAS in the coming years, which may affect future measurement and recognition of key income statement and balance sheet items, including revenue and receivables.

There is also a risk that interpretations of existing AAS, including those relating to the measurement and recognition of key income statement and balance sheet items, including revenue and receivables, may differ. Changes to the AAS issued by the AASB, or changes to the commonly held views on the application of those standards, could materially adversely affect the financial performance and position reported in Althea Holdings' consolidated financial statements.

6.3.5 Market conditions

Stock market conditions may affect the value of Althea Holdings' quoted securities regardless of Althea Group's operating performance. Stock market conditions are affected by many factors such as:

- general economic outlook;
- introduction of tax reform or other new legislation;
- interest rates and inflation rates;
- change in investor sentiment toward particular market sectors;
- the demand for, and supply of, capital; and
- terrorism or other hostilities.

The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and industrial stocks in particular. Neither Althea Group nor the Directors warrant the future performance of Althea Holdings or any return on an investment in Althea Holdings.

6.3.6 Shareholders may suffer dilution

In the future, Althea Holdings may elect to issue Shares or engage in fundraisings including to fund acquisitions that Althea Group may decide to make. While Althea Holdings will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital that it is able to issue within a 12 month period (other than where exceptions apply), Shareholders may be diluted as a result of such issues and fundraisings.

6.3.7 Currency movements may be unfavourable

Althea Group acquires medicinal cannabis from Aphria under the Aphria Product Supply Agreement in Canadian dollars. Althea Group then supplies the medicinal cannabis in Australian dollars. Althea Group does not maintain a formal foreign currency hedging policy.

According, adverse movements in the exchange rate between the Australian dollar and the Canadian dollar, and any other foreign currencies as a result of future international expansion, may cause Althea Group to incur foreign currency losses. Such losses may impact and reduce Althea Group's profitability, ability to pay dividends and service debt obligations.

6.3.8 Force majeure events may occur

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

6.3.9 General investment risks

The price at which Shares are quoted on the ASX may increase or decrease due to a number of factors. These factors may cause the Shares to trade at prices below the price at which the Shares are being offered under this Prospectus. There is no assurance that the price of the Shares will increase following the quotation on the ASX, even if Althea Group's earnings increase. Some of the factors which may affect the price of the Shares include:

- fluctuations in the domestic and international market for listed stocks;
- general economic conditions, including interest rates, inflation rates, exchange rates, commodity and oil prices or changes to government fiscal, monetary or regulatory policies, legislation or regulation;
- inclusion in or removal from market indices;
- the nature of the markets in which Althea Group operates; and
- general operational and business risks.

Other factors which may negatively affect investor sentiment and influence Althea Group specifically or the stock market more generally, include acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other man-made or natural events.

7.

KEY INDIVIDUALS AND CORPORATE GOVERNANCE



7. KEY INDIVIDUALS AND CORPORATE GOVERNANCE

7.1 Board of Directors

The Directors bring to the Board relevant experience and skills, including industry and business knowledge, financial management and corporate governance experience.

ANDREW NEWBOLD

LLB/BEC

Chairman and Independent Non-Executive

Andrew is a qualified lawyer having practiced for nearly 20 years at a large commercial firm. Following his retirement from the law in 2006 he founded a renewable energy business which he sold to Origin Energy in 2009. Since that time he has been involved in a start-up property app business which he sold to ANZ in 2015 and various other businesses.

Andrew has been a director of numerous private companies and not-for-profit organisations and currently is a director of Supra Capital, a Commissioner of the AFL and a director of Golf Australia.

JOSHUA FEGAN

B.Bus (Management and Marketing)

Chief Executive Officer and Managing Director

Joshua is the founder of Althea Group and has extensive experience in business building, sales and marketing. He has a range of proven business and strategy skills and previously held a number of senior management roles at national value-based retailer, Strathfield Group.

Joshua founded Althea Health and Wellbeing in 2016, coinciding with registration of the ND Amendment Act, an Act to amend the ND Act, legalising medicinal cannabis.

GREGG BATTERSBY

B.Com (Accounting and Finance)

Non-Executive Director

Gregg is currently Vice President of Commercial Strategy at Aphria. During his 4 year tenure at Aphria, the company has listed on the Toronto Stock Exchange, achieved a C\$2.4 billion market cap and now employs in excess of 300 full time employees across Canada and Europe.

Prior to Aphria, Gregg worked with Jamieson Laboratories Ltd., a Canadian leader in natural health products and vitamins.

ALAN BOYD

BA Econ, GIACICSA, ICAA

Independent Non-Executive Director

Alan is the Chief Financial Officer and Company Secretary of Ridley Corporation Limited, an ASX-listed provider of high performance animal nutrition solutions. Prior to this role, Alan occupied the same position with listed biotechnology companies Avexa Limited and Zenyth Therapeutics Limited, website pioneer Sausage Software Limited, and unlisted public entity HRL Limited, where he later served as a non-executive director and Chair of the Audit Committee.

Alan started his professional career in chartered accounting firms in England and Australia and has broad financial experience across many industry sectors.

7. KEY INDIVIDUALS AND CORPORATE GOVERNANCE^{continued}

7.2 Management

PETER GILLIS

BBus (Acc), FICD, CA ANZ

*Company secretary and current
Chief Financial Officer*

Peter is a highly experienced Chartered Accountant and owner of an accountancy practice that is a founding member of ROCG Asia Pacific.

He has worked for over 30 years across several industries and has previously been the auditor for a listed entity.

Peter manages the company secretarial role for over 500 private companies and sits on several management boards as the external Chief Financial Officer.

Peter currently provides Althea Group with company secretarial and outsourced Chief Financial Officer services under agreements between Curtain & Co Services and Althea Company.

Peter is a fellow of the Australian Institute of Company Directors FICD.

PATTY HOLMES

BBus

Chief Operating Officer

Patty was previously Director of Business Management at MDGH. In that role, she was responsible for the overall business management of the company including legal, financial, HR and statutory reporting requirements. MDGH is the first Australian not-for-profit company to register a new drug with the US Food and Drug Administration (**FDA**) and receive an FDA Priority Review Voucher.

Prior to her role at MDGH, Patty worked with Gilead Sciences Australia, preparing patient and health-care professional facing materials for drugs launched in the Australian market.

Patty has previously worked in New York as the Director of International Sales for SLM International Inc.

DANIEL MANSFIELD

Director of Cultivation

Daniel was previously Managing Director of Mansfield's Propagation Nursery. Mansfield's Propagation Nursery is a leading supplier of quality propagation tube stock in Australia, having won many industry awards including the recent 'Silver Rose' for international grower of the year, as well as best large production nursery and best propagation nursery.

Daniel managed a team of 100+ employees at Mansfield's Propagation Nursery and was instrumental in the acquisition of its tissue culture business in 2013. When Mansfield's Propagation Nursery acquired the tissue culture business it was selling 800,000 plants per annum and is now selling over 2 million plants per annum.

Prior to becoming Operations Manager at Mansfield's Propagation Nursery, Daniel was Head Grower at Pacific Plug & Liner in Watsonville, California, U.S.A.

TREVOR STEINTHAL

BA

Director of Manufacturing

Trevor was previously President of Suncliff, a leading Washington cannabis cultivation and manufacturing business in the USA. Trevor is a true pioneer of medicinal cannabis. Suncliff were one of the first licensed producers in Seattle, establishing the business in 2013 shortly after legalisation.

Trevor is one of only a few cannabis executives in the world to successfully transition their business from medical to recreational cannabis, as a result of new legislation passed in Washington State.

Trevor is immigrating to Australia to provide his expert knowledge in cannabis growing and manufacturing.

7.3 Benefits and interests

This section 7.3 outlines the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- Director or proposed Director of Althea Holdings;
- person named in this Prospectus who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of Althea Holdings; or
- underwriter to the Offer or a financial services licensee named in the Prospectus as a financial services licensee involved in the Offer,

holds at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of Althea Holdings;
- property acquired or proposed to be acquired by Althea Holdings in connection with its formation or promotion, or in connection with the Offer; or
- the Offer,

and no other amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any such persons for services in connection with the formation or promotion of Althea Holdings or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director of Althea Holdings.

7.3.1 Chief Executive officer and Managing Director

Joshua Fegan is engaged by Althea Company on a full-time basis in the position of Chief Executive Officer and Managing Director and reports to the Board. Joshua's annual total remuneration is \$200,000 per annum (exclusive of superannuation and other allowances).

Joshua's executive service agreement with Althea Company does not have a fixed term, and as he has already been employed on an informal basis with Althea Company, does not have a probation period. Either Althea Company or Joshua may terminate the agreement by giving 3 months' notice, during which Althea Company may request that he cease work prior to the 3 months, but must provide remuneration for the entire period. Althea Company may also terminate his engagement without notice in circumstances involving serious or persistent misconduct or for breaches of certain clauses of the agreement, including misuse of confidential information.

Joshua's agreement includes a restraint on working for a competitor for up to 6 months after ceasing employment with Althea Company. Enforceability of such a restraint is subject to the usual legal requirements.

7.3.2 Chief Financial Officer

Peter Gillis

Althea Group has retained Peter Gillis as Chief Financial Officer by way of a consultancy agreement between Althea Company and Curtain & Co. The agreement operates month to month at a fee of \$300 per hour.

Curtain & Co has agreed to provide a number of services around finance and accounting activities, including management and strategic recommendations to the CEO and executive management. This also includes managing financial forecasting, budgeting and reporting. Peter is the nominated person under this agreement to provide the services, though a number of other employees may also be utilised.

Curtain & Co indemnifies Althea Company from losses, expenses, penalties, fines or claims arising out of or in connection with a breach of the agreement; default, or negligent or wilful act or omission; or the structure of the agreement as an independent contractor relationship.

A broad confidentiality protection is included under the agreement, binding Curtain & Co, as well as Peter and other workers, by way of deed poll. Curtain & Co may provide services to third parties provided that it does not place itself in actual or potential conflict with Althea Group. Althea Group owns all intellectual property developed by Curtain & Co, Peter or other workers in the course of providing services, in respect of Althea Group's products or which arose from the use of Althea Group's premises, resources or facilities.

The consultancy agreement may be terminated immediately by either party on notice.

7. KEY INDIVIDUALS AND CORPORATE GOVERNANCE^{continued}

7.3.3 Other senior management arrangements

Patty Holmes – Chief Operating Officer

Patty Holmes is engaged by Althea Company on a full-time basis in the position of Chief Operating Officer and reports to the CEO. Patty's annual total fixed remuneration is \$150,000 per annum (exclusive of superannuation and other allowances).

Patty's executive service agreement with Althea Company does not have a fixed term. Either Althea Company or Patty may terminate the executive services agreement by giving 3 months' notice, during which Althea Company may request that she cease work prior to the 3 months, but must provide remuneration for the entire period. Althea Company may also terminate her engagement without notice in circumstances involving serious or persistent misconduct or breaches of certain clauses of the executive services agreement, for example misuse of confidential information.

Patty's agreement includes a restraint on working for a competitor for up to 6 months after ceasing employment. Enforceability of such a restraint is subject to the usual legal requirements.

Daniel Mansfield – Director of Cultivation

Daniel Mansfield is engaged by Althea Company on a full-time basis in the position of Director of Cultivation and reports to the CEO. Daniel's annual total fixed remuneration is \$200,000 per annum (exclusive of superannuation and other allowances).

Daniel's executive service agreement with Althea Company does not have a fixed term. Either Althea Company or Daniel may terminate the agreement by giving 3 months' notice, during which Althea Company may request that he cease work prior to the 3 months, but must provide remuneration for the entire period. Althea Company may terminate the agreement without notice in circumstances involving serious or persistent misconduct, or breaches of certain clauses of the agreement including misuse of confidential information.

Daniel's agreement includes a restraint on working for a competitor for up to 6 months after ceasing employment. Enforceability of such a restraint is subject to the usual legal requirements.

Trevor Steintal – Director of Manufacturing

Trevor Steintal is engaged by Althea Company on a full-time basis in the position of Director of Manufacturing and reports to the CEO. Trevor's annual total fixed remuneration is \$200,000 per annum (exclusive of superannuation and other allowances).

Trevor's executive service agreement with Althea Company does not have a fixed term. Either Althea Company or Trevor may terminate the agreement by giving 3 months' notice, during which Althea Company may request that he cease work prior to the 3 months, but must provide remuneration for the entire period. Althea Company may terminate his engagement without giving notice in circumstances involving serious or persistent misconduct or breaches of certain clauses of the agreement, for example misuse of confidential information.

Trevor's agreement includes a restraint on working for a competitor for up to 6 months after ceasing employment. Enforceability of such a restraint is subject to the usual legal requirements.

7.3.4 Executive incentive arrangements

Althea Holdings has established a LTI Plan to assist in the motivation, retention and reward of Althea Group's senior executives, directors and full time or part time employees or contractors (**Eligible Participants**).

The LTI Plan is designed to align the interests of Eligible Participants more closely with the interests of Shareholders by providing an opportunity for Eligible Participants to acquire Shares or receive cash consideration for vested incentives subject to the conditions of the LTI Plan.

Under the LTI Plan, the Board may from time to time in its absolute discretion nominate any Eligible Participant for participation in the LTI Plan and determine the type and terms of the incentive to be offered to the Eligible Participant.

The Board may invite Eligible Participants to apply for either:

- a Performance Right;
- an Option; or
- any other incentive that is approved by the Board,

together, the **Incentives**.

The key terms of the LTI plan are as follows:

FEATURE	DESCRIPTION
Administration	The LTI Plan is administered by the Board, the trustee of a trust created to administer the LTI Plan (if any), or the Board's delegate.
Eligibility	<p>Participation in the LTI Plan is by invitation.</p> <p>Any director of Althea Group or full or part time employee or contractor of Althea Group is eligible to participate in the LTI Plan. However, it is at the Board's discretion to nominate Eligible Participants for participation in the LTI Plan.</p>
Vesting	<p>Incentives tested against periodic performance criteria will vest at the end of the period during which the criteria were applied or assessed, provided the relevant vesting conditions specified at the time of grant have been satisfied.</p> <p>Incentives tested against the occurrence of a specific event will vest on the occurrence of that event, provided the relevant vesting conditions specified at the time of grant have been satisfied.</p>
Restrictions on Dealings	<p>Unless otherwise stated in the invitation, an invitation to join the LTI Plan is not transferrable and no person may accept on behalf another, regardless of whether they are an Eligible Participant.</p> <p>Unless otherwise stated in the terms of the invitation or the Board determines otherwise, an Eligible Participant must not transfer, assign, dispose of, grant any security interest over or otherwise deal with any Incentive or any interest therein.</p> <p>Eligible Participants may not enter into any arrangement for the purposes of hedging in connection with their Incentives or Shares.</p> <p>Shares issued to an Eligible Participant on vesting may be subject to further transfer restrictions for a period of time if stated in the terms of the invitation.</p>
Loan	Althea Holdings may provide a non-recourse loan to an Eligible Participant to assist them to fund any amounts payable on grant or exercise of the Incentive.
Change in control	<p>In the event of a change of control of Althea Holdings, the Board may determine in respect of unvested Incentives to:</p> <ul style="list-style-type: none"> • vest some or all of the Eligible Participant's Incentives as if all vesting conditions (if any) have been satisfied; or • lapse or cancel some or all of the Eligible Participant's Incentives where the Board determines that a term of the change of control event is that holders of these Incentives will participate in an acceptable alternative long-term incentive plan.
Shares or Cash settlement	<p>In respect of Performance Rights issued under the LTI Plan, on vesting, each Performance Right will entitle the Eligible Participant to receive one Share in Althea Holdings. However, if expressly permitted in the invitation to participate in the LTI Plan, the Board may in its absolute discretion, elect to make a cash payment to the Eligible Participant, equal to the market value of the Share(s) which would otherwise have been issued or transferred to the Eligible Participant on vesting.</p> <p>In respect of Options issued under the LTI Plan, on vesting, each Option will entitle the Eligible Participant to receive one Share in Althea Holdings upon payment of the exercise price. However, if expressly permitted in the invitation to participate in the LTI Plan, the Board may in its absolute discretion, elect to make a cash payment to the Eligible Participant, equal to the difference between the exercise price and the market value of the Share(s) which would otherwise have been issued or transferred to the Eligible Participant on vesting and payment of the exercise price.</p>

7. KEY INDIVIDUALS AND CORPORATE GOVERNANCE continued

FEATURE	DESCRIPTION
Treatment on cessation of employment	<p>Unless otherwise determined by the Board in its absolute discretion or stated on the terms of the invitation:</p> <ul style="list-style-type: none"> all unvested Incentives held by an Eligible Participant will lapse and be forfeited where: <ul style="list-style-type: none"> an Eligible Participant voluntarily resigns as an employee of Althea Group; an Eligible Participant's employment with Althea Group is terminated for cause; in the opinion of the Board, an Eligible Participant acts fraudulently or dishonestly or wilfully breaches their duty; an Eligible Participant has been convicted of certain criminal offences; or an Eligible Participant purports to deal with restricted securities. where an Eligible Participant ceases employment with Althea Group for reasons including retirement or redundancy or serious injury, disability or illness that prohibits continued employment, a portion of the Eligible Participant's unvested Incentives will immediately vest, as determined by the formula set out in the LTI Plan or, alternatively, the Board may determine that all Incentives immediately vest. Any unvested Incentives not included in that formula will automatically be forfeited on the Eligible Participant's cessation of employment.
Quotations	<p>Althea Holdings will not apply for official quotation of any Options under the LTI Plan.</p> <p>If, on vesting of Options or Performance Rights, Shares are granted under the LTI Plan, Althea Holdings will apply to the ASX for quotation of those Shares (including Shares subject to additional transfer restrictions).</p>
Amendments	<p>The Board may at any time by written instrument, amend all or any of the provisions of the LTI Plan so long as the amendment does not materially reduce or adversely affect the rights of any Eligible Participant acquired or granted before the amendment.</p>
Other terms	<p>The LTI Plan contains other terms relating to the administration, transfer, termination and variation of the LTI Plan.</p> <p>The LTI Plan also permits Althea Group to create, manage and terminate a trust (and empower a trustee) for the purpose of holding Incentives on behalf of Eligible Participants (including future Eligible Participants).</p>

7.3.5 Incentives issued under the LTI Plan as at the Prospectus Date

Althea Holdings will offer Joshua Fegan, the Chief Executive Officer and Managing Director of Althea Holdings, 5,100,000 Performance Rights in Althea Holdings under the LTI Plan subject to Listing. On a fully diluted basis as at Listing (that is, assuming that all Performance Rights vest, all Pre-IPO Consultant Options are exercised and no further Shares are issued), the Performance Rights represent 1% of the total number of Shares in Althea Holdings.

Each Performance Right, if vested, will provide for Joshua Fegan to acquire one Share (subject to adjustments for reorganisations of capital) for nil consideration.

The Performance Rights to be granted to Joshua Fegan will be issued under the LTI Plan described in section 7.3.4 above in two tranches subject to the following vesting conditions.

Tranche 1

2,550,000 Performance Rights will vest on satisfaction of all of the following milestones within 3 years of Listing:

- Althea Group's consolidated revenue exceeds \$2,000,000 in any 12 month rolling period.
- Althea Group is issued building permits by the Frankston City Council for construction of a medicinal cannabis growing facility, of a size and nature approved by the Board, on the land located at 150 Taylors Road, Skye Victoria.

Tranche 2

2,550,000 Performance Rights will vest on satisfaction of all of the following milestones within 3 years of Listing:

- The market capitalisation of Althea Holdings, being the number of Shares on issue *multiplied* by the volume weighted average price per Share over any 20 consecutive trading days on which Shares in Althea Holdings have actually traded on ASX, equals or exceeds \$100,000,000.
- Completion of construction of the medicinal cannabis growing facility contemplated under the Tranche 1 milestones and the issue of an occupancy permit for the facility by the Frankston City Council.
- The cultivation permit required to allow operation of the medicinal cannabis growing facility contemplated under the Tranche 1 milestones is issued by the Office of Drug Control to a Group Entity.

Upon termination of Joshua Fegan's employment with Althea Holdings, subject to the absolute discretion of the Board to decide otherwise, the following will apply:

- if Joshua Fegan voluntarily resigns from employment, all unvested Performance Rights will lapse and be forfeited;
- if Joshua Fegan is dismissed for cause or the commissioning of an offence, all Performance Rights (whether vested or unvested) will lapse and be forfeited; and
- if Joshua Fegan's employment is terminated for reasons including retirement or redundancy or serious injury, disability or illness that prohibits continued employment, all of the unvested Performance Rights will immediately vest.

7.3.6 Director benefits

7.3.6.1 Non-executive Director appointment letters

Prior to the Prospectus Date, each non-executive Director entered into appointment letters with Althea Holdings, confirming the terms of their appointment, their roles and responsibilities and Althea Holdings' expectations of them as non-executive Directors.

7.3.6.2 Non-executive Director remuneration

Under the Constitution, the Board may decide the remuneration from Althea Holdings to which each non-executive Director is entitled for their services as a Director. However, the total amount of fees paid to all non-executive Directors for their services as Directors must not exceed in aggregate in any financial year the amount fixed by Althea Holdings in general meeting. This amount has been fixed at \$400,000 per annum.

For its initial year post Listing, the annual base non-executive Director fees currently agreed to be paid by Althea Holdings are \$60,000 to the Chairman and \$25,000 to each other non-executive Director. These amounts comprise fees paid in cash. In subsequent years, these figures may vary.

7.3.6.3 Deeds of access, indemnity and insurance

Althea Holdings has entered into a deed of indemnity, access and insurance with each Director which confirms the Director's right of access to Board papers and requires Althea Holdings to indemnify the Director, on a full indemnity basis and to the full extent permitted by law, against all losses or liabilities (including all reasonable legal costs) incurred by the Director as an officer of Althea Holdings or of a related body corporate.

Under the Constitution, to the extent allowed by law, Althea Holdings may indemnify Directors and officers, past and present, against liabilities that arise from their position. Under the deeds of indemnity, access and insurance, Althea Holdings must maintain a D&O Policy insuring a Director (among others) against liability as a Director and officer of Althea Holdings and its related bodies corporate until seven years after a Director ceases to hold office as a Director of Althea Holdings or a related body corporate (or the date any relevant proceedings commenced during the seven year period have been finally resolved).

7.3.6.4 Other information

Directors may be paid for travel and other expenses incurred in attending to Althea Group's affairs. This includes attending and returning from Board or committee meetings and general meetings. Any Director who devotes special attention to the business of Althea Group or who performs services which, in the opinion of the Board, are outside the scope of ordinary duties of a Director, may be remunerated for the services (as determined by the Board) out of Althea Holdings' funds.

The Company does not maintain any scheme which provides for any retirement benefit for the Directors. However, Althea Holdings makes the required statutory superannuation contributions, the amounts of which are included in the Directors fees referred to in section 7.3.6.2.

7. KEY INDIVIDUALS AND CORPORATE GOVERNANCE continued

7.3.7 Other agreements with Directors or related parties

Althea Holdings' 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.

Gregg Battersby has provided the Board with a standing notice of his employment by Aphria as Vice President of Commercial Strategy. Aphria is currently, and on Completion is proposed to be, a substantial shareholder of Althea Holdings. In addition, Aphria is currently the sole supplier of medicinal cannabis products to Althea Group and an important strategic partner to Althea Group. Refer to section 4.12 for further details.

7.3.8 Directors' interests in Shares

Directors are not required under the Constitution to hold any Shares in Althea Holdings. However, the Directors (and their associates) are entitled to apply for Shares in the Offer.

The number of Shares held by the Directors as at the Prospectus Date and the number which will be held by the Directors on Completion of the Offer is set out below:

Director	Shares at Prospectus Date	Shares on Completion of the Offer*	Completion of the Offer (%)*
Joshua Fegan	56,250,000	56,250,000	28% ¹
Andrew Newbold	–	1,500,000	0.74%
Gregg Battersby	–	560,000	0.28% ²
Alan Boyd	–	100,000	0.05%

* Assumes that the Offer is fully subscribed and excludes the 5,100,000 Performance Rights proposed to be granted by Althea Holdings to Joshua Fegan under the LTI Plan subject to Listing.

- 1 In addition, Joshua Fegan's related parties (comprising his family members and entities which they control) are expected to hold 0.59% of the total number of Shares in Althea Holdings.
- 2 Gregg Battersby is the Vice President of Commercial Strategy at Aphria. The 560,000 Shares proposed to be held by Gregg Battersby on Completion exclude the 50,750,000 Shares to be held by Aphria on Completion.

7.3.9 Interests of certain Pre-IPO Consultants

Althea Holdings has agreed to issue, in aggregate, 2,675,000 Options to the following 4 individuals who have provided consulting services to Althea Group in connection with the Offer and the Listing.

Individual	No. Options	Ownership of Althea Holdings on exercise* (%)
Craig Laughton	1,000,000	0.47%
Trevor Steinthal	1,000,000	0.47%
David Sauer	500,000	0.24%
Scott Lipsky	175,000	0.08%

* On a fully diluted basis (i.e. assuming all Pre-IPO Consultant Options are exercised, all Performance Rights proposed to be granted to Joshua Fegan vest, and no further Shares are issued after Completion).

Each Option will be issued on, and subject to, Listing and will have an exercise price of \$0.20. Each Option will be able to be exercised by the Option holder at any time during the period commencing on Listing and expiring on the date falling 4 years after Listing.

The Pre-IPO Consultant Options cannot be sold transferred, assigned, mortgaged or otherwise dealt with except in the event of death or legal incapacity of the relevant option holder. The Pre-IPO Consultant Options are not being issued under the LTI Plan.

The Pre-IPO Consultant Options, and the Shares on conversion of the Pre-IPO Consultant Options, will be restricted securities for the purposes of the ASX Listing Rules and will be subject to an escrow period 2 years. Please refer to section 8.16 for further details.

7.3.10 Interests of advisers

Althea Group has engaged these service providers in relation to the Offer and paid, or agreed to pay, approximately the amounts shown below:

Service provider	Role	Fees
PAC Partners Securities Pty Ltd	Lead Manager	Described in Section 10.5.8
Norton Rose Fulbright Australia	Australian legal adviser	\$490,000*
RSM Corporate Australia Pty Ltd	Investigating Accountant	\$55,000
RSM Australia Partners	Auditor	\$22,000

* The amounts payable to Norton Rose Fulbright Australia includes fees payable for work not directly connected with the Offer, such as Althea Group restructuring, taxation advice, commercial contracting, regulatory advice and other matters related to the formation of the Althea Group and the conduct of its business.

In addition, Frost & Sullivan has prepared and consented to the inclusion of the Market Report in section 2 of this Prospectus. Althea Company has paid, or agreed to pay Frost & Sullivan \$17,500 for that report and consent.

Unless stated otherwise, all amounts exclude disbursements and GST and all payments have been paid or are payable in cash.

Further amounts may be paid to Althea Group's service providers in accordance with their normal time-based charges.

These amounts, and other expenses of the Offer, will be paid by Althea Holdings out of funds raised under the Offer or available cash. The total costs of the Offer (excluding GST) are estimated to be approximately \$1,335,364 (assuming full subscription). Further information on the use of proceeds and payment of expenses of the Offer is set out in section 8.4.

7.4 Corporate Governance

The ASX Corporate Governance Council has developed and released its Corporate Governance Principles and Recommendations 3rd Edition (**ASX Recommendations**) for ASX listed entities in order to promote investor confidence and to assist listed entities in meeting stakeholder expectations. The ASX Recommendations are not prescriptions, but guidelines, designed to produce an outcome that is effective and of high quality and integrity. However, under the ASX Listing Rules, Althea Holdings will be required to provide a statement in its annual report, or the URL of the page on its website where the statement is located, disclosing the extent to which it has followed the ASX Recommendations during each reporting period. Where Althea Holdings does not follow an ASX Recommendation, it must identify the recommendation that has not been followed and give reasons for not following it.

Althea Holdings has adopted corporate governance policies and practices that are consistent with the ASX Recommendations and has outlined and provided reasons for any deviation from a recommendation in section 7.4.2.1. Details of Althea Holdings' key policies and practices and the charters for the Board and each of its Committees referred to in this section are available at <https://www.althea.com.au/>.

The Board plays a key role in overseeing the policies, performance and strategies of Althea Group. It is accountable to Althea Holdings' members as a whole and must act in the best interests of Althea Holdings. The Board monitors the operational and financial position and performance of Althea Group and oversees its business strategy, including approving the strategic objectives, plans and budgets of Althea Holdings. The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial return, and sustaining the growth and success of Althea Holdings and Althea Group. In conducting Althea Group's business with these objectives, the Board seeks to ensure that Althea Holdings is properly managed to protect and enhance Shareholder interests and that Althea Holdings, its Directors, officers and personnel operate in an appropriate environment of corporate governance.

The Board has created a framework for managing Althea Group, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for Althea Holdings' business and which are designed to promote the responsible management and conduct of Althea Group. The Board sets the cultural and ethical tone for Althea Group.

The main policies and practices adopted by Althea Holdings are summarised below.

7. KEY INDIVIDUALS AND CORPORATE GOVERNANCE^{continued}

7.4.1 The Board's view on independence

The Board considers a Director to be independent where he or she is not a member of Management and is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement. The Board will consider the materiality of any given relationship on a case-by-case basis and has adopted materiality guidelines to assist in this regard. The Board reviews the independence of each Director in light of interests disclosed to the Board.

The Board considers that Andrew Newbolt and Alan Boyd are free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with, the exercise of the Director's unfettered and independent judgement and is able to fulfil the role of independent Director for the purposes of the ASX Recommendations.

Joshua Fegan is not considered an independent Director because he is an executive Director and CEO of Althea Group.

Gregg Battersby is not considered an independent Director because he is an employee of Aphria holding the position of Vice President of Commercial Strategy. On Listing, Aphria will be classified as a substantial shareholder of Althea Holdings by virtue of its proposed 25% holding of the total number of Shares on issue on Listing. In addition, Aphria is currently the sole supplier of medicinal cannabis products to Althea Group and an important strategic partner to Althea Group. Refer to section 4.12 for further details.

Board Charter

The Board has adopted a written charter to provide a framework for effective operation of the Board, which sets out:

- the Board's composition, processes, roles and responsibilities;
- the relationship and interaction between the Board and Management; and
- the authority delegated by the Board to Management and Board committees.

The Board's role is to ensure that the interests of Shareholders are protected and served by developing policies, standards and governance frameworks for Management and Althea Holdings in general. In doing so, the Board will:

- represent and serve the interests of Shareholders by overseeing and appraising Althea Holdings' strategies, policies and performance. This includes overseeing the financial and human resources Althea Holdings has in place to meet its objectives and reviewing Management performance;
- protect and optimise Althea Holdings' performance and build sustainable value for Shareholders in accordance with any duties and obligations imposed on the Board by law and the Constitution and within a framework of prudent and effective controls that enable risk to be assessed and managed;
- set, review and ensure compliance with Althea Holdings' values and governance framework (including establishing and observing high ethical standards); and
- ensure that Shareholders are kept informed of Althea Holdings' performance and major developments affecting its state of affairs.

Matters which are specifically reserved to the Board or its Committees include:

- appointment and removal of members of Management including the Chairman, the CEO and any Directors;
- establishment of Board committees, their membership and their delegated authorities;
- review of corporate codes of conduct;
- approval of dividends in general and major capital expenditure, acquisitions and divestments in excess of authority levels delegated to Management;
- calling meetings of Shareholders; and
- any other specific matters nominated by the Board from time to time.

The management function is conducted by, or under the supervision of, the CEO, as directed by the Board. Management must supply the Board information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. Directors are entitled to request additional information or, with Board approval, seek independent professional advice at Althea Holdings' expense.

Board committees

The Board may from time to time establish committees to assist in the discharge of its responsibilities. The Board has established the following Committees:

- Audit, Risk and Compliance Committee; and
- Remuneration and Nominations Committee.

Other committees may be established by the Board as and when required. Membership of Board committee will be based on the needs of Althea Holdings, relevant legislative and other requirements, and the skills and experience of individual Directors.

Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee will assist the Board in fulfilling its accounting, auditing, financial reporting and risk management responsibilities, including to:

- oversee Althea Holdings' relationship with the external auditor and the external audit function generally;
- oversee the preparation of the financial statements and reports;
- oversee Althea Holdings' financial controls and systems; and
- manage the process of identification and management of financial risk.

The Committee's charter provides for the Committee to oversee the internal programs to evaluate risk management and internal control processes for managing risk and to review whether the appointment of an internal auditor is recommended.

The Committee's charter provides that the Committee should have at least three members, all of whom should be non executive Directors and (to the extent there are sufficient independent Directors on the Board) a majority of whom are independent Directors.

From Listing, the Audit, Risk and Compliance Committee will comprise:

- Alan Boyd;
- Andrew Newbold; and
- Gregg Battersby.

Non-committee members, including members of Management and the external auditor, may attend meetings of the Audit, Risk and Compliance Committee by invitation of the Committee.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee will assist the Board with fulfilling its responsibilities to Shareholders and other stakeholders to ensure that Althea Holdings:

- has the remuneration capacity to attract and retain Directors and executives who are appropriately skilled and diverse and who will create value for Shareholders;
- remunerates Directors and executives fairly, responsibly and with regard to their and Althea Holdings' performance and other market conditions;
- to evaluate the performance and composition of the Board, individual Directors and executives on (at least) an annual basis with a view to ensuring that Althea Holdings has a Board of effective composition, size and diversity, expertise and commitment to adequately discharge its responsibilities and duties;
- has adequate succession plans in place (including for the recruitment or appointment of Directors and Management); and
- has policies and procedures that are effective to attract, motivate and retain appropriately skilled and diverse people that meet Althea Holdings' needs and that are consistent with Althea Holdings' strategic goals and human resource objectives.

From Listing, the Remuneration and Nomination Committee will comprise:

- Andrew Newbold;
- Alan Boyd;
- Joshua Fegan; and
- Gregg Battersby.

Non-committee members, including members of Management and the external auditor, may attend meetings of the Remuneration and Nomination Committee by invitation of the Committee.

7. KEY INDIVIDUALS AND CORPORATE GOVERNANCE continued

7.4.2 Corporate governance policies

The Board has adopted the following corporate governance policies (to take effect upon commencement of trading on the ASX), each having been prepared having regard to the ASX Recommendations.

Policy for Dealing in Shares

The policy for dealing in shares outlines the types of dealings in securities that are prohibited under the Corporations Act. It establishes a best practice procedure for the buying and selling of securities which protects Althea Holdings and its Directors and employees against the misuse of unpublished information which could materially affect the value of securities. The policy applies to all Directors, officers, senior executives, employees and contractors of Althea Holdings and its related bodies corporate and their associates (**Relevant Persons**).

The policy provides that Relevant Persons must not deal in Althea Holdings' securities:

- while in possession of price-sensitive or 'inside' information or once in receipt of a notice from Althea Holdings instructing them to avoid dealing in said securities;
- on a short-term trading basis (excluding exercising rights under an equity plan and electing to immediately sell those shares issued on exercise of the rights); or
- during trading blackout periods (except in exceptional circumstances).

Otherwise, trading by Relevant Persons will only be permitted in trading windows (subject to advance notification) or in all other periods by:

- Directors (including the CEO) with prior written approval from the Chairman;
- the Chairman with prior written approval from the chair of the Audit, Risk and Compliance Committee; and
- employees or contractors with prior written approval from the company secretary.

Continuous Disclosure Policy

Althea Holdings places a high priority on communication with Shareholders and is aware of the obligations it will have, once listed, under the Corporations Act and the ASX Listing Rules, to keep the market fully informed of any information Althea Holdings becomes aware of concerning itself that a reasonable person would expect to have a material effect on the price or value of Shares.

The Continuous Disclosure Policy establishes procedures to ensure that Directors and employees are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information.

Code of Business Ethics

The Board has adopted a formal Code of Business Ethics, which includes legal and ethical standards which outline how Althea Holdings expects its representatives to behave and conduct business in the workplace. All Althea Holdings' employees (including temporary employees, contractors and Directors) must comply with the Code of Business Ethics.

The Code is designed to:

- provide a benchmark for professional behaviour throughout Althea Group;
- support Althea Group's business reputation and corporate image within the community; and
- make Directors and employees aware of the consequences if they breach the policy.

Risk Management Policy

The Board has adopted a risk management policy appropriate for Althea Holdings' business. This policy highlights Althea Holdings' commitment to designing and implementing systems and methods appropriate to minimise and control its risks.

The Board, or the Audit, Risk and Compliance Committee as a delegate, is responsible for the creation, approval and monitoring of risk management strategies and policies, and must establish procedures which will ensure that major business risks are identified, consistently assessed and appropriately addressed. Such policies and procedures must be regularly reviewed. The Board has delegated strategic oversight of Althea Group's approach to risk management to the Audit, Risk and Compliance Committee.

The Board will regularly undertake reviews of its risk management procedures to ensure that it complies with its legal obligations.

The Board has in place a system whereby management is required to report as to its adherence to policies and guidelines approved by the Board for the management of risks.

Communications with Shareholders

Althea Holdings aims to ensure that all Shareholders and potential investors and stakeholders are informed of major developments affecting Althea Group. Accordingly, all ASX announcements made to the market, including annual and half year financial results, will be posted on Althea Group's website at <https://www.althea.com.au/> as soon they have been released by the ASX. The full text of all notices of meetings and explanatory material, annual reports, all media releases and briefings and copies of all investor presentations made to analysts will be posted on Althea Group's website. The website will also contain a facility for the Shareholders to direct queries to Althea Holdings, and to elect to receive communications from Althea Holdings via email.

Diversity Policy

The Board has formally approved a Diversity Policy in order to address the representation of women in Management and on the Board, and to actively facilitate a more diverse and representative management and leadership structure.

The Board will include in the annual report each year a summary of Althea Holdings' progress towards achieving the measurable objectives set under the Diversity Policy for the year to which the annual report relates and details of the measurable objectives set under the diversity policy for the subsequent financial year.

7.4.2.1 Departures from ASX Recommendations

Althea Holdings departs from a number of the ASX Recommendations. The reasons for those departures are set out in the table below:

RECOMMENDATION	REASON FOR DEPARTURE
2.1: The board of a listed entity should have a nomination committee of at least three members, a majority of whom are independent directors	<p>Given the size of Althea Holdings and the composition of its Board, it is not practical for Althea Holdings to maintain a nomination committee with a majority of members which are independent directors.</p> <p>The nomination committee currently comprises two independent directors (one of which is the Chair of the Committee) and two directors who are not independent.</p>
2.2: A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership	<p>The Board does not maintain a formal Board Matrix having regard to the size and status of Althea Group's business operations. Althea Holdings' current Directors have been selected to bring specific skills and industry experience to Althea Group. The Board has an expansive range of relevant industry experience and financial, legal and other skills and expertise considered appropriate having regard to Althea Group's business objectives.</p> <p>The Board may adopt such a matrix at a later time as the size and scope of Althea Group's operations grow and evolve.</p>
2.4: The majority of the board of a listed entity should be independent Directors	<p>Given the size of Althea Holdings, it is currently not practical or economically viable to have a majority of independent Directors.</p> <p>Althea Holdings' current Directors have been selected to bring specific skills and industry experience to Althea Group. The Board has an expansive range of relevant industry experience and financial, legal and other skills and expertise considered appropriate having regard to Althea Group's business objectives.</p> <p>The Board of Althea Holdings currently comprises two independent directors, being Andrew Newbold and Alan Boyd, and two directors who are not considered independent, being Joshua Fegan and Gregg Battersby. Please refer to section 7.4.1 for further details on the Board's view on Director independence.</p>

7. KEY INDIVIDUALS AND CORPORATE GOVERNANCE continued

RECOMMENDATION	REASON FOR DEPARTURE
4.1: The board of a listed entity should have an audit committee of at least three members all of whom are non-executive directors and a majority of whom are independent directors.	<p>Given the size of Althea Holdings and the composition of its Board, it is not practical for Althea Holdings to maintain an audit committee which comprises all non-executive directors.</p> <p>The audit committee currently comprises of two independent non-executive directors (one of which is the Chair of the Committee) and one executive director.</p>
8.1: The board of a listed entity should have a remuneration committee which has at least three members, a majority of whom are independent directors	<p>Given the size of Althea Holdings and the composition of its Board, it is not practical for Althea Holdings to maintain a remuneration committee with a majority of members which are independent directors.</p> <p>The remuneration committee currently comprises two independent directors (one of which is the Chair of the Committee) and two directors who are not independent.</p>

8.

DETAILS OF THE OFFER



8. DETAILS OF THE OFFER

8.1 The Offer

The Offer is made on the terms set out in this Prospectus.

Key terms of the Offer are set out in the Key Offer Information section on page 3 and section 1.8. Those terms are operative and are not necessarily repeated in this section 8.

The Offer opens and is expected to close as set out in the Key Offer Information section on page 3. Without notice, Althea Holdings and the Lead Manager may close the Offer or any part of it early, extend the Offer or any part of it, or accept late Applications either generally or in particular cases. Applicants are therefore encouraged to submit their Applications as early as possible.

8.2 Parts of the Offer

The Offer comprises:

- the **Broker Firm Offer** – open to clients of Brokers who have received a firm allocation from their Broker (see section 8.10); and
- the **Institutional Offer** – an invitation to bid for Shares made to Institutional Investors (see section 8.11.1).

No general public offer of Shares will be made under the Offer. Members of the public wishing to apply for Shares under the Offer must do so through a Broker.

Details of the Broker Firm Offer and the allocation policy under it are described in section 8.10. Details of the Institutional Offer and the allocation policy under it are described in section 8.11.

8.3 Purposes of the Offer

The primary purpose of the Offer is to provide funding to enable Althea Holdings to:

- fund and increase the growth of Althea Group's current sales of medicinal cannabis brands;
- fund the design, construction, commissioning and completion of a fully scalable 4,080m² medicinal cannabis cultivation, extraction and manufacturing facility to be located on land leased by Althea Company from Mansfield and located in Skye, Victoria;
- fund proposed domestic production cultivation and production costs;
- provide for administration costs and working capital needs; and
- otherwise advance Althea Holdings' business objectives set out in section 4.

This Prospectus is also issued for the purpose of section 708A(11) of the Corporations Act to remove any trading restrictions on the sale of Shares to be issued by Althea Holdings pursuant to the Offer or the PAC Offer or otherwise issued by Althea Holdings prior to the Closing Time.

8.4 Use of funds

On Completion of the Offer, the Board believes that Althea Holdings will have sufficient working capital to carry out its stated objectivities. Assuming Completion of the Offer occurs on 18 September 2018, the proceeds of the Offer, together with \$3,991,133 of existing cash on the balance sheet, will be applied over the first two years following admission of Althea Holdings to the Official List as follows:

Funds Available	\$	%
Existing cash reserves	3,991,133	17%
Gross proceeds from the Offer	19,650,000	83%
Total	23,641,133	100%

Use of Funds raised under the Offer	\$	%
Marketing and patient acquisition	3,579,078	18%
Advertising and Concierge development	300,000	2%
Design, construction, commissioning and completion of a fully scalable 4,080m ² medicinal cannabis cultivation and production facility	11,229,811	57%
Cultivation and production costs	1,100,000	5%
Administration and working capital	2,105,765	11%
Costs of the Offer ¹	1,335,346	7%
Total	19,650,000	100%

¹ The total costs of the Offer (excluding GST) are estimated to be approximately \$1,335,364 (assuming full subscription), comprising:

• Lead Manager – 5% selling and management fee on Pre-Prospectus Capital Raising and funds raised by Althea Holdings of up to \$14,125,000	\$706,750
• Lead Manager – 2% selling and management fee on funds above \$14,125,000	\$110,500
• Lead Manager – pre-listing monthly retainer up until Listing	\$37,500
• Lead Manager – post-listing monthly retainer	\$120,000
• Investigating Accounts Report	\$41,000
• Legal and advisory fees	\$268,510
• ASIC and ASX Fees	\$25,000
• Designing and printing costs	\$16,086
• Miscellaneous	\$10,000

8. DETAILS OF THE OFFER^{continued}

	FY'19		FY'20		Total
Use of Available Funds on Completion of the Offer	\$	%	\$	%	\$
Marketing and patient acquisition	1,559,372	7%	3,579,078	15%	5,138,450
Advertising and Concierge development	600,000	3%	300,000	1%	900,000
Design, construction, commissioning and completion of a fully scalable 4,080m ² medicinal cannabis cultivation, extraction and manufacturing facility	4,329,811	18%	6,900,000	29%	11,229,811
Cultivation and production costs			1,100,000	5%	1,100,000
Administration and working capital	1,814,849	8%	2,122,677	9%	3,937,526
Costs of the Offer ¹	1,335,346	6%			1,335,346
Total	9,639,378	41%	14,001,755	59%	23,641,133

¹ Please refer to breakdown of these costs in the table above.

As noted in section 4.8, the development of Althea Group's proposed 4,080m² cultivation and production facility is at an early stage of development and remains subject to Althea Company receiving all necessary town planning and building approvals. In addition, various ODC permits will be required at the time when cultivation and manufacturing is intended to commence at the facility.

There are a number of risk associated with the development, construction and operation of Althea Group's proposed cannabis cultivation and production facility, including a failure to receive the required licences and permits, construction cost overruns and agricultural risks associated with cultivation. Please refer to sections 6.2.8, 6.2.7 and 6.2.6 for a summary of some of this risks.

If any of these risks eventuate, Althea Group may have to reassess the location, size and/or scope of its proposed facility and seek to redeploy the services, works and assets acquired under the Early Works Contract from Powerplants Australia to a new site and/or facility. In those circumstances, the \$11,229,811 of available funding on Completion which Althea Group has allocated to design, construction, commissioning and completion of Althea Holdings' proposed 4,080m² facility in Skye, Victoria would be used to terminate existing leasehold arrangements at the site in Skye, locate and secure a new site suitable for development of an appropriate alternative medicinal cannabis cultivation and production facility and fund the design, construction, commissioning and completion the of the alternative facility.

8.5 Historical capital structure and Pre-Prospectus Capital Raising

Althea Company was registered in Australia on 24 March 2017 by Joshua Fegan as an Australia proprietary company limited by shares. Aphria acquired a 25% interest in Althea Company on 11 January 2018 by subscribing for 2,500 fully paid ordinary shares in Althea Company in consideration for the payment of \$1,800,000 in cash and a commitment to provide \$500,000 of medicinal cannabis product with a further \$200,000 to be settled in cash or inventory depending on Althea Company's inventory requirements. Aphria acquired a further 12.5% interest in Althea Company on 21 March 2018 by subscribing for 2,000 fully paid ordinary shares in Althea Company in consideration for the payment of \$2,500,000.

Althea Holdings was subsequently registered in Australia on 21 June 2018 as a public company limited by shares. On 9 July 2018, Althea Holdings, Joshua Fegan and Aphria entered into *Share Sale and Purchase Agreement* under which Joshua Fegan and Aphria agreed to transfer all of their existing shares in Althea Company to Althea Holdings in consideration for the issue of new Shares in Althea Holdings (**Top Hatting Arrangement**). The Top Hatting Arrangement completed on 9 July 2018.

On 10 August 2018, Althea Holdings completed a pre-prospectus capital raising through the issue of 12,000,000 Shares to a targeted group of Institutional Investors at an issue price of \$0.1667 per Share (**Pre-Prospectus Capital Raising**). PAC Partners was the lead manager to the Pre-Prospectus Capital Raising.

The capital structure of Althea Holdings on the Prospectus Date is set out in the first column in the table in section 8.6.

8.6 Pro forma capital structure

Details of the ownership of Shares (which includes relevant interests in Shares) as at the Prospectus Date and Shares on Completion of the Offer are set out below:

	Shares at the Prospectus Date	Shares on Completion of the Offer*	Completion of the Offer (%)*	Shares on Completion of the Offer – fully diluted basis**	Completion of the Offer (%) – fully diluted basis**
Joshua Fegan ¹	56,250,000	56,250,000	28%	61,350,000	29%
Aphria ²	33,750,000	50,750,000	25%	50,750,000	24%
Directors (other than Joshua Fegan) ³		2,160,000	1%	2,160,000	1%
Institutional Investors under the Pre-Prospectus Capital Raising	12,000,000	12,000,000	6%	12,000,000	6%
PAC Adviser Shares ⁴		3,060,000	2% ⁵	3,060,000	1%
Mancann ⁶		10,000,000	5%	10,000,000	5%
Hootch ⁷		7,500,000	4%	7,500,000	4%
Other investors in the Offer		61,590,000	30%	61,590,000	29%
Pre-IPO Consultants		NIL	0%	2,675,000	1%
Total Shares	102,000,000	203,310,000	100.0	211,085,000	100.0

* Assumes that the Offer is fully subscribed and excludes the 5,100,000 Performance Rights proposed to be issued by Althea Holdings to Joshua Fegan under the LTI Plan subject to Listing and the 2,675,000 Pre-IPO Consultant Options granted to the Pre-IPO Consultants subject to Listing. Please refer to sections 7.3.5 and 7.3.9 for further information on the proposed Performance Rights to be issued to Josh and the Pre-IPO Consultants Options.

** Assumes that the Offer is fully subscribed, all the 5,100,000 Performance Rights proposed to be issued by Althea Holdings to Joshua Fegan under the LTI Plan subject to Listing vest, the 2,675,000 Pre-IPO Consultant Options granted to the Pre-IPO Consultants subject to Listing are exercised and no additional Shares are issued in the Althea Holdings after Completion. Please refer to sections 7.3.5 and 7.3.9 for further information.

- 1 Please refer to section 7.3.8 for further details. Althea Holdings also proposes to grant Joshua Fegan 5,100,000 Performance Rights subject to Listing. Please refer to section 7.3.5 for further details. On a fully diluted basis (i.e. assuming that all Performance Rights vest, all Pre-IPO Consultant Options are exercised and no further Shares are issued after Completion) Joshua Fegan will hold 29% of the total number of Shares in Althea Holdings. In addition, Joshua Fegan's related parties (comprising his family members and entities which they control) are expected to hold 0.59% of the total number of Shares in Althea Holdings.
- 2 The proposed increase in Aphria's holding of Shares as at the Prospectus Date compared with its holding of Shares on Completion reflects Aphria's commitment to subscribe for 17,000,000 New Shares under the Offer. Please refer to the Chairman's letter and section 4.6 (*Distribution*) for further details.
- 3 Comprising Shares to be held by Andrew Newbold, Alan Boyd and Gregg Battersby. Please refer to section 7.3.8 for further details.
- 4 In addition to the Lead Manager's fees set out in section 10.5.8, Althea Company has agreed to offer the Lead Manager (or its nominees) the right to subscribe for such number of Shares equal in value (based on the Offer Price) to 3% of the pre-money IPO valuation of Althea Holdings. The pre-money IPO valuation of Althea Holdings is \$20,400,000 (being, the 102,000,000 Shares on issue in Althea Holdings at the Prospectus Date multiplied by the \$0.20 Offer Price). Accordingly, Althea Company has agreed to offer the Lead Manager (or its nominees) the right to subscribe for 3,060,000 Shares for nil consideration, being 3% of \$20,400,000 divided by \$0.20. This offer by Althea Holdings is being made under the PAC Offer. Please refer to sections 8.9 and 10.5.8 for further information.
- 5 The Lead Manager has entered into a *Voluntary Escrow Deed* with each of Mancann and Hootch. Please refer to section 8.17 for further information. The *Voluntary Escrow Deeds* enable the Lead Manager to control the disposal of Shares held by Mancann and Hootch during the period of the relevant voluntary escrow. Accordingly, on Completion of the Offer, the Lead Manager and PAC Partners will have a total aggregate relevant interest in 11% of the total number of Shares in Althea Holdings – being, the aggregate of the 2% of Shares to be issued to PAC Partners under the PAC Offer and the relevant interest held by the Lead Manager in the 5% of Shares to be issued to Mancann and the 4% of Shares to be issued to Hootch.
- 6 Mancann is an entity controlled by Daniel Mansfield. Mancann is a related party of Mansfield, the landlord under the long term lease entered into by Althea Company and summarised in section 10.5.4.
- 7 Hootch is an entity controlled by Michael Smith, Peter McLeod and Roger Smith.

8. DETAILS OF THE OFFER^{continued}

Options at the Prospectus Date	Options on Completion of the Offer	Ownership of Althea Holdings on exercise (%)
Pre-IPO Consultant Options ¹	2,675,000	1.27% ²

¹ To be issued to the individual listed in section 7.3.9.

² On a fully diluted basis (i.e. assuming all Pre-IPO Consultant Options are exercised, all Performance Rights proposed to be granted to Joshua Fegan vest, and no further Shares are issued after Completion).

On Completion of the Offer, it is expected that approximately 29.59% of the total number of Shares on issue in Althea Holdings will be held by related parties of Althea Holdings. The related parties of Althea Holdings at the Prospectus Date comprise each Director, each entity which is controlled by a Director, each spouse or de facto spouse of a Director and the parents and children of each Director.

On Listing, it is expected that Althea Holdings will have a free float of approximately 55%, being the percentage of its Shares that are **not** subject to the mandatory or voluntary escrow arrangements contemplated in sections 8.16 and 8.17 (respectively) or held by related parties of Althea Holdings or their associates.

8.7 Control implications of the Offer

It is not expected that any one Shareholder or group of Shareholders will control Althea Holdings as a result of allocations under the Offer.

8.8 Potential effect of the fundraising on the future of Althea Group

The Directors believe that, on Completion of the Offer, Althea Group will have sufficient funds available from the cash proceeds of the Offer to fulfil the purposes of the Offer and enough working capital to carry out Althea Group's stated business objectives.

8.9 PAC Offer

This Prospectus also includes an offer by Althea Holdings of up to 3,060,000 Shares to PAC Partners, a related party of the Lead Manager, at an offer price of \$0 per Share as part of the consideration to be provided by Althea Company under the Lead Manager Agreement for services provided by the Lead Manager in relation to the Pre-Prospectus Capital Raising and the Offer. Please refer to section 10.5.8.1 for details as to how the number of Shares to be offered to PAC Partners under the PAC Offer has been calculated.

The PAC Offer is an offer of Shares to PAC Partners only. No funds will be raised from the issue of Shares under the PAC Offer.

Please refer to section 10.5.8 for further details of the terms and conditions of the Lead Manager Agreement.

8.10 Broker Firm Offer

8.10.1 Who can apply?

The Broker Firm Offer is open to persons who have received an invitation to participate from the Lead Manager and who have a registered address in Australia. You should contact the Lead Manager to determine whether you can receive an invitation from them under the Broker Firm Offer.

8.10.2 How to apply?

If you have received an invitation to participate from the Lead Manager and wish to apply for Shares under the Broker Firm Offer, you should contact the Lead Manager for information about how to submit your Application Form and for payment instructions. Applicants under the Broker Firm Offer must not send their Application Forms or payment to the Registry.

The Lead Manager will act as your agent and it is the Lead Manager's responsibility to ensure that your Application Form and Application Monies are received before 5.00pm (Melbourne Time) on the Closing Time or any earlier closing date as determined by the Lead Manager.

If you are an investor applying under the Broker Firm Offer, you should complete and lodge your Application Form with the Lead Manager. Application Forms must be completed in accordance with the instructions given to you by the Lead Manager and the instructions set out on the reverse of the Application Form.

By making an Application, you declare that you were given access to this Prospectus, together with an Application Form. ***The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.***

The minimum application under the Broker Firm Offer is as directed by the Lead Manager. There is no maximum value of Shares that may be applied for under the Broker Firm Offer. However, Althea Holdings and the Lead Manager reserve the right to aggregate any applications which they believe may be multiple applications from the same person or reject or scale back any applications in the Broker Firm Offer. Althea Holdings may determine whether a person is eligible to participate in the Broker Firm Offer, and may amend or waive the Broker Firm Offer application procedures or requirements, in its discretion, in compliance with applicable laws.

Althea Holdings and the Registry take no responsibility for any acts or omissions committed by the Lead Manager in connection with your Application.

The Broker Firm Offer opens at 9.00am (Melbourne Time) on 6 September 2018 and is expected to close at 5.00pm (Melbourne Time) on 13 September 2018. Althea Holdings and the Lead Manager may elect to close the Offer or any part of it early, 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 time and date, without further notice. Applicants are therefore encouraged to submit their Applications as early as possible. Contact the Lead Manager to the Offer on 03 8633 9834 between 8:30am and 5:30pm Melbourne, Australia time, Monday to Friday (Business Days only) for instructions.

8.10.3 Payment methods

Applicants under the Broker Firm Offer must pay their Application Monies to the Lead Manager in accordance with instructions provided by the Lead Manager.

8.10.4 Allocation policy under the Broker Firm Offer

Shares that have been allocated to the Lead Manager for allocation to their Australian resident retail clients will be issued to the Applicants nominated by the Lead Manager. It will be a matter for the Lead Manager as to how they allocate firm Shares among their retail clients, and they (and not Althea Holdings) will be responsible for ensuring that retail clients who have received a firm allocation from them receive the relevant Shares.

8.10.5 Acceptance of Applications

An Application in the Broker Firm Offer is an offer by you to Althea Holdings to apply for the amount of Shares specified in the Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement document) and the Application Form (including the conditions regarding quotation on ASX in section 8.19 and the acknowledgements in section 8.12). To the extent permitted by law, an Application by an Applicant is irrevocable.

An Application may be accepted in respect of the full amount, or any amount lower than that specified in the Application Form, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract on allocation of Shares to successful Applicants.

The Lead Manager, in agreement with Althea Holdings, reserves the right to reject any Application which is not correctly completed or which is submitted by a person who they believe is ineligible to participate in the Broker Firm Offer, or to waive or correct any errors made by the Applicant in completing their Application.

8.10.6 Application Monies

Althea Holdings reserves the right to decline any application in whole or in part, without giving any reason. Application Monies received under the Broker Firm Offer will be held in a special purpose account until Shares are issued or transferred to successful Applicants.

Applicants whose applications are accepted in full will receive the whole number of Shares calculated by dividing the Application Monies provided by the Offer Price. Where the Offer Price does not divide evenly into the Application Monies, the number of Shares to be allocated will be determined by the Lead Manager.

Applicants under the Broker Firm Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will be mailed a refund (without interest) of all or part of their Application Monies, as applicable.

No refunds pursuant solely to rounding will be provided. Interest will not be paid on any monies refunded and any interest earned on Application Monies pending the allocation or refund will be retained by Althea Holdings.

8. DETAILS OF THE OFFER^{continued}

8.11 Institutional Offer

8.11.1 Invitations to bid

The Institutional Offer consisted of an invitation to certain Institutional Investors in Australia and a number of other eligible jurisdictions to apply for Shares. The Lead Manager separately advised Institutional Investors of the application procedures for the Institutional Offer.

8.11.2 Allocation policy under the Institutional Offer

The allocation of Shares among Applicants in the Institutional Offer was determined by the Lead Manager in consultation with Althea Holdings. The Lead Manager and Althea Holdings had absolute discretion regarding the basis of allocation of Shares among Institutional Investors.

Participants in the Institutional Offer have been advised of their allocation of Shares, if any, by the Lead Manager. The allocation policy was influenced, but not constrained, by the following factors:

- number of Shares bid for by particular Applicants;
- the timeliness of the bid by particular Applicants;
- Althea Holdings' desire for an informed and active trading market following Listing;
- Althea Holdings' desire to establish a wide spread of institutional Shareholders;
- overall level of demand under the Broker Firm Offer and the Institutional Offer;
- the size and type of funds under management of particular Applicants;
- the likelihood that particular Applicants will be long term Shareholders; and
- any other factors that Althea Holdings and the Lead Manager considered appropriate.

8.12 Nature of Applications and requirements

Applications must comply with this Prospectus and the instructions on the Application Form. An Application is an offer by the Applicant to Althea Holdings to apply for all or any of the amount of Shares specified in the Application Form, at the Offer Price on the terms set out in this Prospectus. To the extent permitted by law, an Application is irrevocable. Acceptance of an Application will give rise to a binding contract on allocation of Shares to successful Applicants.

Each Applicant under the Offer will be deemed to have:

- agreed to become a member of Althea Holdings and to be bound by the terms of the Constitution and the terms and conditions of the Offer;
- acknowledged having personally received a printed or electronic copy of this Prospectus (and any supplementary or replacement prospectus) included in or accompanying the Application Form and having read them all in full;
- declared that all details and statements in their Application Form are complete and accurate;
- declared that the Applicant(s), if a natural person, is/are over 18 years of age;
- acknowledged that, once Althea Holdings or a Broker receives an Application Form, it may not be withdrawn;
- applied for the number of Shares at the Australian Dollar amount shown on the front of the Application Form;
- agreed to be allocated the number of Shares applied for (or a lower number allocated in a way described in this Prospectus), or no Shares at all;
- authorised Althea Holdings and the Lead Manager and their respective officers or agents, to do anything on behalf of the applicant(s) necessary for Shares to be allocated to the applicant(s), including to act on instructions received by the Registry upon using the contact details in the Application Form;
- acknowledged that, in some circumstances, Althea Holdings may not pay dividends, or that any dividends paid may not be franked;
- acknowledged that the information contained in this Prospectus (or any supplementary or replacement prospectus) is not financial product advice or a recommendation that Shares are suitable for the applicant(s), given the investment objectives, financial situation or particular needs of the applicant(s);
- declared that the Applicant(s) is/are a resident of Australia;
- acknowledged and agreed that the Offer may be withdrawn by Althea Holdings or may otherwise not proceed in the circumstances described in this Prospectus; and
- acknowledged and agreed that if Listing does not occur for any reason, the Offer will not proceed.

Each Applicant in the Broker Firm Offer will be taken to have represented, warranted and agreed as follows:

- it understands that the Shares have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state of the United States and may not be offered, sold or resold in the United States;
- it is not in the United States;
- it has not and will not send this Prospectus or any other material relating to the Offer to any person in the United States; and
- it will not offer or sell the Shares in the United States or in any other jurisdiction outside Australia.

8.13 Powers of Althea Holdings in relation to Applications

There is no assurance that any Applicant will be allocated any Shares, or the number of Shares for which the Applicant has applied. Althea Holdings may in its absolute discretion, without notice to any Applicant and without giving any reason:

- withdraw the Offer at any time before the issue or transfer of Shares to successful Applicants;
- decline an Application;
- accept an Application for its full amount or any lower amount;
- determine a person to be eligible or ineligible to participate in any part of the Offer;
- waive or correct any errors made by an Applicant in completing their Application Form;
- amend or waive the Offer application procedures or requirements in compliance with applicable laws; or
- aggregate any Applications that they believe may be multiple Applications from the same person.

8.14 Application Monies

Althea Holdings will hold Application Monies received in a special purpose bank account until Shares are issued or transferred to successful Applicants. Applicants whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will be mailed a refund of all or part of their Application Monies, as applicable. No refunds pursuant solely to rounding will be provided. Interest will not be paid on any monies refunded and any interest earned on Application Monies pending the allocation or refund will be retained by Althea Holdings.

8.15 Underwriting arrangements

The Offer is not underwritten. However, Althea Holdings will not issue any Shares under this Prospectus unless the Offer is fully subscribed.

8.16 Restricted Securities

Certain Shares and Options in Althea Holdings will be classified by ASX as restricted securities and will be required to be held in escrow for up to 24 months from Listing. During the period in which these Shares and Options are prohibited from being transferred, trading in Shares may be less liquid which may impact on the ability of a Shareholder to dispose of his or her Shares in a timely manner.

Althea Holdings expects that all Shares held Joshua Fegan on Listing, 12,250,000 of the 50,750,000 Shares held by Aphria on Listing and Shares to be issued under the PAC Offer are likely to be classified by ASX as restricted securities (as defined in the ASX Listing Rules) and subject to escrow for up to 24 months. Althea Holdings also expects that all Pre-IPO Consultant Options and the 5,100,000 Performance Rights proposed to be granted by Althea Holdings to Joshua Fegan under the LTI Plan subject to Listing, will be classified by ASX as restricted securities (as defined in the ASX Listing Rules) and subject to escrow for up to 24 months.

Althea Holdings will announce to the ASX full details (quantity and duration) of the Shares and Options required to be held in escrow prior to the Shares commencing trading on ASX. Each holder and controller of the relevant Shares and Pre-IPO Consultant Options required to be held in escrow will, as a condition to Listing, be required to enter into a Restriction Agreement with Althea Holdings in the form required by the ASX Listing Rules.

8. DETAILS OF THE OFFER^{continued}

8.17 Voluntary escrow arrangements

In addition to the restricted securities contemplated in section 8.16, Mancann and Hootch have agreed with the Lead Manager to place all of the Shares to be held by them on Completion in voluntary escrow.

Mancann, an entity controlled by Daniel Mansfield is a related party of Mansfield (the landlord under the long-term lease entered into by Althea Company and summarised in section 10.5.4 for further details) and has informed Althea Holdings that it intends to subscribe for 10,000,000 Shares under the Offer.

Hootch is an entity controlled by Michael Smith, Peter McLeod and Roger Smith. Hootch has informed Althea Holdings that it intends to subscribe for 7,500,000 Shares under the Offer.

On Completion, it is expected that Mancann will hold approximately 5%, and Hootch will hold approximately 4%, of the total number of Shares on issue in Althea Holdings.

Mancann and Hootch have each entered into an escrow deed with the Lead Manager in respect of the Shares to be held by them on Completion. The deeds prevent:

- Mancann from disposing of its escrowed Shares for 18 months commencing on the date of quotation of the Shares on the ASX; and
- Hootch from disposing of its escrowed Shares for 12 months commencing on the date of quotation of the Shares on the ASX.

The restriction on 'disposing' is broadly defined and includes, among other things, selling, or agreeing to sell or otherwise disposing of the escrowed Shares or encumbering or granting a security interest over the escrowed Shares. All of the escrowed Shares held by Mancann and Hootch may be released early from these escrow obligations to enable:

- Mancann and Hootch to accept an offer under a takeover bid in relation to their escrowed Shares;
- the escrowed Shares held by Mancann and Hootch to be transferred or cancelled as part of a merger or acquisition by scheme of arrangement under Part 5.1 of the Corporations Act; and
- the escrowed Shares to be transferred to a wholly-owned subsidiary provided that the wholly-owned subsidiary enters into a deed with the Lead Manager on the same terms as the escrow deed and the wholly-owned shareholder agrees that if it ceases to be a wholly-owned subsidiary of the escrowed shareholder it will immediately transfer any escrowed Shares it holds back to the relevant escrowed Shareholder.

During the relevant escrow period, Mancann and Hootch may deal in any of their escrowed Shares to the extent the dealing is required by applicable law (including an order of a court of competent jurisdiction).

If it appears to the Lead Manager that Mancann or Hootch may breach its voluntary escrow deed, Althea Group may take any steps necessary to prevent the breach or enforce the deed or to rectify the breach.

Mancann and Hootch will continue to maintain and control all voting rights applicable to their Shares that are subject to escrow.

8.18 Restrictions on distribution

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

This Prospectus does not constitute an offer or invitation to subscribe for Shares in any jurisdiction in which, or to any person whom, it would not be lawful to make such an offer or invitation or issue under this Prospectus.

This Prospectus may not be released or distributed in the United States or elsewhere outside Australia, unless it has attached to it the selling restrictions applicable in the jurisdictions outside Australia, and may only be distributed to persons to whom the Institutional Offer may lawfully be made in accordance with the laws of any applicable jurisdiction.

The Shares have not been and will not be, registered under the US Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, in the United States.

8.18.1 Hong Kong

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

This document has not been registered by the Registrar of Companies in Hong Kong pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32) of the Laws of Hong Kong (**CWMO**).

This document must not be issued, circulated or distributed in Hong Kong other than (1) to “professional investors” as defined in the Securities and Futures Ordinance (Chapter 571) of the Laws of Hong Kong (**SFO**) and any rules made under the SFO, (2) to persons and in circumstances which do not result in this document being a “prospectus” as defined in section 2(1) of the CWMO or which do not constitute an offer or an invitation to the public within the meaning of the CWMO or the SFO or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFO and CWMO.

No person may issue any invitation, advertisement or other document relating to the Shares whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the SFO and any rules made under the SFO.

8.19 ASX Listing, Registers and holding statements

8.19.1 Application to the ASX for Listing of Althea Holdings and quotation of Shares

Althea Holdings will apply for admission to the Official List and quotation of the Shares on the ASX within 7 days of the Prospectus Date.

The ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit Althea Holdings to the official list is not to be taken as an indication of the merits of Althea Holdings or the Shares offered for subscription.

If the Shares are not admitted to quotation on the ASX within three months after the Prospectus Date (or any later date permitted by law), the Offer will be withdrawn and all Application Monies received by Althea Holdings will be refunded (without interest) in accordance with the requirements of the Corporations Act.

Subject to certain conditions (including any waivers obtained by Althea Holdings from time to time), Althea Holdings will be required to comply with the ASX Listing Rules.

8.19.2 CHESS and issuer sponsored holdings

Althea Holdings will apply to participate in the Clearing House Electronic Subregister System (**CHESS**) and will comply with the ASX Listing Rules and the ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on the ASX under which transfers are effected in electronic form.

When the Shares become approved financial products (defined in the ASX Settlement Operating Rules), holdings will be registered in one of two sub-registers, an electronic CHESS sub-register or an issuer-sponsored sub-register. For all successful Applicants, the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by a participant in CHESS will be registered on the CHESS sub-register. All other Shares will be registered on the issuer-sponsored sub-register.

Following Completion, Shareholders will be sent a holding statement that sets out the number of Shares that have been allocated to them. This statement will also provide details of a Shareholder’s Holder Identification Number (**HIN**) for CHESS holders or, where applicable, the Shareholder Reference Number (**SRN**) of issuer sponsored holders. Shareholders will subsequently receive statements showing any changes to their Shareholding. Certificates will not be issued.

Shareholders will receive subsequent statements at the end of each month or if there has been a change to their shareholding on the register and as otherwise required under the ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder’s sponsoring Broker (in the case of a holding on the CHESS sub-register) or through the Registry (in the case of a holding on the issuer sponsored sub-register). The Registry may charge a fee for these additional statements.

8.19.3 Selling Shares before receiving a holding statement

It is the responsibility of each person who trades in Shares to confirm their holding before trading in Shares. If you sell Shares before receiving a holding statement, you do so at your own risk. Althea Holdings, the Registry and the Lead Manager disclaim all liability, whether in negligence or otherwise if you sell Shares before receiving a holding statement, even if you obtained details of your holding through the Lead Manager or your Broker.

9.

INVESTIGATING ACCOUNTANT'S REPORT



9. INVESTIGATING ACCOUNTANT'S REPORT



RSM Corporate Australia Pty Ltd

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31 August 2018

The Directors
Althea Group Holdings Limited
30 Dove Street
Cremorne VIC 3121

Dear Directors

INVESTIGATING ACCOUNTANT'S REPORT

Independent Limited Assurance Report on Althea Group Holdings Limited Historical and Pro Forma Historical Financial Information

Introduction

We have been engaged by Althea Group Holdings Limited ("Althea Holdings") to report on the historical and pro forma historical financial information of Althea Holdings and Althea Company Pty Ltd ("Althea Company"), for inclusion in the replacement prospectus ("Prospectus") dated on or about 4 September 2018 in connection with Althea Holdings' proposed initial public offering and listing on the Australian Securities Exchange ("ASX").

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

The future prospects of Althea Holdings, other than the preparation of the Pro Forma Historical Financial Information, assuming completion of the transactions summarised in section 5.5 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 Althea Holdings.

The Pro Forma Historical Financial Information includes the following pro forma adjustments:

- the issue of 90,000,000 Shares in Althea Holdings to acquire the 90,000,000 fully paid ordinary shares in Althea Company under the Top Hatting Arrangement;
- the Pre-Prospectus Capital Raising comprising the issue of 12,000,000 Shares to Institutional Investors at an issue price of \$0.1667 per Share to raise \$2,000,400, less costs of undertaking the Pre-Prospectus Capital Raising of \$100,000;
- the Offer issue of 98,250,000 Shares at an issue price of \$0.20 per Share to raise \$19,650,000, before expenses of the capital raising. The pro forma adjustments assume that the Offer is fully subscribed and all Shares pursuant to the Prospectus will be issued as fully paid;
- expected cash costs of undertaking the Offer totalling \$1,335,346, comprising \$1,136,087 recognised through equity and \$199,259 in expenses recognised through the Statement of Profit or Loss;
- the issue of the PAC Adviser Shares comprising 3,060,000 Shares to be issued to PAC Partners under the PAC Offer;

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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 a separate legal entity in any jurisdiction.

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

9. INVESTIGATING ACCOUNTANT'S REPORT continued



- the issue of Pre-IPO Consultant Options, comprising 2,675,000 Options to be issued to the Pre-IPO Consultants; and
- material expenses incurred subsequent to 30 June 2018 to the date of the Prospectus of \$209,602.

Scope

Historical Financial Information

You have requested RSM Corporate Australia Pty Ltd ("RSM") to review the following historical financial information of Althea Holdings included in section 5 of the Prospectus, and comprising the:

- Audited Statement of Profit or Loss and Other Comprehensive Income of Althea Company for the 15-month period from incorporation being 24 March 2017, to 30 June 2018 ("FY18");
- Audited Statement of Cash Flows of Althea Company for FY18;
- Audited Statement of Financial Position of Althea Company as at 30 June 2018; and
- Audited Statement of Financial Position of Althea Holdings as at 30 June 2018;

(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 requirements described in section 5.6 of the Prospectus and Althea Holdings' adopted accounting policies.

The Historical Financial Information for Althea Holdings has been extracted from Althea Holdings' financial statements from the period of incorporation being 21 June 2018, to 30 June 2018, which were audited by RSM Australia Partners and on which an unqualified audit opinion was issued.

The Financial Information of Althea Holdings has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles described in Australian Accounting Standards, and Althea Holdings' adopted accounting policies.

The Historical Financial Information for Althea Company has been extracted from Althea Company's financial statements for FY18, which were audited by RSM Australia Partners and on which an unqualified audit opinion was issued.

The Historical Financial Information is presented in the Prospectus in an abbreviated form, insofar as it does not include all 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 consolidated pro forma historical statement of financial position as at 30 June 2018, referred to as "the Pro Forma Historical Financial Information".

The Pro Forma Historical Financial Information has been derived from the Historical Financial Information of Althea Holdings and Althea Company, assuming the completion of the transactions summarised in section 5.5 of the Prospectus. The stated basis of preparation is the recognition and measurement requirements of Australian Accounting Standards applied to the Historical Financial Information and the events or transactions to which the pro forma adjustments relate, as described in section 5.5 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 Althea Holdings' actual or prospective financial position or financial performance.

Directors' responsibility

The Directors of Althea Holdings 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 Althea Holdings' and Althea Company's work papers, accounting records and other documents;
- enquiry of directors, management personnel and advisors;
- consideration of the pro forma adjustments described in section 5.5 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 set out in section 5 of the Prospectus, and comprising the:

- Audited Statement of Profit or Loss and Other Comprehensive Income of Althea Company for FY18;
- Audited Statement of Cash Flows of Althea Company for FY18;
- Audited Statement of Financial Position of Althea Company as at 30 June 2018; and
- Audited Statement of Financial Position of Althea Holdings as at 30 June 2018

are not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 5.6 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 in section 5 of the Prospectus, and comprising the Consolidated Pro Forma Statement of Financial Position of Althea Holdings at 30 June 2018, assuming the completion of the pro forma adjustments summarised in section 5.5 of the Prospectus, is not presented fairly in all material respects, in accordance with the stated basis of preparation, as described in section 5.6 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 Corporate Australia Pty Ltd does not have any interest in the outcome of this transaction other than the preparation of this assurance report for which normal professional fees will be received.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Glyn Yates', is written over a faint, light blue rectangular background.

RSM CORPORATE AUSTRALIA PTY LTD

Glyn Yates
Director

10.

ADDITIONAL INFORMATION



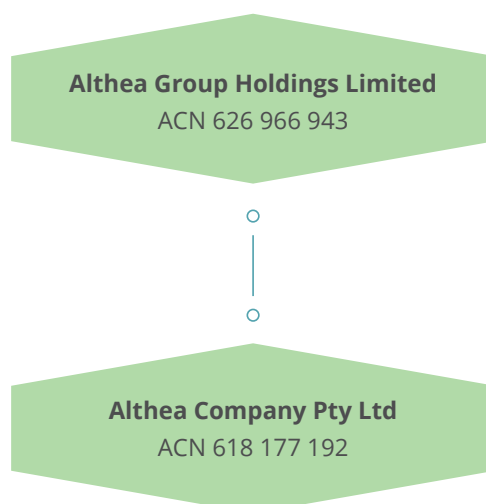
10. ADDITIONAL INFORMATION

10.1 Registration

Althea Holdings was registered in Australia on 21 June 2018 as a public company limited by shares.

10.2 Corporate structure

The corporate structure of Althea Group is:



Core focus: *Holder of all licences and material agreement*

10.3 Althea Holdings' tax status

Althea Holdings is and will be subject to tax at the Australian corporate tax rate.

10.4 Licence Terms

10.4.1 Licence to sell or supply by wholesale

Licence number 22210927 to sell or supply by wholesale Schedule 8 or Schedule 9 Poisons (other than Heroin) issued by the Victorian Department of Health and Human Services to Althea Company permits Althea Company to sell or supply cannabis and tetrahydrocannabinols by indent.

The licence is subject to several conditions to ensure the risk of misuse is lessened. Patty Holmes, Althea Holdings Chief Operating Officer has been delegated responsibility for overseeing compliance with the DPCS Act, and Althea Company must notify the Department if Ms Holmes ceases employment with Althea Group. The licence does not permit Althea Company to possess or store products, but only to direct sale or supply. This is consistent with the Warehousing Agreement between Althea Company and PPP whereby PPP provides secure distribution and warehousing services to Althea Company in respect of medicinal cannabis products imported from Aphria. Please refer to section 10.5.2 for a summary of the material terms of the Warehousing Agreement. Althea Company is obligated to maintain true and accurate records of all transactions involving cannabis product. Records must be retained for three years and produced on demand to the Department. Any theft, loss or misappropriation of products must be reported to both the Department and to Victoria Police.

The licence remains in force until 1 July 2019, at which point Althea Company will need to seek renewal.

10.4.2 Licence to import

Licence number 1820755 to import narcotic, psychotropic and precursor substances issued by the ODC to Althea Company permits Althea Company to import drugs otherwise prohibited by the Import Regulations.

The licence is subject to the provision that a permit to import be obtained for each consignment. The licence does not absolve Althea Company of acting in accordance with other laws or approvals.

The licence is in force until 31 December 2018 at which time Althea Company will need to apply for renewal. It is noted that all import licences issued by the ODC are issued for a calendar year only, such that all import licences expire on 31 December 2018.

10.4.3 Medicinal cannabis (cultivation) licence

Licence number MC015/18 to cultivate and produce cannabis, or cannabis material, for the purposes of patient supply issued by the ODC to Althea Company permits Althea Company to undertake the cultivation of cannabis plants for the purpose of producing cannabis or cannabis resin for medicinal purposes; the production of cannabis or cannabis resin for medicinal purposes and activities relating to cultivation or production, including obtaining cannabis plants; packing, transport, storage, possession, testing and control of cannabis plants, cannabis or cannabis resin; and the disposal or destruction of cannabis plants, cannabis or cannabis resin. These activities are authorised only to the extent prescribed in a valid permit. The activities are permitted only at the premises specified in the licence and in the areas of that licence nominated in the site plan lodged as part of the application.

The licence is subject to persons associated with the licence being fit and proper persons, including directors, officers and any shareholders and business associates deemed to have influence over the operations of Althea Company. As at the date of the Prospectus, each of the directors of Althea Holdings and Althea Company have been verified by the ODC as fit and proper. A number of individuals associated with Aphria have also been verified by the ODC in their capacity as shareholders. The licence notes that Joshua Fegan (Chief Executive Officer), Daniel Mansfield (Head Grower), Patty Holmes (Chief Operating Officer), David Sauer (General Counsel) and Michael Fegan (Sales and marketing manager) are authorised to engage in activities authorised under the licence.

As highlighted in section 6.2.13, as Althea Holdings is a public company and is seeking to be admitted to the official list of the ASX, the Board cannot control or prevent the transfer of shares in Althea Holdings or the election of a person or persons as new directors of Althea Holdings. In particular, a person may make a takeover bid, resulting in the acquirer being in a position to influence the management or operations of Althea Holdings, or a "board spill" resolution may be passed, requiring Althea Holdings to have elections of its directors. In these circumstances, should the ODC determine that the new person with substantial influence over the activities of Althea Holdings (i.e. the acquirer under a takeover bid or a new director) is not a fit and proper person, the licences held by Althea Company are likely to be revoked.

The licence includes a large number of conditions in addition to those directly imposed by the ND Act and ND Regulations. These include the requirement that Althea Company maintain facilities and containment, including safety, security and surveillance of land and premises. Althea Company must provide details of the design and construction of the facility for approval prior to being granted a permit, particularly focused on construction materials and building features used to bolster the security of the site and facility, as well as a detailed floor plan of the facilities in line with the specifications included in the application for the licence. The premises must also pass an inspection by the ODC, which requires demonstration of adherence to site and facility security plans accepted by the ODC in the application process. The licence also requires Althea Company to maintain discretion around the location and activities of the premises; notify the ODC of acquisition of cannabis plant material; and forecast the estimated, and report the actual, cultivation and production during the period of the licence, including in respect of the amount cultivated and obtained, maintained for the purposes of propagation, supplied to the holder of a manufacturing licence and destroyed/disposed of. The licence also includes conditions in respect of transport and destruction of plants to ensure security, and to avoid the creation of a stockpile of cannabis plants, cannabis or cannabis resin.

Althea Company is required to demonstrate and maintain a relationship with local emergency services prior to being granted a permit, including with police and fire emergency services. Althea Company is obligated to notify the ODC of any security breaches and loss or suspect loss, including suspect or actual theft, of plants, cannabis or cannabis resin. Althea Company must keep and make available records of activities authorised under the licence, including cannabis transferred, data collected, audits, reviews and stocktakes. Althea Company must notify the ODC of any changes to the fit and proper person status of a person, and the addition or removal of persons in a position of influence. Althea Company must also comply with standard operating procedures and security plans lodged with ODC, and not modify these documents without ODC approval.

The ODC also imposes requirements on Althea Company prior to applying for a permit under the licence. Althea Company is obligated to, at least 3 months before an application is made, to provide copies of the executed contracts in place with the third parties, including those nominated for testing services, transport services, waste services, security, equipment or systems providers and the owner of the site, together with shareholders agreements and ASIC records verifying the shareholder arrangements.

This licence is in force until 31 October 2020, the maximum two year licence term permitted. At this time, Althea Company will need to apply for renewal.

10.5 Material Contracts

The Directors consider that there are a number of contracts which are significant or material to Althea Group or are of such a nature that an investor may wish to have details of them when making an assessment of whether to apply for Shares. The main provisions of these contracts are summarised below, or elsewhere in this Prospectus. These summaries are included for the information of potential investors in the Offer but do not purport to be complete and are qualified by the text of the contracts themselves.

10. ADDITIONAL INFORMATION continued

10.5.1 Aphria Product Supply Agreement

Althea Group's key supply contract is the Aphria Product Supply Agreement entered into between Althea Company and Aphria dated 25 September 2017, as amended, under which Aphria supplies Althea Company with dried cannabis and cannabis extract in oil form.

The Aphria Product Supply Agreement requires Aphria to supply Althea Company exclusively in Australia and New Zealand with the exception of products supplied to Medilab Clinic Limited, who use cannabis products supplied by Aphria for medical research purposes.

The price payable per gram of dried cannabis and cannabis extract in oil form supplied to Althea Company is not fixed and is adjusted to reflect the active cannabinoid content in the products. Risk of loss to the products passes to Althea Company once the products are packed and available for shipping from Aphria's facility in Canada. Title to the products passes to Althea Company once the products clear export customs in Canada. Althea Company is responsible for engaging and co-ordinating freight services.

The Aphria Product Supply Agreement has an initial 3 year term which expires on 25 September 2020 (initial term). The term of the Aphria Product Supply Agreement will automatically renew for successive 90 day periods unless terminated earlier (secondary term). Either party may terminate the Aphria Product Supply Agreement in the following circumstances:

- material breach of any representation or warranty or obligation and the breach has not been waived;
- Aphria or Althea Company failing to receive approvals required to authorise the supply and import of cannabis products under the agreement;
- by giving at least 90 days' notice at conclusion of the initial term; or
- by giving at least 30 days' notice during any part of the secondary term.

The Aphria Product Supply Agreement also contains indemnities under which Aphria indemnifies Althea Company and Althea Company indemnifies Aphria in respect of all claims arising from the relevant party's negligent or intentional acts or omissions or misleading, deceptive or wilful conduct. Damages are limited to actual damages.

10.5.2 Warehousing and Distribution Agreement

Althea Company has entered into the Warehousing Agreement with PPP, pursuant to which PPP has agreed to provide warehousing and distribution services to Althea Company until 5 August 2019 for a fixed annual fee, exclusive of courier fees which are charged to Althea Company at cost.

The warehouse and distribution services provided by PPP under the Warehousing Agreement include:

- receiving CBD and THC products from Aphria;
- if required, labelling the products for use in Australia;
- providing controlled temperature storage in PPP's purpose built warehouse for unapproved products; and
- preparing the products for shipping when requested by Althea Company.

The Warehousing Agreement can be terminated by either party if there is a material breach of the agreement by the other party, or if the other party suffers an insolvency event.

Althea Company may terminate the Warehousing Agreement at any time upon 30 days prior written notice to PPP, or immediately by written notice if there is a change of control of PPP.

10.5.3 Medical Services Agreement

Althea Company has entered into the Medical Services Agreement with Hahn Healthcare for the provision of medical education services in relation to Althea Group's products. The services provided under the Medical Services Agreement include market research, development of messaging and creative content for Althea Group's brand, development of material to facilitate acceptance of medicinal cannabis and Althea Group generally, development of medical education material and assistance in the development of content for Althea Concierge.

The Medical Services Agreement commenced when the purchase order for Invoice 1 was issued on or about 11 January 2018 and continues for an initial term of 15 months. Althea Company may extend the agreement for four further terms of 12 months each at its discretion. Althea Company has notified Hahn Healthcare of its decision to renew the Medical Services Agreement for two further terms, from 12 April 2019 to 11 April 2021. A fixed fee payable is payable at 3 month intervals during the initial term. Some pass-through costs are also payable in respect of medico-liaison and education services. The total cost for the initial term is \$1,975,000 (including estimated pass-through costs).

The Medical Services Agreement may be terminated by either party before the expiry of the initial term or any subsequent renewal term where the other party breaches any part of the agreement or becomes unable to perform its obligations, and on being given notice, that party is not able to rectify the default within 30 days. Althea Company may also terminate the agreement for convenience by giving 45 days' notice to Hahn Healthcare.

The Medical Services Agreement restricts Hahn Healthcare from engaging in marketing of any non-Althea medicinal cannabis products in Australia for the term of the agreement. Althea Company indemnifies Hahn Healthcare in relation to any losses resulting from Althea Company's breach of the agreement, errors in the products' manufacturing, or any use of the products by a consumer. Hahn Healthcare indemnifies Althea Company for any breach of the agreement, negligence in the delivery of services, and breach of any third party's intellectual property rights.

All intellectual property developed under the agreement vests in Althea Company upon creation, with the exception of the customer relationship management developed and used by Hahn Healthcare. Hahn Healthcare is granted a right to use Althea Company's intellectual property strictly for the purposes of the Medical Services Agreement, as well as a non-exclusive, non-transferable royalty-free licence to use intellectual property developed under the agreement.

10.5.4 Lease

Althea Company has entered into a long-term lease with Mansfield for a 10 acre parcel of land in Victoria on which Althea Company proposes to construct its medicinal cannabis cultivation facility.

The lease is on standard commercial terms and provides for the following key items:

- Commencement date: 1 July 2018;
- Expiry date: 1 July 2048; and
- Rent: \$100,000 per annum (plus GST), reviewed annually.

The lease also provides for the following termination rights:

- Althea Company may terminate the lease by notice:
 - » if it has not obtained all relevant and applicable necessary consents, permits, approvals, licences and certificates from all municipal and other Government authorities to conduct any works in or around the leased land or to use or occupy the leased land for permitted uses within 6 months of the commencement date;
 - » if the works to construct the cultivation and manufacturing facility have not commenced within 12 months of the commencement date;
 - » if the works to construct the cultivation and manufacturing facility have not achieved practical completion (whereby the facility is fit for occupation and all final certificates from the relevant Government authorities evidencing the works comply with all laws and requirements) within 36 months of the commencement date; or
 - » for convenience, by providing Mansfield not less than 12 months' written notice which may be given at any time but may not take effect earlier than 36 months from the commencement date,
- In the event that the land is rezoned at any time during the term, Mansfield may, at any time within 15 years of expiry of the term, terminate the lease on at least 36 months' written notice to Althea Company.

The lease is in a form that can be registered with the Victorian Land Titles Office.

10. ADDITIONAL INFORMATION continued

10.5.5 Early Work Contract

On 17 August 2018, Althea Company entered into an Early Works Contract with Powerplants Australia under which Althea Company has engaged Powerplants Australia to perform early works associated with the design, construction, supply of plant and equipment and commissioning of a fully scalable 4,080m² medicinal cannabis cultivation, extraction and manufacturing facility to be located on the land leased from Mansfield.

The scope of works to be performed by Powerplants Australia includes preliminary consulting work, design, engineering and project management services and sourcing and purchasing for Althea Group certain construction and production assets required to construct and operate the proposed facility. Under the Early Works Contract, Powerplants Australia is only entitled to undertake work on the provision of written notice by Althea Company (**Notice to Proceed**), which is to be provided by Althea Company to Powerplants Australia no later than 10 Business Days after the ASX listing has occurred.

The Early Works Contract contains a Payment Milestones regime, with payments to be made to Powerplants Australia on the achievement of specified Payment Milestones. When Powerplants Australia considers that it has reached a Payment Milestone, it must notify Althea Company in writing and provide all relevant information and sufficient detail to allow Althea to assess if the Payment Milestone has been achieved. Once a Payment Milestone has been achieved, Powerplants Australia can submit a claim for payment for the relevant Milestone Amount in the month in which the Payment Milestone has been achieved.

The total amount payable for early works during the term of the early works contract is capped at \$4,032,920 (excluding GST). All payments by Althea Company are to be made in accordance with the agreed Payment Milestones, having regard to the relevant services provided, or assets procured, by Powerplants Australia.

Under the Early Works Contract, Althea Company and Powerplants Australia agreed to negotiate and execute a final Design and Construct Contract within 6 months of the execution of the Early Work Contract (**Early Works Expiry Date**). The Early Works Contract will terminate automatically either on the earlier of execution of the final Design and Construct Contract and, if no final contract is entered into, the Early Works Expiry Date. There are also additional rights for Althea Company to terminate the Early Works Contract in the event of a breach of contract by Powerplants Australia or if Powerplants Australia becomes insolvent, has an administrator or controller appointed or is otherwise unable to pay its debts.

If the final Design and Construct Contract is entered into, and becomes unconditional, then from the date it is unconditional:

- any sums paid under the Early Works Contract will be deducted from the contract sum under the final Design and Construct Contract (or if not already paid will become due and payable in accordance with the terms of the final Design and Construct Contract); and
- any work performed under the Early Works Contract and any other obligations of the parties will be deemed to be covered by, and performed under, the provisions of the D&C Contract.

The Early Works Contract is also subject to additional general terms and conditions customary for an agreement of its nature.

10.5.6 Plant & Genetics Acquisition Agreement

Althea Company has entered into the Plant & Genetics Acquisition Agreement for the supply of cannabis cuttings which are intended to be used as nursery stock for Althea Company's medicinal cannabis cultivation and manufacturing business.

Aphria is providing 200 cuttings of its Henik and Treasure Island strains of cannabis. The base cost of acquisition is CA\$20,000. Althea Group is also obligated to pay to Aphria a royalty for a period of 10 years at the rate of 5% on sales of cannabis oil where the ratio of CBD:THC is 15:1 or above, and dried products derived from the Treasure Island strain or strains having at least 40% genetic similarity.

Title to the products, including risk of loss, passes to Althea Company once the cuttings clear export customs in Canada. Althea Company is responsible for engaging and co-ordinating freight services.

The transfer of the cannabis cuttings are dependent upon Aphria receiving Canadian regulatory approval to export cuttings. Althea Company warrants that at the date Aphria receives Canadian regulatory approval it will have the necessary Australian approvals in place.

The agreement may be terminated by Aphria if it determines that it is not able to obtain Canadian regulatory approval or if it determines there is insufficient production space at its facility to fulfil the requirements of the agreement.

10.5.7 Trademark Licence Agreement

Althea Company has entered into the Trademark Licence Agreement with Aphria under which Aphria has granted Althea Group a 10 year, royalty free licence to use the “Capilano”, “Champlain Indica”, “Jasper”, “Rideau”, “Treasure Island” and “Henik” trademarks in Australia for the purpose of selling, distributing, promoting and marketing:

- medicinal cannabis products supplied to Althea Company by Aphria; and
- any product which is cultivated and manufactured or produced by Althea Company,

(together, the **Licensed Rights**).

The licence permits Althea Company to use the trademarks alone or in combination with the Althea’s name and logo and allows Althea Company to sublicense the Licensed Rights to Althea Holdings without Aphria’s consent.

All modifications or improvements to the trademarks conceived, prepared, developed or created by Aphria or Althea Company, whether solely or jointly, will be owned exclusively by Aphria.

Unless terminated earlier for cause, as described below, the licence granted by Aphria to Althea Company will expire on the earlier of:

- the 10th anniversary of the licence (being 27 July 2028); or
- when Aphria owns less than 5% of the total number of Shares on issue in Althea Holdings and Aphria delivers to Althea Company a notice of termination.

Following expiry of the term, if Althea Company and Aphria wish to renew the terms of the Trademark Licence Agreement, they must engage in good faith negotiations in respect of determining the terms and conditions upon which the agreement will be renewed.

Either Aphria or Althea Company may terminate the Trademark Licence Agreement for cause if there is a material breach of the agreement by either party which, if remediable, is not remedied within 30 days of receipt of notice specifying the breach or an insolvency event occurs in respect of either party.

Aphria may also terminate the Trademark Licence Agreement if Althea Company:

- breaches its Licensed Rights;
- uses the trademarks other than as permitted;
- sublicenses the trademarks to a another person (other than Althea Holdings) without Aphria’s consent;
- disputes, challenges or contests the rights of Aphria in or to the trademarks or Althea Company files, in any jurisdiction, an application to register the trademarks (in whole or in part) or confusingly similar trademarks etc.;
- breaches its confidentiality obligations to Aphria; or
- ceases to use the trademarks for 12 consecutive months.

If Aphria exercises its right to terminate the trademark licence agreement in circumstances where Aphria owns less than 5% of the total number of Shares on issue in Althea Holdings, Althea Company is permitted to continue selling or offering for sale medicinal cannabis products supplied to Althea Company by Aphria and any product which is cultivated and manufactured or produced by Althea Company bearing the trademarks for a period of 24 months from the date of termination.

In all other circumstances, where the Trademark Licence Agreement is terminated, or expires, Althea Company must cease to use, sell and offer for sale products to which the trademarks have been applied (excluding existing inventory manufactured and not sold at the date of termination or expiration) and cease to use the trademarks other than as permitted in respect of inventory and as noted above.

10. ADDITIONAL INFORMATION continued

10.5.8 Lead Manager Agreement

The Offer is being managed exclusively by the Lead Manager pursuant to an offer management agreement dated 1 June 2018 between Althea Company and the Lead Manager as revised by the addendum letter between Althea Company and the Lead Manager dated 13 August 2018 (**Lead Manager Agreement**). Under the Lead Manager Agreement, the Lead Manager agreed to arrange and manage the Pre-Prospectus Capital Raising and the Offer and provide settlement support for the Broker Firm Offer.

The Lead Manager has not agreed to underwrite the Offer or guarantee that the Offer will be successful.

10.5.8.1 Commission, fees and expenses

Althea Company has agreed to pay the Lead Manager:

- a 2% selling fee on all funds raised by Althea Holdings in respect of the Pre-Prospectus Capital Raising and funds raised by Althea Holdings of up to \$14,125,000 under the Offer, other than funds raised from Aphria, Mancann or Hootch;
- a 3% selling fee and management fee on all funds raised by Althea Holdings in respect of the Pre-Prospectus Capital Raising and funds raised by Althea Holdings of up to \$14,125,000 under the Offer;
- a 2% selling fee on all funds raised by Althea Holdings above \$14,125,000 under the Offer;
- a retainer of \$7,500 per month (plus GST, if applicable), capped at \$45,000 for the period between the date of the Lead Manager Agreement and the date the Shares are quoted on the ASX; and
- a retainer of \$10,000 per month (plus GST, if applicable), for 12 months from the date the Shares are quoted on the ASX (Post Listing Retainer). The Post Listing Retainer is not payable if the Offer does not proceed or the Lead Management Agreement is terminated.

In addition to the fees set out above and subject to Althea Holdings raising \$2,000,000 under the Pre-Prospectus Capital Raising and \$8,750,000 under the Offer, Althea Company has agreed to offer the Lead Manager (or its nominees) the right to subscribe for such number of Shares equal in value (based on the Offer Price) to 3% of the pre-money IPO valuation of Althea Holdings. The pre-money IPO valuation of Althea Holdings is \$20,400,000 (being, the 102,000,000 Shares on issue in Althea Holdings at the Prospectus Date *multiplied by* the \$0.20 Offer Price). Accordingly, Althea Company has agreed to offer the Lead Manager (or its nominees) the right to subscribe for 3,060,000 Shares for nil consideration, being 3% of \$20,400,000 *divided by* \$0.20. This offer by Althea Holdings is being made under the PAC Offer.

Althea Company has also agreed to pay the Lead Manager for reasonable costs and expenses incurred in connection with the Offer.

10.5.8.2 Termination

The Lead Manager may terminate the Lead Manager Agreement where Althea Company breaches a term of the agreement and fails to remedy the breach within the 14 days of notice.

Althea Company may terminate the Lead Manager Agreement where the Lead Manager has been grossly negligent, fraudulent, reckless or materially breached its obligations under the agreement or Althea Company is of the reasonable opinion that the Pre-Prospectus Capital Raising described in section 8.5 and the Offer will be unsuccessful.

In both of the above circumstances, Althea Company must pay the Lead Manager the retainer and expenses accrued in respect of the period prior to termination, however no other fees or monies are payable following termination.

10.6 Summary of rights and liabilities of Shares and other key terms of the Constitution

10.6.1 Introduction

The rights and liabilities attaching to ownership of Shares arise from a combination of the Constitution, statute, the ASX Listing Rules and general law.

Summaries of the significant rights and liabilities attaching to the Shares and of the other material provisions of the Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that Althea Holdings is admitted to the Official List.

10.6.2 Rights attaching to Shares

The rights attaching to the Shares are set out in the Constitution and are, in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and the general law.

The principal rights, liabilities and obligations of the Shareholders are summarised below.

10.6.3 Voting

At a general meeting, every Shareholder present in person or by proxy, attorney or representative has one vote on a show of hands (unless a Shareholder has appointed more than one proxy) and one vote on a poll for each Share held (with adjusted voting rights for partly paid shares). If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote, in addition to any deliberative vote.

10.6.4 Dividends

The Board may pay any interim and final dividends that, in its judgement, the financial position of Althea Group justifies. The Board may also pay any dividend required to be paid under the terms of issue of a Share, and fix a record date for a dividend and the timing and method of payment.

See section 5.16 for Althea Holdings' dividend policy.

10.6.5 Issue of further Shares

The Board may (subject to the Constitution, the ASX Listing Rules and the Corporations Act) issue or grant options for, or otherwise dispose of, Shares on such terms as the Board decides.

10.6.6 Variation of class rights

The procedure set out in the Constitution must be followed for any variation of rights attached to the Shares. The rights attached to a class of Shares may be varied or cancelled by:

- the holders of at least 75% of the issued Shares in the class consenting in writing; or
- a special resolution passed at a separate meeting of the holders of Shares in that class.

10.6.7 Transfer of Shares

Subject to the Constitution and to any restrictions attached to a Share, Shares may be transferred in accordance with the ASX Settlement Operating Rules, any other ASX requirements and the Corporations Act or via a written transfer in any usual form or in any other form approved by the Board and permitted by the relevant laws and ASX requirements. The Board may refuse to register a transfer of Shares or apply a holding lock to prevent a transfer in accordance with the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules.

10.6.8 General meeting and notices

Each Shareholder is entitled to receive notice of, attend and vote, at general meetings of Althea Holdings and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, Corporations Act and ASX Listing Rules. Althea Holdings must give at least 28 days' written notice of a general meeting.

10.6.9 Winding up

Subject to the Constitution, the Corporations Act and any preferential rights attaching to any class or classes of Shares, Shareholders will be entitled on a winding up to a share in any surplus assets of Althea Holdings in proportion to the Shares held by them. If Althea Holdings is wound up, the liquidator may, with the sanction of a special resolution, divide the whole or part of Althea Holdings' property among Shareholders and decide how the division is to be carried out as between Shareholders or different classes of Shareholders.

10.6.10 Unmarketable parcels

In accordance with the ASX Listing Rules, the Board may sell Shares which constitute less than a marketable parcel by following the procedures set out in the Constitution.

10.6.11 Proportional takeover provisions

The Constitution requires Shareholder approval in relation to any proportional takeover bid. These provisions will cease to apply unless they are renewed by Shareholders passing a special resolution by the third anniversary of either the date that those rules were adopted or the date those rules were last renewed.

10.6.12 Directors – appointment and removal

Under the Constitution, the Board is comprised of a minimum of three Directors and a maximum of nine, unless the Shareholders pass a resolution varying that number at a general meeting. Directors are elected or re-elected at general meetings of Althea Holdings.

No Director (excluding any managing director) may hold office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected. The Board may also appoint a Director in addition to the existing Directors or to fill a casual vacancy on the Board, and that Director (apart from the managing director) will then hold office until the conclusion of the next annual general meeting of Althea Holdings.

10. ADDITIONAL INFORMATION continued

10.6.13 Directors – voting

Questions arising at a meeting of the Board must be decided by a majority of votes cast by the Directors present at the meeting and entitled to vote on the matter. If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote in addition to his or her deliberative vote.

10.6.14 Directors – remuneration

Under the Constitution, the Board may decide the remuneration from Althea Holdings to which each Director is entitled for his or her services as a Director. However the total amount provided to all Directors for their services as Directors must not exceed in aggregate in any financial year the amount fixed by Althea Holdings in general meeting. The remuneration of a Director (who is not a managing director or an executive director) must not include a commission on, or a percentage of, profits or operating revenue.

Directors may be paid for travel and other expenses incurred in attending to Althea Holdings' affairs, including attending and returning from meetings of Directors or committees or general meetings. Any Director who devotes special attention to the business of Althea Holdings or who performs services which, in the opinion of the Board, are outside the scope of ordinary duties of a Director, may be remunerated for the services (as determined by the Board) out of the funds of Althea Holdings.

Details of the remuneration of the Directors' is set out in section 7.

10.6.15 Powers and duties of Directors

The business and affairs of Althea Holdings are to be managed by or under the direction of the Board, which (in addition to the powers and authorities conferred on it by the Constitution) may exercise all powers and do all things that are within Althea Holdings' power and the powers that are not required by law or by the Constitution to be exercised by Althea Holdings in general meeting.

10.6.16 Preference shares

Althea Holdings may issue preference shares including preference shares which are, or at the option of Althea Holdings or holders are, liable to be redeemed or convertible to ordinary shares. The rights attaching to preference shares are those set out in the Constitution unless other rights have been approved by special resolution of Althea Holdings.

10.6.17 Amendment

The Constitution may be amended only by a special resolution passed by Shareholders.

10.7 Share capital

As at the Prospectus Date, the only class of security on issue by Althea Holdings is ordinary shares.

10.8 Litigation and claims

The Directors are not aware of any litigation of a material nature instituted, pending or threatened involving Althea Holdings.

10.9 Taxation considerations

10.9.1 Summary of tax issues for Australian tax resident investors

The comments in this section 10.9 provide a general outline of Australian tax issues for Australian tax resident shareholders who acquire shares under this Prospectus and that hold Shares in Althea Holdings on capital account for Australian income tax purposes. The categories of Shareholders considered in this summary are limited to individuals, companies (other than life insurance companies), trusts, partnerships and complying superannuation funds that hold their shares on capital account.

This summary does not consider the consequences for foreign resident Shareholders, insurance companies, banks, Shareholders that hold their shares on revenue account or carry on a business of trading in shares, Shareholders who are exempt from Australian tax, or Shareholders who are subject to the Taxation of Financial Arrangements rules contained in Division 230 of the Income Tax Assessment Act 1997.

The summary in this section is general in nature and is not exhaustive of all Australian tax consequences that could apply in all circumstances of any given Shareholder. The individual circumstances of each Shareholder may affect the taxation implications of the investment of the Shareholder.

It is recommended that all Shareholders consult their own independent tax advisers regarding the income tax (including capital gains tax), stamp duty and GST consequences of acquiring, owning and disposing of Shares, having regard to their specific circumstances.

The summary in this section is based on the relevant Australian tax law in force, established interpretations of that law and understanding of the practice of the relevant tax authority at the time of issue of this Prospectus. The summary does not take into account the tax law of countries other than Australia.

Tax laws are complex and subject to ongoing change. The tax consequences discussed in these summaries do not take into account or anticipate any changes in law (by legislation or judicial decision) or any changes in the administrative practice or interpretation by the relevant authorities. If there is a change, including a change having retrospective effect, the income tax, stamp duty and GST consequences should be reconsidered by Shareholders in light of the changes. The precise implications of ownership or disposal of the Shares will depend upon each Shareholder's specific circumstances.

This summary does not constitute financial product advice as defined in the Corporations Act.

10.9.2 Dividends: Australian resident individuals and complying superannuation entities

Where dividends on a Share are paid by Althea Holdings, those dividends will constitute assessable income of an Australian tax resident Shareholder. Australian tax resident Shareholders who are individuals or complying superannuation entities should include the dividend in their assessable income in the year the dividend is paid, together with any franking credits attached to that dividend.

The rate of tax payable by each Australian Shareholder that is an individual will depend on the individual circumstances of the Shareholder and his/her prevailing marginal rate of income tax.

Shareholders who are individuals or complying superannuation entities should be entitled to a tax offset equal to the franking credits attached to the dividend subject to being a qualified person (refer further comments below). The tax offset can be applied to reduce the tax payable on the Shareholder's taxable income. Where the tax offset exceeds the tax payable on the Shareholder's taxable income, such Shareholders should be entitled to a tax refund.

Where a dividend paid by Althea Holdings is unfranked, the Shareholder will generally be taxed at his or her prevailing marginal rate on the dividend received with no tax offset.

10.9.3 Dividends: Corporate Shareholders

Corporate Shareholders are also required to include both the dividend and associated franking credits in their assessable income. A tax offset is then allowed up to the amount of the franking credits on the dividend.

An Australian resident corporate Shareholder should be entitled to a credit in its own franking account to the extent of the franking credits attached to the dividend received. Such corporate Shareholders can then pass on the benefit of the franking credits to their own shareholder(s) on the payment of franked dividends.

Excess franking credits received by a corporate Shareholder cannot give rise to a refund, but may in certain circumstances be converted into carry forward tax losses.

10.9.4 Dividends: Trusts and partnerships

Australian tax resident Shareholders who are trustees (other than trustees of complying superannuation entities) or partnerships should include the dividend and franking credits in determining the net income of the trust or partnership. A beneficiary, trustee or partner may be entitled to a tax offset equal to the beneficiary's or partner's share of the net income of the trust or partnership as the case may be.

10.9.5 Shares held at risk

To be eligible for the benefit of franking credits and tax offset a Shareholder must satisfy both the holding period and related payment rules. This requires that a Shareholder hold the Shares in Althea Holdings "at risk" for more than 45 days continuously (not including the date of acquisition and disposal).

Any day on which a Shareholder has a materially diminished risk of loss or opportunity for gain in respect of the Shares (for example through transactions such as granting options or warrants over Shares or entering into a contract to sell the Shares) will not be counted as a day on which the Shareholder held the Shares "at risk". In addition, a Shareholder must not be obliged to make a related payment in respect of any dividend, unless they hold the Shares "at risk" for the required holding period around the dividend dates.

Where these rules are not satisfied the Shareholder will not be able to include an amount for the franking credits in their assessable income and will not be entitled to a tax offset.

10. ADDITIONAL INFORMATION continued

This holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed \$5,000. Special rules apply to trusts and beneficiaries.

Shareholders should obtain their own professional tax advice to determine if these requirements, as they apply to them, have been satisfied.

On 14 May 2013, the former Federal Government announced changes that may apply to deny tax offsets to certain dividend washing arrangements. On 29 May 2014, legislation was introduced into Parliament to enact the proposed amendment. Shareholders should consider the impact of this proposed change together with the broader integrity provisions that apply to the claiming of tax offsets given their own personal circumstances.

10.9.6 Capital gains tax (CGT) implications for Australian tax residents on disposal

The disposal of a share by a Shareholder will be a CGT event. A capital gain will arise where the capital proceeds on disposal exceed the cost base of the share (broadly, the amount paid to acquire the share plus any transaction costs incurred in relation to the acquisition or disposal of the shares). In the case of an arm's length on-market sale, the capital proceeds will generally be the cash proceeds received from the sale of the shares.

A CGT discount may be applied against the net capital gain where the Shareholder is an individual, complying superannuation entity or trustee, and the Shares have been held for more than 12 months prior to the CGT event. Where the CGT discount applies, any capital gain arising to individuals and entities acting as trustees (other than a trust that is a complying superannuation entity) may be reduced by one-half after offsetting current year or prior year capital losses. For a complying superannuation entity, any capital gain may be reduced by one-third, after offsetting current year or prior year capital losses.

Where the Shareholder is the trustee of a trust that has held the Shares for more than 12 months before disposal, the CGT discount may flow through to the beneficiaries of the trust if those beneficiaries are not companies. Shareholders that are trustees should seek specific advice regarding the tax consequences of distributions to beneficiaries who may qualify for discounted capital gains.

A capital loss will be realised where the reduced cost base of the share exceeds the capital proceeds from disposal. Capital losses may only be offset against capital gains realised by the Shareholder in the same income year or future income years, subject to certain loss recoupment tests being satisfied. Capital losses cannot be offset against other forms of assessable income.

10.9.7 Tax File Numbers

Shareholders are not required to quote their tax file number (TFN), or where relevant their ABN, to Althea Holdings. However, if a valid TFN, ABN or exemption details are not provided, Australian tax may be required to be deducted by Althea Holdings from distributions and/or unfranked dividends at the maximum marginal tax rate plus the Medicare levy. Australian tax should not be required to be deducted by Althea Holdings in respect of fully franked dividends.

A Shareholder that holds Shares as part of an enterprise may quote their ABN instead of their TFN. Non-residents are exempt from this requirement.

10.9.8 GST implications

No GST should be payable by Shareholders in respect of the acquisition or disposal of their Shares in Althea Holdings, regardless of whether or not the Shareholder is registered for GST.

Shareholders may not be entitled to claim full input tax credits in respect of any GST included in the costs they have incurred in connection with their acquisition of the Shares. Separate GST advice should be sought by Shareholders in this respect relevant to their particular circumstances.

No GST should be payable by Shareholders on receiving dividends distributed by Althea Holdings.

10.9.9 Stamp duty

Shareholders should not be liable for stamp duty in respect of the acquisition of their Shares, unless they acquire, either alone or with an associated/related person, an interest of 90% or more in Althea Holdings. Under current stamp duty legislation, no stamp duty would ordinarily be payable by Shareholders on any subsequent transfer of their Shares whilst Althea Holdings remains listed.

10.10 Consents

Each of the parties referred to in the following table (except as discussed below):

- has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus in the form and context in which it is named;
- has not made, and does not purport to make, any statement or representation in the Prospectus or any statement or representation on which a statement or representation made in the Prospectus is based; and
- does not cause or authorise the issue of the Prospectus, and to the maximum extent permitted by law (together with its affiliates), expressly disclaims, makes no representation regarding, and takes no responsibility for any statements or material in or omissions from the Prospectus and excludes and disclaims all liability or damage, loss (whether direct, indirect or consequential), cost or expense that may be incurred by an applicant for, or investor in, the Shares as a result of the Prospectus being inaccurate or incomplete in any way for any reason:

Entity	Role
PAC Partners Securities Pty Ltd	Lead Manager
RSM Corporate Australia Pty Ltd	Investigating Accountant's Report
RSM Australia Partners	Auditor
Norton Rose Fulbright Australia	Australian Legal Adviser
Computershare Investor Services Pty Ltd	Registry
Curtain & Co Services Pty Ltd	Financial and company secretary function

Computershare Investor Services Pty Limited has had no involvement in the preparation of any part of the Prospectus other than being named as Share Registrar to the Company.

RSM Corporate Australia Pty Ltd has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to the inclusion in this Prospectus of its Investigating Accountant's Report in section 9, in the form and context in which it is included (and all other references to that report and those statements) in this Prospectus.

Frost & Sullivan has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to the inclusion in this Prospectus of its Market Report in section 2, in the form and context in which it is included (and all other references to that report and those statements) in this Prospectus.

Curtain & Co has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as the outsourced financial and company secretarial function, including as chief financial officer of Althea Holdings' consolidated financial reports in the form and context in which it is so named.

Aphria, Hootch and Mansfield have also given, and have not withdrawn prior to the lodgement of this Prospectus with ASIC, their written consent to being named in the Prospectus in the form and context in which it is named, including the inclusion of statements based on statements made by the relevant consenting party.

10.11 ASIC relief and modifications

Althea Holdings has received from ASIC relief which provides for all of the relief contemplated in ASIC Class Order CO 14/1000 to apply to Althea Holdings proposed to offer of 5,100,000 Performance Rights to Joshua Fegan under the LTI Plan – details of which are set out in section 7.3.5.

10.12 Ownership restrictions

The sale and purchase of Shares in Althea Holdings is regulated by Australian laws that restrict the level of ownership or control by any one person (either alone or in combination with others). This section contains a general description of these laws.

10.12.1 Corporations Act

The takeover provisions in Chapter 6 of the Corporations Act restrict acquisitions of shares in listed companies, and unlisted companies with more than 50 members, if the acquirer's (or another party's) voting power would increase to above 20%, or would increase from a starting point that is above 20% and below 90%, unless certain exceptions apply.

The Corporations Act also imposes notification requirements on persons having voting power of 5% or more in Althea Holdings.

10. ADDITIONAL INFORMATION continued

10.12.2 Foreign Acquisitions and Takeovers Act

Generally, the Foreign Acquisitions and Takeovers Act applies to acquisitions of shares and voting power in a company of 20% or more by a single foreign person and its associates (substantial interest), or 40% or more by two or more unassociated foreign persons and their associates (aggregate substantial interest). Where an acquisition of a substantial interest meets certain criteria, the acquisition may not occur unless notice of it has been given to the Federal Treasurer and the Federal Treasurer has either stated that there is no objection to the proposed acquisition in terms of the Australian Federal Government's Foreign Investment Policy or a statutory period has expired without the Federal Treasurer objecting. An acquisition of a substantial interest or an aggregate substantial interest meeting certain criteria may also lead to divestment orders unless a process of notification, and either a statement of non-objection or expiry of a statutory period without objection, has occurred.

10.13 Governing law

This Prospectus and the contracts that arise from the acceptance of the Applications under this Prospectus are governed by the law applicable in Victoria and each Applicant under this Prospectus submits to the exclusive jurisdiction of the courts of Victoria and of the Commonwealth.

10.14 Authorisation of this Prospectus

Each Director of Althea Holdings has authorised the issue of this Prospectus and has consented to its lodgement with ASIC.

II.

GLOSSARY



II. GLOSSARY

TERM	MEANING
AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ABN	Australian business number
ACN	Australian company number
Althea Company	Althea Company Pty Ltd ACN 618 177 192
Althea Concierge	As defined in section 4.5
Althea Group	Althea Holdings and Althea Company
Althea Holdings	Althea Group Holdings Limited ACN 626 966 943
Aphria	Aphria Inc and its subsidiary companies
Aphria Product Supply Agreement	the <i>Cannabis Product Acquisition Agreement</i> between Althea Company and Aphria, dated 25 September 2017, as amended by Agreement of Variation dated 31 January 2018 and Deed of Variation dated 27 July 2018
Applicant	A person who submits an Application
Application	An application made to subscribe for Shares under the Offer
Application Form	The application form attached to or accompanying this Prospectus (including an electronic form provided by an online application facility)
Application Monies	The amount for subscription for Shares under the Offer accompanying an Application Form submitted by an Applicant
ARTG	Australian Register of Therapeutic Goods
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited ACN 008 624 691, or the financial market operated by it, as the context requires
ASX Listing Rules	The listing rules of the ASX, as may be amended or supplemented from time to time
ASX Recommendations	The ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 3rd Edition
ASX Settlement Operating Rules	The operating rules of ASX Settlement Pty Ltd ACN 008 504 532
ATO	Australian Taxation Office
AUD or \$	Australian dollars
Australian Accounting Standards or AAS	Australian Accounting Standards and other authoritative pronouncements issued by the AASB and Urgent Issues Group Interpretations

TERM	MEANING
Authorised Prescriber Scheme or APS	A medical practitioner may be granted authority to become an 'authorised prescriber' of a specified unapproved therapeutic good (or class of unapproved therapeutic goods) to specific patients (or classes of recipients) with a particular medical condition
Board or Board of Directors	The board of Directors of Althea Holdings
Broker	Any ASX participating organisation selected by the Lead Manager and Althea Group to act as a broker for the Offer
Broker Firm Offer	The part of the Offer described in section 8.10
Business Days	A day that is not a Saturday, Sunday or any other day which is a public holiday or a bank holiday in Victoria, Australia
CBD	Cannabidiol
CEO	Chief Executive Officer of Althea Group
CGT	Capital gains tax
Chairman	Chairman of the Board
CHESS	The ASX's Clearing House Electronic Subregister System
Closing Time	The closing time of the Offer and the PAC Offer, indicatively proposed to be the date stated in the Key Offer Information table on page 3 and subject to change as explained on that page
Completion	The issue of Shares under the Offer and the PAC Offer
Constitution	The constitution of Althea Holdings
Convention	United Nations Single Convention on Narcotic Drugs of 1961, as amended
Corporations Act	<i>Corporations Act 2001</i> (Cth)
Curtain & Co	Curtain & Co Services Pty Ltd ACN 006 036 522
Director	A director of Althea Holdings or Althea Company or a person proposed to be a director at the time of Listing
DPCS Act	<i>Drugs, Poisons and Controlled Substances Act 1981</i> (Vic)
DPCS Regulations	<i>Drugs, Poisons and Controlled Substances Regulations 2017</i> (Vic)
Early Works Contracts	Agreement between Althea Company and Powerplants Australia, dated 17 August 2018 and consisting of the Formal Instrument, General Terms and Conditions and Annexure B – Early Works.
Eligible Participants	As defined in section 7.3.4
Exposure Period	The seven day period after the Prospectus Date, during which no Applications may be accepted by Althea Holdings. This period may be extended by ASIC by up to a further seven days

II. GLOSSARY continued

TERM	MEANING
Export Regulations	<i>Customs (Prohibited Export) Regulations 1958</i> (Cth)
Financial Information	The Historical Financial Information and the Pro Forma Historical Financial Information together
FDA	Food and Drug Administration (USA)
Foreign Acquisitions and Takeovers Act	<i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth)
Frost & Sullivan	Frost & Sullivan Australia Pty Limited ACN 096 869 108
FY	Financial year
GMP	Good Manufacturing Practice
GST	Goods and Services Tax as defined in <i>A New Tax System (Goods and Services Tax) Act 1999</i> (Cth)
Hahn Healthcare	Hahn Healthcare Pty Ltd ACN 125 366 805
Historical Financial Information	See definition in section 5.1
Hootch	Hootch Pty Ltd ACN 627 633 649
IASB	International Accounting Standards Board
Incentives	An Option, performance right or any other incentive approved for issue to Eligible Participants by the Board under the LTI Plan
IFRS	International Financial Reporting Standards
Import Regulations	<i>Customs (Prohibited Imports) Regulations 1956</i> (Cth)
Institutional Investor(s)	<p>An investor:</p> <ul style="list-style-type: none"> (a) in Australia who is either a ‘professional investor’ or ‘sophisticated investor’ under sections 708(11) and 708(8) of the Corporations Act; or (b) in certain other jurisdictions, as agreed between Althea Holdings and the Lead Manager, an investor to whom offers or invitations in respect of securities can be made without the need for lodged or registered prospectus or other form of disclosure document or filing with, or approval by, any governmental agency, <p>and in each case an investor who is not a US Person and who is not acting for the account or benefit of US Persons</p>
Institutional Offer	The part of the Offer described in section 8.11
International PIC/S	Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme
Investigating Accountant	RSM Corporate Australia Pty Ltd ACN 050 508 024

TERM	MEANING
Investigating Accountant's Report	The report prepared by Investigating Accountant set out in section 9
Lead Manager	PAC Partners Securities Pty Ltd ACN 623 653 912
Lead Manager Agreement	The lead manager agreement dated 1 June 2018 between Althea Company and the Lead Manager as revised by the addendum letter between Althea Company and the Lead Manager dated 13 August 2018
Listing	The admission of Althea Holdings to the Official List
LTI Plan	As defined in section 7.3.4
Management	The executives of Althea Holdings identified in section 7.2
Mancann	Mancann Pty Ltd ACN 623 783 406
Mansfield	D. & A. Mansfield & Sons Pty Ltd ACN 006 074 451
Mansfield's Propagation Nursery	The Trustee for the Mansfield Family Trust trading as Mansfield's Propagation Nursery ABN 33 059 176 262
MDGH	Medicines Development Limited ACN 116 977 523 trading as Medicines Development for Global Health
Medical Services Agreement	Medical Education Services Agreement between Hahn Healthcare and Althea Company dated 10 November 2017
ND Act	<i>Narcotic Drugs Act 1967</i> (Cth)
ND Amendment Act	<i>Narcotic Drugs Amendment Act 2016</i> (Cth)
ND Regulations	<i>Narcotic Drugs Regulations 2016</i> (Cth)
New Shares	Shares issued on Completion
ODC	Office of Drug Control
Offer	The offer of Shares by Althea Holdings under this Prospectus (including, except where the context requires otherwise, the PAC Offer)
Offer Period	The period during which investors may apply for Shares under the Offer and the Lead Manager may apply for Shares under the PAC Offer, opening on the date stated in the Key Offer Information table on page 6 and ending on the Closing Time
Offer Price	\$0.20 per New Share
Official List	The official list of ASX
Option	The right, but not the obligation, to buy a Share at a pre-determined price at a particular point of time in the future
Original Prospectus	The prospectus dated 22 August 2018 and lodged with ASIC on that date, which this Prospectus replaces

II. GLOSSARY continued

TERM	MEANING
PAC Adviser Shares	The 3,060,00 Shares to be issued by Althea Holdings to PAC Partners under the PAC Offer
PAC Offer	The offer of up to 3,060,00 Shares by Althea Holdings under this Prospectus to PAC Partners
PAC Partners	PAC Partners Pty Ltd ACN 165 738 438, a related party of the Lead Manager
Performance Right	Performance rights issued under the LTI Plan
Plant & Genetics Acquisition Agreement	Plant & Genetics Acquisition Agreement between Althea Company and Aphria dated 27 July 2018
Powerplants Australia	Powerplants Australia Pty Ltd ACN 150 955 310
Post Listing Retainer	Defined in section 10.5.8.1
PPP	Pharmaceutical Packaging Professionals Pty Ltd ACN 129 377 948
Pre-IPO Consultants	The individuals identified in section 7.3.9
Pre-IPO Consultant Options	The 2,675,000 Options to be issued to the Pre-IPO Consultants on the terms described in section 7.3.9
Pre-Prospectus Capital Raising	Defined in section 8.5
Pro Forma Historical Financial Information	Defined in section 5.1
Prospectus	This document and any replacement or supplementary prospectus in relation to this document
Prospectus Date	The date on which this Prospectus was lodged with ASIC, being 22 August 2018
Registry	Computershare Investor Services Pty Ltd ACN 078 279 277
Relevant Person	Defined in section 7.4.2
Section	A section of this Prospectus, unless otherwise specified
Share	A fully paid ordinary share in Althea Holdings
Shareholder	A registered holder of Shares
Special Access Scheme or SAS	Special access scheme refers to arrangements which provide for the import and/or supply of an unapproved therapeutic good for a single patient, on a case by case basis
SUSMP	<i>Standard for Uniform Scheduling of Medicines and Poisons</i> contained within the Poisons Schedule under the Therapeutic Goods Administration
Suncliff	Frenchman Coulee LLC trading as Suncliff
TFN	Tax File Number as defined in the <i>Income Tax Assessment Act 1936</i> (Cth)

TERM	MEANING
TG Act	<i>Therapeutic Goods Act 1989</i> (Cth)
TGA	Therapeutic Goods Administration
THC	Tetrahydrocannabinol
Top Hatting Arrangement	Has the meaning given in section 8.5
Trademark Licence Agreement	Trademark Licence Agreement between Althea Company and Aphria dated 27 July 2018 as amended by deed of variation dated 20 August 2018
US or United States	United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
US Person	Has the meaning given to it in Regulation S of the US Securities Act
US Securities Act	<i>United States Securities Act 1933</i> , as amended
Warehousing Agreement	Warehousing and Distribution Agreement between Althea Company and PPP dated 17 August 2017

12.

LEGAL OPINION



12. LEGAL OPINION



22 August 2018

The Directors
Althea Group Holdings Limited
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Your reference: **Our reference:**
4005087

Dear Directors

ASX Listing Application - Althea Group Holdings Limited

We have been retained by Althea Group Holdings Limited ACN 626 966 943 (**Althea Holdings**) in connection with the proposed offer of securities in Althea Holdings and application for admission to quotation on the Australian Securities Exchange (**ASX**). Althea Holdings, together with its wholly-owned subsidiary Althea Company Pty Ltd ACN 618 177 192 (**Althea Company**) (together, Althea Holdings and Althea Company are referred to as **Althea Group**), have been established to import, cultivate, manufacture and supply medicinal cannabis products in Australia, initially through the SAS pathway.

We are instructed that the ASX requires that Althea Holdings obtain a legal opinion regarding its legal right to operate its business in Australia. That business, as presently contemplated, involves essentially three elements:

- import of finished cannabis products into Australia and their supply through the Special Access Scheme (**SAS**);
- importation of cuttings of various cannabis plants, and their propagation to produce cannabis raw materials; and
- the manufacture of finished cannabis products and their supply in Australia.

This opinion is to be annexed to Althea Holdings' prospectus dated 22 August 2018 (**Prospectus**). We note that the Prospectus contains a detailed discussion of the regulatory environment of medicinal cannabis in Australia (see section 3 of the Prospectus). To avoid repeating that overview in full, we refer to the relevant sections of the Prospectus in this opinion.

Subject to the assumptions and qualifications set out in the annexure to this document, we express the following opinions.

Executive Summary

In relation to Althea Group's current operations, being the import of finished cannabis products into Australia and their supply through the SAS, it currently holds all necessary licences to import and supply finished medicinal cannabis products through the SAS throughout Australia. Provided that Althea Company

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22 August 2018

 **NORTON ROSE FULBRIGHT**

continues to obtain the relevant permits to import medicinal cannabis products prior to the relevant importations, and that the relevant licences are maintained and renewed, it will comply with the relevant legal requirements.

In relation to Althea Group's proposed operations, which involve the cultivation of cannabis plants and manufacturing of finished products, provided the Company obtains the necessary licences and permits in advance of commencing these operations, it will comply with the applicable laws.

Background

It is intended that Althea Holdings will operate as a holding company, and that the day-to-day business activities will be undertaken by Althea Company. The Prospectus discloses, and our instructions confirm, that current commercial operations of Althea Group are to import finished medicinal cannabis products from Canada and then supply these products in the Australian market. Althea Group intends to, in the short to medium term, build a functioning facility at which it can cultivate cannabis plants and manufacture finished products. In the longer term, Althea Group intends to explore options to export finished products out of Australia. We provide further details regarding these commercial operation below.

In order to obtain the licences detailed below, Althea Company underwent a consideration by the Department of Health, Office of Drug Control (**ODC**), of its status as a 'fit and proper person' as did, we are instructed, each of its directors. We understand that all persons were certified as fit and proper. Fit and proper person requirements also apply to any shareholders with the ability to exercise significant influence over the management of the Company. It is not possible at this stage to provide any certainty that every shareholder with the ability to exercise significant influence over Althea Company will be a fit and proper person, accordingly there is no guarantee that this requirement for the relevant licences will continue to be satisfied.

Commercial operations

Importation of Medicinal Cannabis Products

The Prospectus discloses, and we are instructed, that Althea Group's current operations involve purchasing medicinal cannabis products from Aphria, Inc. (**Aphria**) in Leamington, Ontario, Canada under a supply agreement (Aphria Product **Supply Agreement**), importing these products into Australia (by way of its service provider Pharmaceutical Packaging Professionals Pty Ltd (**PPP**)), and then supplying these products to pharmacists for dispensing to patients. The Prospectus discloses that pharmacists dispense products upon provision of a prescription, issued either under the SAS or the Authorised Prescriber Scheme (**APS**), both of which are governed by the *Therapeutic Goods Act 1989* (Cth) (**TG Act**) and overseen by the Therapeutics Good Administration (**TGA**).

The medicinal cannabis products are stored by PPP in its warehouse, and logistics are managed by PPP. We are instructed that Althea Group does not, at any point, hold or store the products itself.

Cultivation and Manufacture

The Prospectus discloses, and we are instructed, that Althea Group plans to construct its own cultivation, extraction and manufacturing facility on land which it controls by way of lease. Althea Group will acquire plant cuttings from Aphria for use as nursery stock. The cuttings will then be cultivated and processed, and subsequently used to manufacture finished medicinal cannabis products. The finished products are intended to be identical to the products Althea Company currently imports from Aphria.

We are instructed that Althea Group proposes to store those products at its own warehouse, which is to be constructed.

Export

The Prospectus discloses, and we are instructed, that subject to the proposed cultivation and manufacture operations being constructed and Australian demand being sufficiently supplied, Althea Group may consider and assess the potential to extend its business model to access potential export demand.

Opinion – importation and supply of finished medicinal cannabis products

As is noted in Section 3.2 of the Prospectus, licences and permits are required for the importation of finished medicinal cannabis products. At the time of importing products, in accordance with Regulation 5(1)(a)(i) and (ii) of the *Customs (Prohibited Import) Regulations 1956* (Cth) (**Import Regulations**), having regard to Schedule 4, the importer must hold a licence to import drugs and a permission to import the drug, both granted by the Secretary of the Department of Health, his or her delegate or an authorised person under the Import Regulations.

The licence is the “Licence to Import Substances specified in Schedule 4 of the *Customs (Prohibited Imports) Regulations 1956*”. We have been provided a copy of Licence No. 1820755, issued by the ODC to Althea Company. The licence is in effect until 31 December 2018 at which time it will require renewal. On this basis, we consider that the requirements under Regulation 5(1)(a)(i) of the *Customs (Prohibited Import) Regulations* have been satisfied.

The other major requirement for importation of a drug is to receive a permit from the Department of Health. The permit can only be applied for at the time when importation will occur. As such, Althea Company cannot obtain permission to import finished medicinal cannabis products until such time as it intends to undertake the relevant importations. As Althea Company has satisfied the requirements set out in Regulation 5(10) of the Import Regulations it should be entitled to such permission at the relevant time. Assuming that Althea Company receives the permission from the Department of Health it is permitted to import finished medicinal cannabis products. It is noted that the permit to import is part of broader global quotas in respect of cannabis manufacturing and supply. Under the Single Convention, the International Narcotics Control Board imposes quotas on the production of narcotic drugs in each country on the basis of estimates provided to it. The annual quota is comprised of drugs imported or manufactured, and has regard to expected consumption and maintenance of relevant reserves. As such, the ODC will need to have regard to Australia’s quota when granting permission to import. In isolation, it is not possible to state what impact this will have on Althea Company obtaining permission.

As noted in section 3.5 of the Prospectus, it is illegal to import or supply therapeutic goods unless these are registered under the *Therapeutic Goods Act 1989* (**TG Act**), subject to certain exemptions. The most relevant exemption is contained in Item 1 of Schedule 5A of the *Therapeutic Goods Regulations 1990* (**TG Regulations**), by the power of regulations 12(2) and (3). This item specifies that products may be imported and stored under the direct control of the sponsor of the product until they are approved for importation by way of an exemption granted by the Department of Health pursuant to the SAS. For the purposes of Item 1 of Schedule 5A, the products must be supplied only in accordance with the relevant SAS approval, records must be kept relating to the source and supply of the goods, and the goods must be kept in a warehouse or properly secured area under the control of the sponsor. We take the view that control in this context is to be interpreted broadly. On the basis that PPP is contractually prohibited from supplying the products without Althea Company’s direction, and given that Althea Company has the right to enter the warehouse at any time, we consider that the Althea Company does have direct control over the products stored by PPP. Provided that Althea Company only supplies products in response to an approval issued by the Department of Health under the SAS or APS, Althea Company should continue to satisfy this exemption. Likewise, Althea Company will not breach the TG Act provisions regarding supply of an unregistered product (see for example sections 19B and 19D of the TG Act), provided that supply only occurs after a SAS approval or Authorised Prescriber prescription is obtained.

Supply of medicinal cannabis products also requires a State-based warehousing licence. Under the Victorian *Drugs, Poisons and Controlled Substances Act*, licences can be issued for the purposes of manufacture, sale and supply by wholesale of Schedule 8 poisons and Schedule 9 poisons (Excluding heroin); or for the purposes of sale and supply by wholesale of Schedule 8 and Schedule 9 poisons (Excluding heroin). We have been provided with a copy of Licence No. 22210927, in force until 1 July 2019, granted to Althea Company, which permits the sale or supply by wholesale of Schedule 8 poisons limited to cannabis and tetrahydrocannabinols by indent only. The licence does not permit Althea Company to possess, store or hold the poisons or controlled substances named in the licence, but rather only to direct sale or supply. Althea Company is party to a Warehousing and Distribution Agreement with PPP, pursuant to which PPP warehouses Ops Co’s products and packs and dispatches such products upon direction by Althea Company. This is consistent with Althea Company’s indent licence.

22 August 2018

 NORTON ROSE FULBRIGHT

We note that the terms of the Aphria Product Supply Agreement states that title to finished products occurs after the products clear customs in Canada. Aphria is obligated to obtain Canadian export clearance for all of the products being supplied.

On the basis set out above, and subject to Althea Company obtaining relevant permits as required in order to import products, the importation and supply of finished medicinal cannabis products by Althea Company is lawful. This position is dependent on:

- (1) Althea Company continuing to comply with the relevant conditions imposed in respect of its licences and any permits which may be granted; and
- (2) the relevant licences currently held by Althea Company continuing to remain in force.

We are not in possession of any information which indicates Althea Company will not be able to obtain these permits. The granting of the permits is dependent on the demand for such products, as per the obligations in the Single Convention on Narcotic Drugs, and cannot be guaranteed.

Opinion – cultivation and manufacturing

Importation of medicinal cannabis plant cuttings

As is noted in Section 3.2 of the Prospectus, licences and permits are required for the importation of the cannabis plant cuttings for use as nursery stock to be acquired from Aphria (**Plant & Genetics Acquisition Agreement**). At the time of importing the plant cuttings, in accordance with Regulation 5(1)(a)(i) and (ii) of the Import Regulations, the importer must hold a licence to import drugs and a permission to import the drug, both granted by the Secretary of the Department of Health, his or her delegate or an authorised person under the Import Regulations.

The licence is the “Licence to Import Substances specified in Schedule 4 of the *Customs (Prohibited Imports) Regulations 1956*”. We have been provided a copy of Licence No. 1820755, issued by the ODC to Althea Company. The licence is in effect until 31 December 2018 at which point it will require renewal. On this basis, we consider that the requirements under Regulation 5(1)(a)(i) of the Import Regulations have been satisfied.

The other major requirement for importation of cannabis plant cuttings is to receive a permit from the Department of Health. The permit can only be applied for at the time when importation will occur. As such, Althea Company cannot obtain permission to import the cannabis plant cuttings until such time as it intends to undertake the relevant importations. As Althea Company has satisfied the requirements set out in Regulation 5(10) of the Import Regulations it should be entitled to such permission at the relevant time.

As is noted in Section 3.2 of the Prospectus, an import permit is required from the Department of Agriculture and Water Resources for the purposes of section 177 of the *Biosecurity Act 2015 (Cth)*. The Department’s Bicon system sets out a number of conditions which are required to be satisfied in order to import cannabis plant cuttings. These conditions include having the plants tested by the National Plant Protection Organisation of Canada, and the issue of a phytosanitary certificate. There is a requirement in the Plant & Genetics Acquisition Agreement that requires Aphria to have the plant cuttings inspected by the said National Plant Protection Organisation and deliver the required phytosanitary certificate to Althea Company. The other conditions include that the package must weigh less than or equal to 20kg in weight, that the plant cuttings must first be grown at the Government post-entry quarantine facility, and that Althea Company take certain actions to reduce the biosecurity risk.

Assuming that Althea Company receives the permission from the Department of Health and the Department of Agriculture it will be permitted to import cannabis plant cuttings.

We note that the terms of the Plant & Genetics Acquisition Agreement state that Althea Company will receive title to the plant cuttings after the plant cuttings clear customs clearance in Canada. Aphria is obligated to obtain Canadian export clearance for all of the plant cuttings being supplied.

On the basis set out above, and subject to Althea Company obtaining relevant permits as required in order to import plant cuttings, the importation of medicinal cannabis plant cuttings by Althea Company will be lawful.

22 August 2018

 NORTON ROSE FULBRIGHT

Cultivation and production of cannabis

As is noted in Section 3.3 of the Prospectus, cultivation and production of cannabis requires a licence and permit under the *Narcotic Drugs Act (ND Act)*. The licence required is issued under section 8F of the ND Act. We have been provided a copy of Medicinal Cannabis Licence MC015/18, reference 2RPH64L issued to Althea Company by the ODC, in effect until 31 October 2020. The licence permits Althea Company to engage in cultivation activities to the extent permitted by a permit.

At the relevant time, Althea Company will need to apply for a permit issued in accordance with section 9 of the ND Act. The permit, if granted, may include specific conditions regarding the size of the crop, number of plants and specific details regarding products. A permit is also needed for the purposes of production of cannabis and cannabis resin. It is noted that the permit to cultivate is part of broader global quotas in respect of cannabis manufacturing and supply. Under the Single Convention, the International Narcotics Control Board imposes quotas on the production of narcotic drugs in each country on the basis of estimates provided to it. The annual quota is comprised of drugs imported or manufactured. The ODC will have reference to Australia's manufacturing quota when providing permits to cultivate, on the basis that excessive cultivation should not occur. In isolation, it is not possible to state what impact this will have on Althea Company obtaining permission.

As noted in Section 3.4 of the Prospectus, manufacturing of cannabis products requires a licence issued under section 11H of the ND Act. We are instructed that Althea Company has applied for a manufacturing licence. Subject to the licence being granted, Althea Company will be eligible to apply for a permit to undertake manufacturing of medicinal cannabis products.

The permit, issued under section 12A of the ND Act, will grant Ops Co the right to manufacture medicinal cannabis products. The permit is typically required to specify maximum quantities of the drug that can be manufactured at the relevant premises as well as the maximum quantity that can be possessed. It is noted that the permit to manufacture is part of broader global quotas in respect of cannabis manufacturing and supply. Under the Single Convention, the International Narcotics Control Board imposes quotas on the production of narcotic drugs in each country on the basis of estimates provided to it. The annual quota is comprised of drugs imported or manufactured. As such, the ODC will need to have regard to Australia's quota when granting permission to manufacture. In isolation, it is not possible to state what impact this will have on Althea Company obtaining permission.

In addition to the requirement for licences and permits under the ND Act, the manufacture of medicinal cannabis products will require approval from the TGA. All medicines must be manufactured in TGA licensed premises. Manufacturing of therapeutic goods requires compliance with Good Manufacturing Practice. This will require TGA inspection and approval as well as ongoing compliance with the Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme standards for Good Manufacturing Practice.

Further, the current Victorian wholesaling licence will not permit manufacturing or storage of manufactured medicinal cannabis products. As such, Althea Company will need to apply for and obtain a licence to manufacture, sell and supply by wholesale Schedule 8 poisons.

Manufacturing of medicinal cannabis products will require Althea Company to receive the manufacturing licence it has applied for. Provided Althea Company receives a relevant cultivation permit and manufacturing permit at the relevant times, the cultivation and manufacture of medicinal cannabis products will be legal, provided that Althea Company has also obtained a manufacturing licence from the TGA.

This position is dependent on:

- (1) Althea Company continuing to comply with the relevant conditions imposed in respect of its licences and any permits which may be granted; and
- (2) the relevant licences currently held by Althea Company continuing to remain in force.

We are not in possession of any information which indicates Althea Company will not be able to obtain these permits. The granting of the permits is dependent on the demand for such products, as per the obligations in the Single Convention on Narcotic Drugs, and cannot be guaranteed.

22 August 2018

 **NORTON ROSE FULBRIGHT**

Opinion – export

Export of medicinal cannabis manufactured in Australia requires approval in accordance with the *Customs (Prohibited Exports) Regulations 1958 (Cth)* (**Export Regulations**). The Export Regulations require that export of drugs specified in Schedule 8 (including cannabis, cannabis resin, tetrahydrocannabinol and dimethylheptylpyran) only occur after obtaining a licence and permit from the Department of Health.

A licence can be obtained in accordance with regulation 10A of the Export Regulations. The primary focus of the Department of Health when considering licence applications for export is to ensure that such export is consistent with Australia's obligations under the Single Convention on Narcotic Drugs.

If an export licence is obtained by Althea Company, it is then able to apply to export cannabis products upon obtaining an export permit. The permit requires authorisation from the governmental authority of the country to which the product is to be exported to, prior to the permit being granted.

It is also noted that the export of a therapeutic good is illegal under the TG Act unless the relevant product is registered on the Australian Register of Therapeutic Goods (**ARTG**). Currently, Althea Company has no registered products. In order for Althea Company to be able to export cannabis products a product registration must be sought, or an exemption obtained from the TGA.

Assuming that Althea Company is able to obtain the relevant licence and permit, and assuming the relevant cannabis product is registered on the ARTG, Althea Company will be permitted to export the registered cannabis product.

This position is dependent upon Althea Company continuing to comply with the relevant conditions imposed in respect of its licences and any permits which may be granted.

Summary of opinions

Assuming that Althea Company obtains and maintains all necessary licences and permits, all of its current and proposed commercial operations will be legal under Commonwealth and State laws.

Yours faithfully

Bernard O'Shea
Partner
Norton Rose Fulbright Australia

Annexure A Assumptions

We have assumed the following matters:

- (1) the truth, accuracy and completeness of the responses to all queries directed at any directors or other officers, management and advisers of the Company, and that there are no material omissions from those responses;
- (2) the accuracy and completeness of public records we have inspected;
- (3) the accuracy and completeness of the investigations of directors and other officers, management and advisers of the Company;
- (4) the accuracy of all certificates, letters and opinions given by external advisers (excluding those given by Norton Rose Fulbright) of the Company in relation to the documents examined by us;
- (5) the authenticity, accuracy and completeness of all documents and information provided to us by directors and other officers, management and advisers of the Company, in particular:
 - (a) where copies of documents have been examined during the due diligence process, we have assumed those copies conform to the original documents;
 - (b) the authenticity of all seals and signatures and stamp duty markings or other markings on all documents (or copies) examined during the due diligence process;
 - (c) the valid authorisation, execution (including the capacity and powers of the signatories) and delivery of all documents (or copies) examined during the due diligence process and that those documents are binding on the signatories to them;
 - (d) the documents, information and reports reviewed by us have not been modified, amended or terminated by subsequent actions or agreements we are not aware of;
 - (e) the parties to the documents reviewed are still in existence, solvent and capable of completing their obligations;
 - (f) the documents examined by us are enforceable in accordance with their terms and the performance of those documents by each signatory complies with all applicable laws; and
 - (g) that insofar as any obligation under any document examined by us is to be performed in any jurisdiction outside Australia, its performance will not be illegal or ineffective by virtue of the law of that jurisdiction.

APAC-#72686808-v7

Norton Rose Fulbright Australia is a law firm as defined in the legal profession legislation of the Australian states in which it practises. Norton Rose Fulbright Australia, Norton Rose Fulbright LLP, Norton Rose Fulbright Canada LLP, Norton Rose Fulbright South Africa Inc and Norton Rose Fulbright US LLP are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss Verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at nortonrosefulbright.com.

13.

APPLICATION FORM



How to complete this Broker Firm Offer Application Form

- A Number of Shares applied for**
Enter the number of Shares you wish to apply for. The Application must be for a minimum of 10,000 Shares (\$2000.00).
- B Application Monies**
Enter the amount of Application Monies. To calculate the amount, multiply the number of Shares applied for in Step A by the Issue Price of A\$0.20.
- C Applicant Name(s)**
Enter the full name you wish to appear on the statement of shareholding. This must be either your own name or the name of a company. Up to 3 joint Applications may register. You should refer to the table below for the correct forms of registrable title. Applications using the wrong form of names may be rejected. Clearing House Electronic Subregister System (CHES) participants should complete their name identically to that presently registered in the CHES system.
- D Postal Address**
Enter your postal address for all correspondence. All communications to you from the Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.

- E Contact Details**
Enter your contact details. These are not compulsory but will assist us if we need to contact you regarding this Application.
- F CHES**
Althea Group Holdings Limited participates in CHES, operated by ASX Settlement Pty Limited, a wholly owned subsidiary of ASX Limited. If you are a CHES participant (or are sponsored by a CHES participant) and you wish to hold Shares issued to you under this Application on the CHES Subregister, enter your CHES HIN. Otherwise, leave this section blank and on issue, you will be sponsored by Althea Group Holdings Limited and allocated a Securityholder Reference Number (SRN).
- G Payment**
If you have been contacted by your Broker regarding the Broker Firm Offer, you should ask your Broker for information about how and when to lodge this Application Form, and who to make your cheque payable to. Generally, you will lodge this Application Form and cheque payment with your Broker in accordance with their instructions.

Before completing the Application Form the Applicant(s) should read the Prospectus to which this Application relates. By lodging the Application Form, the Applicant agrees that this Application for Shares in Althea Group Holdings Limited is upon and subject to the terms of the Prospectus and the Constitution of Althea Group Holdings Limited, agrees to take any number of Shares that may be issued to the Applicant(s) pursuant to the Prospectus and declares that all details and statements made are complete and accurate. It is not necessary to sign the Application Form.

Lodgement of Application

The Broker Firm Offer opens on 24 August 2018 and is expected to close on 7 September 2018. Althea Group Holdings Limited and the Lead Manager reserve the right to vary the timetable without prior notice, including by closing the Offer before the scheduled Closing Date or by extending the Closing Date.

If you have been contacted by your Broker regarding the Broker Firm Offer, you should ask your Broker for information about how and when to lodge this Application Form, and who to make your cheque payable to. Generally, you will lodge this Application Form and cheque payment with your Broker in accordance with their instructions. Do NOT lodge this Application form with the Share Registry.

Your Broker must receive your completed Application Form and Application Monies (if applicable) in time to arrange settlement on your behalf by the relevant Closing Date for the Broker Firm Offer.

Privacy Notice

The personal information you provide on this form is collected by CIS, as registrar for the securities issuers (the issuer), for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. In addition, the issuer may authorise us on their behalf to send you marketing material or include such material in a corporate communication. You may elect not to receive marketing material by contacting CIS using the details provided overleaf or emailing privacy@computershare.com.au. We may be required to collect your personal information under the Corporations Act 2001 (Cth) and ASX Settlement Operating Rules. We may disclose your personal information to our related bodies corporate and to other individuals or companies who assist us in supplying our services or who perform functions on our behalf, to the issuer for whom we maintain securities registers or to third parties upon direction by the issuer where related to the issuer's administration of your securityholding, or as otherwise required or authorised by law. Some of these recipients may be located outside Australia, including in the following countries: Canada, India, New Zealand, the Philippines, the United Kingdom and the United States of America. For further details, including how to access and correct your personal information, and information on our privacy complaints handling procedure, please contact our Privacy Officer at privacy@computershare.com.au or see our Privacy Policy at <http://www.computershare.com/au>.

Correct forms of registrable title(s)

Note that ONLY legal entities are allowed to hold Shares. Application Forms must be in the name(s) of a natural person(s), companies or other legal entities acceptable to Althea Group Holdings Limited. At least one full given name and the surname is required for each natural person. Application Forms cannot be completed by persons less than 18 years of age. Examples of the correct form of registrable title are set out below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual: use given names in full, not initials	Mr John Alfred Smith	JA Smith
Company: use the company's full title, not abbreviations	ABC Pty Ltd	ABC P/L or ABC Co
Joint Holdings: use full and complete names	Mr Peter Robert Williams & Ms Louise Susan Williams	Peter Robert & Louise S Williams
Trusts: use the trustee(s) personal name(s)	Mrs Susan Jane Smith <Sue Smith Family A/C>	Sue Smith Family Trust
Deceased Estates: use the executor(s) personal name(s)	Ms Jane Mary Smith & Mr Frank William Smith <Est John Smith A/C>	Estate of late John Smith or John Smith Deceased
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>	Master Peter Smith
Partnerships: use the partners personal names	Mr John Robert Smith & Mr Michael John Smith <John Smith and Son A/C>	John Smith and Son
Long Names	Mr John William Alexander Robertson-Smith	Mr John W A Robertson-Smith
Clubs/Unincorporated Bodies/Business Names: use office bearer(s) personal name(s)	Mr Michael Peter Smith <ABC Tennis Association A/C>	ABC Tennis Association
Superannuation Funds: use the name of the trustee of the fund	Jane Smith Pty Ltd <Super Fund A/C>	Jane Smith Pty Ltd Superannuation Fund

Althea Group Holdings Limited

ACN 626 966 943

PAC Offer Application Form

This Application Form is important. If you are in doubt as to how to deal with it, please contact your stockbroker or professional advisor without delay.

You should read the Althea Group Holdings Limited Prospectus dated 22 August 2018 and any relevant Supplementary Prospectus (if applicable), carefully before completing this Application Form. The Corporations Act prohibits any person from passing on this Application Form (whether in paper or electronic form) unless it is attached to or accompanies a complete and unaltered copy of the Prospectus and any relevant Supplementary Prospectus (whether in paper or electronic form).

A I/we apply for

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Number of Shares in Althea Group Holdings Limited or such lesser number of Shares which may be allocated to me/us.

B I/we lodge full Application Money (not applicable)

Shares under the PAC Offer are issued free of charge.

C Individual/Joint applications - refer to naming standards overleaf for correct forms of registrable title(s)

Title or Company Name Given Name(s)

Surname

P	A	C		P	A	R	T	N	E	R	S		P	T	Y		L	T	D										
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Joint Applicant 2 or Account Designation

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Joint Applicant 3 or Account Designation

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D Enter the postal address - include State and Postcode

Unit

Street Number

Street Name or PO Box/Other information

1	0	3	3	0		C	O	L	L	I	N	S		S	T	R	E	E	T										

City/Suburb/Town

State

Postcode

M	E	L	B	O	U	R	N	E												V	I	C							
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E Enter your contact details

Contact Name

Telephone Number - Business Hours

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F CHESS Participant

Holder Identification Number (HIN)

X										
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Please note that if you supply a CHESS HIN but the name and address details on your 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 as a result of the Offer will be held on the Issuer Sponsored subregister.

By submitting this Application Form:

- I/we declare that this Application is complete and lodged according to the Prospectus, and any relevant Supplementary Prospectus, and the declarations/statements on the reverse of this Application Form,
- I/we declare that all details and statements made by me/us (including the declaration on the reverse of this Application Form) are complete and accurate, and
- I/we agree to be bound by the Constitution of Althea Group Holdings Limited.

See overleaf for completion guidelines →

How to complete this PAC Offer Application Form

A Number of Shares applied for Enter the number of Shares you wish to apply for.	E Contact Details Enter your contact details. These are not compulsory but will assist us if we need to contact you regarding this Application.
B Application Monies Shares under the PAC Offer are issued free of charge.	F CHESSE Althea Group Holdings Limited participates in CHESSE, operated by ASX Settlement Pty Limited, a wholly owned subsidiary of ASX Limited. If you are a CHESSE participant (or are sponsored by a CHESSE participant) and you wish to hold Shares issued to you under this Application on the CHESSE Subregister, enter your CHESSE HIN. Otherwise, leave this section blank and on issue, you will be sponsored by Althea Group Holdings Limited and allocated a Securityholder Reference Number (SRN).
C Applicant Name(s) Enter the full name you wish to appear on the statement of shareholding. This must be either your own name or the name of a company. Up to 3 joint Applications may register. You should refer to the table below for the correct forms of registrable title. Applications using the wrong form of names may be rejected. Clearing House Electronic Subregister System (CHESSE) participants should complete their name identically to that presently registered in the CHESSE system.	
D Postal Address Enter your postal address for all correspondence. All communications to you from the Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.	

Before completing the Application Form the Applicant(s) should read the Prospectus to which this Application relates. By lodging the Application Form, the Applicant agrees that this Application for Shares in Althea Group Holdings Limited is upon and subject to the terms of the Prospectus and the Constitution of Althea Group Holdings Limited, agrees to take any number of Shares that may be issued to the Applicant(s) pursuant to the Prospectus and declares that all details and statements made are complete and accurate. It is not necessary to sign the Application Form.

Lodgement of Application

The Offer opens on 6 September 2018 and is expected to close on 13 September 2018. Althea Group Holdings Limited and the Lead Manager reserve the right to vary the timetable without prior notice, including by closing the Offer before the scheduled Closing Date or by extending the Closing Date.

If unsure about the completeness of this application form received electronically, or a print out of it, you should contact the Lead Manager on +61 (0)3 8633 9834 between 8.30am and 5.30pm Melbourne, Australia time, Monday to Friday (Business Days only). Do NOT lodge this Application form with the Share Registry.

PAC Partners Securities (the Lead Manager) must receive your completed Application Form and Application Monies (if applicable) in time to arrange settlement on your behalf by the relevant Closing Date for the Offer.

Privacy Notice

The personal information you provide on this form is collected by Computershare Investor Services Pty Limited (CIS), as registrar for the securities issuers (the issuer), for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. In addition, the issuer may authorise us on their behalf to send you marketing material or include such material in a corporate communication. You may elect not to receive marketing material by contacting CIS using the details provided overleaf or emailing privacy@computershare.com.au. We may be required to collect your personal information under the Corporations Act 2001 (Cth) and ASX Settlement Operating Rules. We may disclose your personal information to our related bodies corporate and to other individuals or companies who assist us in supplying our services or who perform functions on our behalf, to the issuer for whom we maintain securities registers or to third parties upon direction by the issuer where related to the issuer's administration of your securityholding, or as otherwise required or authorised by law. Some of these recipients may be located outside Australia, including in the following countries: Canada, India, New Zealand, the Philippines, the United Kingdom and the United States of America. For further details, including how to access and correct your personal information, and information on our privacy complaints handling procedure, please contact our Privacy Officer at privacy@computershare.com.au or see our Privacy Policy at <http://www.computershare.com/au>.

Correct forms of registrable title(s)

Note that ONLY legal entities are allowed to hold Shares. Application Forms must be in the name(s) of a natural person(s), companies or other legal entities acceptable to Althea Group Holdings Limited. At least one full given name and the surname is required for each natural person. Application Forms cannot be completed by persons less than 18 years of age. Examples of the correct form of registrable title are set out below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual: use given names in full, not initials	Mr John Alfred Smith	JA Smith
Company: use the company's full title, not abbreviations	ABC Pty Ltd	ABC P/L or ABC Co
Joint Holdings: use full and complete names	Mr Peter Robert Williams & Ms Louise Susan Williams	Peter Robert & Louise S Williams
Trusts: use the trustee(s) personal name(s)	Mrs Susan Jane Smith <Sue Smith Family A/C>	Sue Smith Family Trust
Deceased Estates: use the executor(s) personal name(s)	Ms Jane Mary Smith & Mr Frank William Smith <Est John Smith A/C>	Estate of late John Smith or John Smith Deceased
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>	Master Peter Smith
Partnerships: use the partners personal names	Mr John Robert Smith & Mr Michael John Smith <John Smith and Son A/C>	John Smith and Son
Long Names	Mr John William Alexander Robertson-Smith	Mr John W A Robertson-Smith
Clubs/Unincorporated Bodies/Business Names: use office bearer(s) personal name(s)	Mr Michael Peter Smith <ABC Tennis Association A/C>	ABC Tennis Association
Superannuation Funds: use the name of the trustee of the fund	Jane Smith Pty Ltd <Super Fund A/C>	Jane Smith Pty Ltd Superannuation Fund

14. CORPORATE DIRECTORY

Directors

Andrew Newbold

Chairman and Non-Executive Director

Joshua Fegan

Chief Executive Officer and Executive Director

Gregg Battersby

Non-Executive Director

Alan Boyd

Independent Non-Executive Director

Lead Manager

PAC Partners Securities Pty Ltd
Level 10, 330 Collins Street,
Melbourne VIC 3000

Auditor

RSM Australia Partners
Level 21, 55 Collins Street,
Melbourne VIC 3000

Issuer's Registered Office

Althea Group Holdings Limited
C/o Curtain & Co Services Pty Ltd
Level 3, 369 Royal Parade,
Parkville VIC 3052

Legal Advisor

Norton Rose Fulbright Australia
Level 15 RACV Tower,
485 Bourke Street,
Melbourne VIC 3000

Registry

Computershare Investor Services Pty Ltd
452 Johnston Street,
Abbotsford VIC 3067
Australia

Websites

<https://www.althea.com.au/>



ALTHEA GROUP HOLDINGS LIMITED
ACN 626 966 943