



17 September 2019

Dear Shareholder,

On 25 July 2019, Althea Group Holdings Limited ACN 626 966 943 (**Althea** or **Company**) announced to ASX that its newly incorporated wholly-owned Canadian subsidiary had agreed to acquire a Canadian extraction and contract manufacturing business known as Peak Processing Solutions (**Proposed Acquisition**).

I am pleased to invite you to attend a general meeting of Althea which has been scheduled as follows:

Date Monday, 14 October 2019
Time 10:00am (AEDT)
Location DLA Piper Australia
Level 21, 140 William Street
MELBOURNE VIC 3000

Please find enclosed a Notice of Meeting, Explanatory Statement and Proxy Form for the meeting. The Notice of Meeting sets out the items of business for the meeting which also includes voting procedures, explanatory notes and the Board's voting recommendations. Please take the time to carefully read those documents in their entirety.

Proposed Acquisition

The Proposed Acquisition is intended to proceed by way of Althea's newly incorporated wholly-owned Canadian subsidiary, 1214029 B.C. Ltd, acquiring:

- 100% of the shares on issue in 2613035 Ontario Limited (**Peak Processing HoldCo**), a company incorporated in Ontario, from 2707813 Ontario Inc., a company controlled by Gregg Battersby; and
- 46% of the securities in 2682130 Ontario Limited (**Peak Processing OperationsCo**), a company incorporated in Ontario, from 9 employees and independent contractors of Peak Processing OperationsCo resident in Canada (or their relevant controlled shareholding entities) (**Employee Shareholders**).

The remaining 54% of the securities in Peak Processing OperationsCo are held by Peak Processing HoldCo.

Details of the Proposed Acquisition are set out more fully in the enclosed Notice of Meeting and Explanatory Statement and the *Investor Presentation* lodged by the Company with ASX on 25 July.

General Meeting

At the meeting, Shareholders will be asked to consider certain approvals required in connection with the Proposed Acquisition. The requirement for Shareholder approval was foreshadowed in the Company's announcement to ASX on 25 July 2019.

Set out below is a brief outline of the items of business that are proposed for the meeting:

1. Approval for the acquisition of Peak Processing HoldCo, which comprises a substantial asset of Althea for the purposes of the ASX Listing Rules, from 2707813 Ontario Inc..
2. Approval of the issue of up to 15,707,518 fully paid ordinary shares in Althea to 2707813 Ontario Inc. (a company controlled by Gregg Battersby) under the Proposed Acquisition.
3. Approval of the issue of up to, in aggregate, 10,146,126 fully paid ordinary shares in Althea to the Employee Shareholders under the Proposed Acquisition.
4. Approvals for the issue of up to 210,000 fully paid ordinary shares in Althea to Directors who have elected to participate in Althea's A\$30million institutional placement announced on 25 July 2019.

In relation to items 1 and 2 above, Gregg Battersby is a former director of Althea having resigned on 7 March 2019. As a former director of Althea within the last 6 months, Gregg Battersby and the entities which he controls are considered to be related parties of Althea for the purposes of the *Corporations Act 2001 (Cth)* and the ASX Listing Rules.

Independent Expert

Althea has appointed PKF Melbourne Corporate Pty Ltd (**Independent Expert**) for the purposes of preparing an Independent Expert's Report in respect of the Proposed Acquisition in accordance with the ASX Listing Rules.

The Independent Expert has formed the opinion that the Proposed Acquisition is **not fair but reasonable** to non-associated Shareholders of Althea. A copy of the Independent Expert's Report is enclosed with the Notice of Meeting and Explanatory Statement as Attachment 2.

Proxy Form

If you plan to attend the meeting, please bring the enclosed personalised Proxy Form with you as it will help you to register your attendance at the meeting. You can register from 9:30am (AEDT) on the day of the meeting.

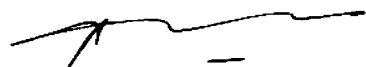
If you are unable to attend the meeting in person, you are encouraged to participate in the meeting by appointing a proxy to act on your behalf. If appointing a proxy, the enclosed Proxy Form should be completed and returned to the Company (see Proxy Form for details) as soon as possible and, in any event, no later than 10:00am (AEDT) on Saturday, 12 October 2019.

The Board encourages all Shareholders to direct their proxy how to vote on each item of business.

If you have any queries in relation to the meeting, please contact the Company Secretary, Mr Robert Meissner, on +61 408 981 759.

I look forward to your attendance at the meeting.

Yours sincerely,



Andrew Newbold
Chairman



Althea Group Holdings Limited

NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of the Shareholders of Althea Group Holdings Limited ACN 626 966 943 (**Althea or Company**) will be held at the offices of DLA Piper Australia, Level 21, 140 William Street, Melbourne, Victoria 3000 on Monday, 14 October 2019 at 10:00am (AEDT).

AGENDA

Resolution 1: Approval of the acquisition of a substantial asset from an entity controlled by Gregg Battersby

To consider and, if thought fit, pass the following resolution as an **ordinary resolution** of the Company:

"That, subject to Shareholders passing Resolutions 2 and 3, for the purposes of Listing Rule 10.1 and for all other purposes, the Shareholders approve 1214029 B.C. Ltd (a wholly-owned subsidiary of the Company) acquiring a substantial asset, comprising 100 Class 1 Common Shares in 2613035 Ontario Limited (a company incorporated in Ontario, Canada), from 2707813 Ontario Inc. (an entity controlled by Gregg Battersby and, consequently, a related party of the Company) on the terms and conditions and in the manner detailed in the Explanatory Statement."

Voting Exclusion: In accordance with the Listing Rules, the Company will disregard any votes cast in favour of Resolution 1 by 2707813 Ontario Inc., any other party to the Proposed Acquisition and any of their associates (including Gregg Battersby).

However, the Company need not disregard a vote on Resolution 1 if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Independent Expert's Report: Shareholders should carefully consider the Independent Expert's Report contained in Attachment 2 to the Explanatory Statement. The Independent Expert's Report comments on the fairness and reasonableness of the Proposed Transaction the subject of Resolution 1.

The Independent Expert has determined that the Proposed Transaction is **not fair but reasonable** to non-associated Shareholders of Althea.

Resolution 2: Approval of the issue of Shares to an entity controlled by Gregg Battersby

To consider and, if thought fit, pass the following resolution as an **ordinary resolution** of the Company:

"That, subject to Shareholders passing Resolutions 1 and 3, for the purposes of Listing Rule 10.11 and for all other purposes, the Shareholders approve the Company issuing up to 15,707,518 Shares to 2707813 Ontario Inc. (a company incorporated in Ontario, Canada and controlled by Gregg Battersby) on the terms and conditions and in the manner detailed in the Explanatory Statement."

Voting Exclusion: In accordance with the Listing Rules, the Company will disregard any votes cast in favour of Resolution 2 by 2707813 Ontario Inc. and any associate of 2707813 Ontario Inc. (including Gregg Battersby).

However, the Company need not disregard a vote on Resolution 2 if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 3: Approval of the issue of shares to the Employee Shareholders of Peak Processing OperationsCo

To consider and, if thought fit, pass the following resolution as an **ordinary resolution** of the Company:

"That, subject to Shareholders passing Resolutions 1 and 2, for the purposes of Listing Rule 7.1 and for all other purposes, the Shareholders approve the Company issuing up to 10,146,126 Shares to those parties set out in the Explanatory Statement on the terms and conditions and in the manner detailed in the Explanatory Statement."

Voting Exclusion: In accordance with the Listing Rules, the Company will disregard any votes cast in favour of Resolution 3 by or on behalf of a person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue of Shares (except a benefit solely by reason of being a holder of Shares) or any associate of such a person.

However, under the Listing Rules, the Company need not disregard a vote on Resolution 3 if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 4: Approval of the issue of Shares to an entity controlled by Andrew Newbold

To consider and, if thought fit, pass the following resolution as an **ordinary resolution** of the Company:

"That, for the purposes of Listing Rule 10.11 and for all other purposes, the Shareholders approve the Company issuing 180,000 Shares to Panrich Pty Ltd ACN 054 841 691 as trustee for the Newbold Family Super Fund (a fund controlled by Andrew Newbold) on the terms and conditions and in the manner detailed in the Explanatory Statement."

Voting Exclusion: In accordance with the Listing Rules, the Company will disregard any votes cast in favour of Resolution 4 by Panrich Pty Ltd and any associate of Panrich Pty Ltd (including Andrew Newbold).

However, the Company need not disregard a vote on Resolution 4 if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 5: Approval of the issue of Shares to an entity controlled by Penelope Dobson

To consider and, if thought fit, pass the following resolution as an **ordinary resolution** of the Company:

"That, for the purposes of Listing Rule 10.11 and for all other purposes, the Shareholders approve the Company issuing 30,000 Shares to Taylor Dobson Perpetual Pty Ltd ACN 162 133 137 (an entity jointly controlled by Penelope Dobson and her husband) on the terms and conditions and in the manner detailed in the Explanatory Statement."

Voting Exclusion: In accordance with the Listing Rules, the Company will disregard any votes cast in favour of Resolution 5 by Taylor Dobson Perpetual Pty Ltd and any associate of Taylor Dobson Perpetual Pty Ltd (including Penelope Dobson).

However, the Company need not disregard a vote on Resolution 5 if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Other Business

To consider any other business that may be lawfully brought forward.

HOW TO VOTE

Attending the Meeting in person

Shareholders may attend the Meeting and vote in person.

If you intend to attend the Meeting in person, you do not need to submit a Proxy Form.

You may still attend the Meeting and vote in person even if you have appointed a proxy. You will be provided with a poll voting card on the day. If you have previously submitted a Proxy Form, your attendance will suspend your proxy appointment while you are present at the Meeting.

Please bring your personalised Proxy Form with you as it will help you to register your attendance at the Meeting. If you do not bring your Proxy Form with you, you can still attend the Meeting but representatives from Computershare Investor Services will need to verify your identity. You can register from 9:30am (AEDT) on the day of the Meeting.

Appointing a proxy

You can appoint a proxy to attend and vote on your behalf as an alternative to attending the Meeting in person.

To appoint a proxy, complete the Proxy Form. You can direct your proxy how to vote on Resolutions 1 to 3 by marking "For", "Against" or "Abstain".

A proxy does not need to be a shareholder of the Company. A proxy may be an individual or a company. You may appoint up to two proxies. If you appoint two proxies, you should complete two separate Proxy Forms and specify the percentage or number of votes each proxy is appointed to exercise. If you do not specify a percentage or number in both forms, each proxy may exercise half of the votes. You must return both Proxy Forms together. If you require an additional Proxy Form, please contact Computershare Investor Services on 1800 420 909 (within Australia) or +61 3 9415 4088 (outside Australia).

If you sign the enclosed Proxy Form and no direction is given, the Chairman will be appointed as your proxy. The Chairman intends to vote undirected proxies on, and in favour of, all the proposed resolutions.

If you appoint a proxy, you may still attend the Meeting. However, your proxy's rights to speak and vote will be suspended while you are present.

IMPACT OF YOUR PROXY APPOINTMENT ON YOUR VOTING INSTRUCTIONS

If you appoint the Chairman as your proxy and do not direct him how to vote, you are authorising the Chairman to cast your undirected vote on all proposed resolutions.

Chairman's voting intentions

The Chairman intends to vote undirected proxies on, and in favour of, all the proposed resolutions. If there is a change to how the Chairman intends to vote undirected proxies, the Company will make an announcement to the market. The Chairman's decision on the validity of a vote cast by a proxy or vote cast in person is conclusive.

SUBMITTING YOUR PROXY FORM

Your completed Proxy Form must be received by no later than 10:00am (AEDT) on Saturday, 12 October 2019. An original or a certified copy of any power of attorney under which the form was signed must also be received by this time unless previously provided to Computershare Investor Services.

You can lodge your vote:

- online at www.investorvote.com.au by following the instructions. You will need your Security holder Reference Number (SRN) or Holder Identification Number (HIN), which is set out on the enclosed Proxy Form.
- online at <http://www.intermediaryonline.com> (for intermediary online users online)
- by completing the enclosed Proxy Form and:
 - posting it to Computershare Investor Services using the reply paid envelope or to Computershare Limited GPO Box 242, Melbourne VIC 3001
 - faxing it to +61 3 9473 2500
 - hand delivering it to Computershare Investor Services, at Computershare Limited at Yarra Falls, 452 Johnston Street Abbotsford VIC 3067
- by using a mobile device by scanning the QR code on the Proxy Form. To scan the QR code you will need a QR code reader application that can be downloaded for free on your mobile device. You will also need your SRN or HIN and postcode for your shareholding.

DETERMINATION OF VOTING ENTITLEMENT

For the purpose of Regulation 7.11.37 of the *Corporations Regulations* 2001 (Cth) and voting entitlements at the Meeting, the Company has determined that Shares are taken to be held by those Shareholders registered at 7.00pm (AEDT) on Sunday, 13 October 2019. Accordingly, only those persons will be entitled to attend and vote at the Meeting.

GLOSSARY

A glossary of terms used in this Notice of Meeting is contained in the explanatory statement. Terms defined in the glossary also apply to the accompanying Proxy Form, unless the context requires otherwise.

By order of the Board

Mr Robert Meissner
Company Secretary
13 September 2019

EXPLANATORY STATEMENT

This explanatory statement has been prepared and is being provided to Shareholders in connection with the items of business to be considered at a General Meeting of Shareholders to be held at the offices of DLA Piper Australia, Level 21, 140 William Street, Melbourne, Victoria 3000 on Monday, 14 October 2019 at 10:00am (AEDT).

The purpose of this explanatory statement, including the accompanying Independent Expert's Report, is to provide Shareholders with an explanation of the items of business and the Resolutions to be proposed and considered at the Meeting.

Resolution 1: Approval of the acquisition of a substantial asset from an entity controlled by Gregg Battersby

Background

On 25 July 2019, Althea announced that 1214029 B.C. Ltd (**Althea Canada**), a newly incorporated wholly-owned subsidiary of Althea incorporated in British Columbia, had agreed to acquire a cannabis extraction and contract manufacturing services business in Canada known as Peak Processing Solutions (**Proposed Acquisition**).

To give effect to the Proposed Acquisition, Althea Canada entered into two interconditional *Share Sale and Purchase Agreements* (**Sale Agreements**). Under Sale Agreements, the Proposed Acquisition is intended to proceed by way of Althea Canada acquiring:

1. 100% of the shares on issue in Peak Processing HoldCo from 2707813 Ontario Inc., a company controlled by Gregg Battersby; and
2. 46% of the securities on issue in Peak Processing OperationsCo from 9 employees and independent contractors of Peak Processing OperationsCo resident in Canada (or their relevant shareholding entities) (**Employee Shareholders**). The remaining 54% of the securities in Peak Processing OperationsCo are held by Peak Processing HoldCo.

Overview of Peak Processing

Peak Processing HoldCo owns the freehold title to premises located at 2065 Solar Crescent, Tecumseh, Ontario, Canada (**Business Premises**). The Business Premises are leased to Peak Processing OperationsCo for the purposes of undertaking its proposed cannabis extraction and contract manufacturing services business in Canada.

Peak Processing HoldCo acquired the Business Premises using funds borrowed from 3 individuals in Canada (**Lenders**). Under the Sale Agreements, the amounts outstanding to these 3 individuals will be settled from consideration which would have otherwise been payable to 2707813 Ontario Inc. (Gregg Battersby's holding entity) and the Employee Shareholders such that Althea Canada will acquire Peak Processing HoldCo on a debt free basis.

Peak Processing OperationsCo has made application to Health Canada for the grant of a cannabis processor's licence under the *Cannabis Act* (Canada) (and the cannabis regulations promulgated under that Act) for the Business Premises (**Cannabis Processor Licence**). It is proposed that this licence will enable Peak Processing OperationsCo to undertake cannabis extraction, extraction refinement, cannabinol isolation, toll processing and contract manufacturing services in Canada, and will include a sales licence to sell and distribute and send and deliver cannabis and cannabis products.

Further details in respect of Peak Processing are set out in the *Investor Presentation* lodged by the Company with ASX on 25 July 2019.

Consideration to be provided by Althea Canada under Sale Agreements

The consideration to be provided by Althea Canada for its acquisition of Peak Processing HoldCo and the outstanding minority equity interests in Peak Processing OperationsCo is intended to comprise:

- Althea Canada paying the Employee Shareholders (in aggregate) on completion under the Sale Agreements an amount equal to C\$1,649,851 in cash;
- Althea Canada settling all third party debt held by Peak Processing HoldCo and Peak Processing OperationsCo on completion up to an amount of C\$2,559,829.32 (including all outstanding amounts owing to the Lenders to discharge the associated mortgages held over the Business Premises);
- Althea Canada issuing to 2707813 Ontario Inc. and the Employee Shareholders (in aggregate) 6,834,075 Completion Tranche Exchangeable Shares in Althea Canada which will be exchangeable into the same number of Shares in Althea in accordance with their terms of issue; and
- Althea Canada issuing to 2707813 Ontario Inc. and the Employee Shareholders (in aggregate):
 - 5,705,871 Earn-out Tranche 1 Exchangeable Shares;
 - 5,705,871 Earn-out Tranche 2 Exchangeable Shares; and
 - 7,607,827 Earn-out Tranche 3 Exchangeable Shares,

which, in each case, will be exchangeable into the same number of Shares in Althea in accordance with their terms of issue.

Immediately following completion under the Sale Agreements, Althea will also fund Peak Processing OperationsCo to enable repayment to Gregg Battersby of C\$973,713.06 of shareholder loans owing by Peak Processing OperationsCo.

The cash consideration to be provided by Althea Canada to the Employee Shareholders on completion under the Sale Agreements, and the cash required to fund Peak Processing OperationsCo to repay Gregg Battersby's shareholder loans, will be funded from the funds raised by Althea under the successful A\$30million institutional placement announced by the Company on 25 July 2019 and completed on 8 August 2019 (**Placement**).

Terms of issue of the Exchangeable Shares

A summary of the proposed terms of issue of the Completion Tranche Exchangeable Shares, the Earn-out Tranche 1 Exchangeable Shares, the Earn-out Tranche 2 Exchangeable Shares and the Earn-out Tranche 3 Exchangeable Shares is attached to this explanatory memorandum as Attachment 1.

As noted in the summary of the terms of issue of the Exchangeable Shares in Attachment 1:

- The Completion Tranche Exchangeable Shares will be exchangeable by 2707813 Ontario Inc. and the Employee Shareholders into an equivalent number of Shares in Althea on the date falling 12 months after completion under the Sale Agreements.
- The key milestone for exchange by 2707813 Ontario Inc. and the Employee Shareholders of the Earn-out Tranche 1 Exchangeable Shares into an equivalent number of Shares in Althea is Peak Processing OperationsCo obtaining the Cannabis Processor Licence on or before 30 June 2021 (the date on which the Cannabis Processor Licence is received, being the **Licence Date**) and then a further 12 month period elapsing from the Licence Date. If the Licence Date is not achieved by 30 June 2021, all Earn-out Tranche 1 Exchangeable Shares, Earn-out Tranche 2 Exchangeable Shares and Earn-out Tranche 3 Exchangeable Shares will lapse.

- The key milestone for exchange by 2707813 Ontario Inc. and the Employee Shareholders of the Earn-out Tranche 2 Exchangeable Shares is Peak Processing HoldCo and Peak Processing OperationsCo achieving consolidated revenue of C\$7,000,000 and consolidated earnings before interest, tax, depreciation and amortisation (**EBITDA**) of C\$2,000,000 in the 12 month period following the Licence Date.
- The key milestone for exchange by 2707813 Ontario Inc. and the Employee Shareholders of the Earn-out Tranche 3 Exchangeable Shares is Peak Processing HoldCo and Peak Processing OperationsCo achieving consolidated revenue of C\$25,000,000 and consolidated EBITDA of C\$12,500,000 in the 18 month period following the Licence Date.
- Each tranche of the Exchangeable Shares will also be exchangeable by 2707813 Ontario Inc. and the Employee Shareholders on occurrence of certain voluntary liquidation or sale events in respect of Althea Canada, Peak Processing HoldCo and Peak Processing OperationsCo or certain change in control events affecting Althea.
- If any Exchangeable Shares do not become exchangeable by 2707813 Ontario Inc. and the Employee Shareholders, they will lapse. In those circumstances, Althea Canada will redeem the lapsed Exchangeable Shares for consideration of C\$0.000001 per Exchangeable Share.

To facilitate the exchange of the Exchangeable Shares in accordance with their terms of issue, Althea will enter into an *Exchange and Support Agreement* with Althea Canada, 2707813 Ontario Inc. and each of the Employee Shareholders on completion under the Sale Agreements.

Althea will also enter into an *Earn Out Deed* with Althea Canada, 2707813 Ontario Inc. and each of the Employee Shareholders on completion under the Sale Agreements under which Althea (as the then ultimate owner of Peak Processing) will provide certain undertakings during the period to which the key milestones for exchange of the Exchangeable Shares in respect of Peak Processing, including:

- Peak Processing HoldCo and Peak Processing OperationsCo continue to operate the proposed cannabis extraction and contract manufacturing services business as a going concern and in the ordinary and normal course, consistent with the current budget and business plan for the business; and
- Althea will not conduct any business, enterprise or undertaking that is competitive with the business in Canada.

These undertakings are intended to ensure that Gregg Battersby and the Employee Shareholders cannot be artificially prevented from achieving the revenue and EBITDA performance milestones for Peak Processing to restrict or prevent the potential exchange of their Exchangeable Shares in accordance with the terms agreed.

The exchangeable share structure is a common form of acquisition structure used in Canada in circumstances where Canadian resident parties sell shares in a Canadian company and all or part of the consideration to be provided to them on completion, or subject to satisfaction of agreed earn out milestones, comprises shares in a foreign entity. The structure assists in providing the relevant Canadian resident parties with capital gains tax rollover eligibility.

Conditions to completion under the Sale Agreements

Completion of Althea Canada's acquisition of Peak Processing under the Sale Agreements is conditional on the Shareholder approvals being sought at the Meeting.

Subject to receipt of the required Shareholder approvals at the Meeting, completion is intended to occur approximately 5 business days after the date of the Meeting.

Listing Rule 10.1

Listing Rule 10.1 provides that a listed entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from a related party of the entity without the approval of holders of the entity's ordinary securities.

Gregg Battersby is a former director of Althea having resigned on 7 March 2019. In accordance with sections 228(2)(a) and 228(5) of the Corporations Act, Gregg Battersby and the entities he controls are related parties of Althea for the purposes of the Corporations Act and the Listing Rules on the basis that Gregg Battersby was a director of Althea within the last 6 months.

Listing Rule 10.2 provides that an asset is a substantial asset of a listed entity for the purposes of Listing Rule 10.1 if its value, or the value of the consideration for it, is 5% or more of the equity interests of the entity as set out in its latest accounts given to ASX under the Listing Rules.

Peak Processing HoldCo and Peak Processing OperationsCo are considered to be a substantial asset of Althea for the purposes of Listing Rule 10.2 on the basis that the value of the consideration for Althea Canada's acquisition of Peak Processing HoldCo and Peak Processing OperationsCo will exceed 5% of Althea's equity interests as set out in the latest accounts given by Althea to ASX.

Althea's equity interests as set out in its Half-Year Financial Report for the period ended 31 December 2018	A\$21,494,000
Indicative value of consideration to be provided by Althea Canada	Circa A\$10,728,000 to A\$11,442,000 <i>(inclusive of amounts required to repay third party loans)</i>

Accordingly, Resolution 1 requests Shareholders to approve Althea Canada's acquisition of Peak Processing HoldCo from 2707813 Ontario Inc.

Independent Expert's Report

In accordance with Listing Rule 10.10.2, Althea has appointed PKF Melbourne Corporate Pty Ltd to prepare an Independent Expert's Report in respect of the Proposed Acquisition.

The Independent Expert has formed the opinion that the Proposed Acquisition is **not fair but reasonable** to non-associated Shareholders of Althea. A copy of the Independent Expert's Report is enclosed with this explanatory statement as Attachment 2.

What will happen if Resolution 1 is not approved?

If Resolution 1 is not approved by Shareholders, the Proposed Acquisition will not be able to proceed on the terms contemplated above. Resolution 1 is conditional on, and subject to, Shareholders passing Resolutions 2 and 3 at the Meeting. If either Resolution 1, 2 or 3 is not passed by Shareholders at the Meeting, the Company will not be able to satisfy the conditions precedent to completion under the Sale Agreements and the Sale Agreements may be terminated.

Board's recommendation

The Board unanimously recommends that Shareholders vote in favour of Resolution 1.

Resolution 2: Approval of the issue of Shares to an entity controlled by Gregg Battersby

Background

The consideration to be provided by Althea Canada for its acquisition of Peak Processing HoldCo and the outstanding minority equity interests in Peak Processing OperationsCo will include the issue to 2707813 Ontario Inc., a company incorporated in Ontario and controlled by Gregg Battersby of 15,707,518 Exchangeable Shares in Althea Canada.

Each Exchangeable Share issued to 2707813 Ontario Inc. will, subject to satisfaction certain milestones or the occurrence of certain events, be exchangeable into one Share in Althea in accordance with the terms of issue summarised in Attachment 1.

ASX Listing Rule 10.11

Listing Rule 10.11 provides that, unless one of the exemptions in Listing Rule 10.12 applies, a listed entity must not issue or agree to issue equity securities to a related party without the approval of holders of the entity's ordinary securities.

As noted above, Gregg Battersby and 2707813 Ontario Inc. are related parties of Althea for the purposes of the Corporations Act and the Listing Rules. None of the exemptions in Listing Rule 10.12 apply to the exchange of Exchangeable Shares issued to 2707813 Ontario Inc. on satisfaction of the various milestones or occurrence of the events contemplate in the terms of issue summarised in Attachment 1.

Accordingly, Resolution 2 requests Shareholders to approve the issue of up to 15,707,518 Shares in Althea on exchange of the Exchangeable Shares issued to 2707813 Ontario Inc. for the purposes of Listing Rule 10.11.

Listing Rule 10.13.3 provides that, if Shareholder approval is obtained for the issue of Shares under Listing Rule 10.11, the relevant Shares need to be issued within 1 month of receipt of the Shareholder approval.

ASX has granted Althea a waiver in respect of Listing Rule 10.13.3 such that the Company may issue Shares to 2707813 Ontario Inc. on exchange of the 15,707,518 Exchangeable Shares no later than 31 May 2023. ASX granted this waiver on the following key conditions:

- For any annual reporting during which any of the 15,707,518 Shares to be issued on exchange of the Exchangeable Shares have been issued or any of them remain to be issued, Althea's annual report sets out in detail the basis on which the Shares may be issued.
- In any half year or quarterly report for a period during which any of the 15,707,518 Shares to be issued on exchange of the Exchangeable Shares have been issued or any of them remain to be issued, Althea includes a summary statement of the number of Shares issued during the relevant reporting period and the number of Shares which remain to be issued.
- The milestones which must be satisfied for any of the 15,707,518 Shares to be issued on exchange of the Exchangeable Shares are not varied.
- Althea releases the terms of the waiver to the market at the same time as the Notice of Meeting is released to ASX.

Information required for Shareholder approval

In accordance with Listing Rule 10.13, the Company provides the following information in relation to Resolution 2:

1. The 15,707,518 Shares to be issued on exchange of the Exchangeable Shares issued to 2707813 Ontario Inc. under the Proposed Acquisition will be issued to 2707813 Ontario Inc.
2. The maximum number of Shares to be issued to 2707813 Ontario Inc. is 15,707,518 Shares.
3. The 15,707,518 Shares will be issued no later than 31 May 2023.
4. As noted above, Gregg Battersby and 2707813 Ontario Inc. are considered to be related parties of Althea for the purposes of the Corporations Act and Listing Rules because Gregg Battersby was a director of Althea within the last 6 months.
5. Shares issued to 2707813 Ontario Inc. on exchange of the Exchangeable Shares will be issued with a nil issue price. The Shares will otherwise be issued as fully paid ordinary shares in the capital of Althea. Once issued, the Shares will rank equally with all other Shares on issue in Althea.
6. No funds will be raised by the Company on issue of Shares to 2707813 Ontario Inc. on exchange of the Exchangeable Shares issued to 2707813 Ontario Inc. under the Proposed Acquisition. The Exchangeable Shares, and Shares issued on exchange of the Exchangeable Shares, are being issued as consideration for Althea Canada's acquisition of Peak Processing HoldCo and Peak Processing OperationsCo under the Proposed Acquisition.

ASX Listing Rule 7.1

Listing Rule 7.1 provides that, unless one of the exemptions in Listing Rule 7.2 applies, a listed entity must not issue or agree to issue more equity securities during any 12-month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12-month period without the approval of holders of the entity's ordinary securities.

As approval for the issue of up to 15,707,518 Shares to 2707813 Ontario Inc. is being sought under Listing Rule 10.11, Exception 14 in Listing Rule 7.2 applies so that approval under Listing Rule 7.1 is not also required for the issue of such Shares

What will happen if Resolution 2 is not approved?

If Resolution 2 is not approved by Shareholders, the Proposed Acquisition will not be able to proceed on the terms contemplated above. Resolution 2 is conditional on, and subject to, Shareholders passing Resolutions 2 and 3 at the Meeting. If either Resolution 1, 2 or 3 is not passed by Shareholders at the Meeting, the Company will not be able to satisfy the conditions precedent to completion under the Sale Agreements and the Sale Agreements may be terminated.

Board's recommendation

The Board unanimously recommends that Shareholders vote in favour of Resolution 2.

Resolution 3: Approval of the issue of Shares to the Employee Shareholders of Peak Processing OperationsCo

Background

The consideration to be provided by Althea Canada for its acquisition of Peak Processing HoldCo and the outstanding minority equity interests in Peak Processing OperationsCo will include the issue to the Employee Shareholders of 10,146,126 Exchangeable Shares in Althea Canada.

Each Exchangeable Share issued to the Employee Shareholders will, subject to satisfaction certain milestones or the occurrence of certain events, be exchangeable into one Share in Althea in accordance with the terms of issue summarised in Attachment 1.

Set out below are details of the relevant Employee Shareholders and the number of Exchangeable Shares to be issued to them on completion of the Proposed Acquisition:

Employee Shareholder	Completion Tranche Exchangeable Shares	Earn-out Tranche 1 Exchangeable Shares	Earn-out Tranche 2 Exchangeable Shares	Earn-out Tranche 3 Exchangeable Shares
2707808 Ontario Inc. <i>(an entity controlled by Mary Jo Cambogia)</i>	428,314	850,553	850,553	1,134,070
2691606 Ontario Ltd. <i>(an entity controlled by Michael Tolmie)</i>	237,147	470,931	470,931	627,908
2685536 Ontario Ltd. <i>(an entity controlled by Michael Tolmie)</i>	105,398	209,300	209,300	279,067
2707811 Ontario Inc. <i>(an entity controlled by Ian Scott)</i>	342,545	680,231	680,231	906,975
Corey Balkwill	17,100	33,959	33,959	45,278
Matthew Shalhoub	100,558	199,689	199,689	266,252
Robert George Neufeld	10,056	19,969	19,969	26,625
Jeremy John Prince	10,056	19,969	19,969	26,625

Employee Shareholder	Completion Tranche Exchangeable Shares	Earn-out Tranche 1 Exchangeable Shares	Earn-out Tranche 2 Exchangeable Shares	Earn-out Tranche 3 Exchangeable Shares
Romia Holdings Inc. <i>(an entity controlled by Max De Angelis)</i>	80,446	159,751	159,751	213,002

ASX Listing Rule 7.1 and 7.1A

Listing Rule 7.1 provides that, unless one of the exemptions in Listing Rule 7.2 applies, a listed entity must not issue or agree to issue more equity securities during any 12-month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12-month period without the approval of holders of the entity's ordinary securities.

Listing Rule 7.1A permits an eligible listed entity to seek the approval of its holders of ordinary securities at an Annual General Meeting to increase the 15% threshold under Listing Rule 7.1 by a further 10% for the 12 month period following the relevant Annual General Meeting, subject to various conditions. Althea obtained Shareholder approval to increase the 15% threshold under Listing Rule 7.1 at its 2018 Annual General Meeting on 30 November 2018.

The 30,000,000 Shares issued under Althea's successful A\$30million institutional placement announced by the Company to ASX on 25 July 2019 were issued without Shareholder approval in reliance on Althea's 15% placement capacity under ASX Listing Rule 7.1 and the additional 10% placement capacity under ASX Listing Rule 7.1A.

Accordingly, Resolution 3 requests Shareholders to approve the issue of up to 10,146,126 Shares in Althea on exchange of the Exchangeable Shares issued to the Employee Shareholders for the purposes of Listing Rule 7.1.

Listing Rule 7.3.2 provides that, if Shareholder approval is obtained for the issue of Shares under Listing Rule 7.1, the relevant Shares need to be issued within 3 months of receipt of the Shareholder approval (unless the Shareholder approval is being provided in connection with a reverse takeover or a court approved reorganisation).

ASX has granted Althea a waiver in respect of Listing Rule 7.3.2 such that the Company may issue Shares to the Employee Shareholders on exchange of Exchangeable Shares no later than 31 May 2023. ASX granted this waiver on the following key conditions:

- For any annual reporting during which any of the 10,146,126 Shares to be issued on exchange of the Exchangeable Shares have been issued or any of them remain to be issued, Althea's annual report sets out in detail the basis on which the Shares may be issued.
- In any half year or quarterly report for a period during which any of the 10,146,126 Shares to be issued on exchange of the Exchangeable Shares have been issued or any of them remain to be issued, Althea includes a summary statement of the number of Shares issued during the relevant reporting period and the number of Shares which remain to be issued.
- The milestones which must be satisfied for any of the 10,146,126 Shares to be issued on exchange of the Exchangeable Shares are not varied.
- Althea releases the terms of the waiver to the market at the same time as the Notice of Meeting is released to ASX.

Information required for Shareholder approval

In accordance with Listing Rule 7.3, the Company provides the following information in relation to Resolution 3:

1. The maximum number of Shares to be issued to the Employee Shareholders is 10,146,126 Shares.
2. The 10,146,126 Shares will be issued no later than 31 May 2023.
3. The Shares issued to the Employee Shareholders on exchange of their Exchangeable Shares will be issued with a nil issue price.
4. The names of the Employee Shareholders (and their respective holding entities) and the maximum number of Shares which may be issued to them are set out below:

Employee Shareholder	Shares on exchange of Completion Tranche Exchangeable Shares	Shares on exchange of Earn-out Tranche 1 Exchangeable Shares	Shares on exchange of Earn-out Tranche 2 Exchangeable Shares	Shares on exchange of Earn-out Tranche 3 Exchangeable Shares	Maximum number of Shares
2707808 Ontario Inc. <i>(an entity controlled by Mary Jo Camboia)</i>	428,314	850,553	850,553	1,134,070	3,263,490
2691606 Ontario Ltd. <i>(an entity controlled by Michael Tolmie)</i>	237,147	470,931	470,931	627,908	1,806,917
2685536 Ontario Ltd <i>(an entity controlled by Michael Tolmie)</i>	105,398	209,300	209,300	279,067	803,065
2707811 Ontario Inc. <i>(an entity controlled by Ian Scott)</i>	342,545	680,231	680,231	906,975	2,609,982
Corey Balkwill	17,100	33,959	33,959	45,278	130,296
Matthew Shalhoub	100,558	199,689	199,689	266,252	766,188
Robert George Neufeld	10,056	19,969	19,969	26,625	76,619

Employee Shareholder	Shares on exchange of Completion Tranche Exchangeable Shares	Shares on exchange of Earn-out Tranche 1 Exchangeable Shares	Shares on exchange of Earn-out Tranche 2 Exchangeable Shares	Shares on exchange of Earn-out Tranche 3 Exchangeable Shares	Maximum number of Shares
Jeremy John Prince	10,056	19,969	19,969	26,625	76,619
Romia Holdings Inc. <i>(an entity controlled by Max De Angelis) Inc.</i>	80,446	159,751	159,751	213,002	612,950

5. The Shares issued to the Employee Shareholders on exchange of their Exchangeable Shares will be issued as fully paid ordinary shares in the capital of Althea. Once issued, the Shares will rank equally with all other Shares on issue in Althea.
6. No funds will be raised by the Company on issue of Shares to the Employee Shareholders on exchange of the Exchangeable Shares issued to the Employee Shareholders under the Proposed Acquisition. The Exchangeable Shares, and Shares issued on exchange of the Exchangeable Shares, are being issued as consideration for Althea Canada's acquisition of Peak Processing HoldCo and Peak Processing OperationsCo under the Proposed Acquisition.

What will happen if Resolution 3 is not approved?

If Resolution 3 is not approved by Shareholders, the Proposed Acquisition will not be able to proceed on the terms contemplated above. Resolution 3 is conditional on, and subject to, Shareholders passing Resolutions 1 and 3 at the Meeting. If either Resolution 1, 2 or 3 is not passed by Shareholders at the Meeting, the Company will not be able to satisfy the conditions precedent to completion under the Sale Agreements and the Sale Agreements may be terminated.

Board's recommendation

The Board unanimously recommends that Shareholders vote in favour of Resolution 3.

Resolution 4: Approval of the issue of shares to an entity controlled by Andrew Newbold

Background

On 25 July 2019, Althea announced that it had successfully received commitments to raise the entire A\$30million sought from institutional investors under the Placement.

As noted above, part of the funds raised under the Placement are intended to be used to fund the cash consideration to be provided by Althea Canada to the Employee Shareholders on completion under the Sale Agreements and the cash required to fund Peak Processing OperationsCo to repay Gregg Battersby's shareholder loans. The balance of the funds raised under the Placement are to be used in accordance with the purposes set out in the Investor Presentation lodged by the Company with ASX on 25 July.

Andrew Newbold, the Chairman of Althea, committed to supporting the Placement through Panrich Pty Ltd ACN 054 841 691 as trustee for the Newbold Family Super Fund (a fund which Andrew controls), subject to receiving Shareholder approval to do so in accordance with the Listing Rules.

The Placement, other than in respect of Andrew Newbold commitment and the commitment by Penelope Dobson's husband (which is the subject of Resolution 5 at the Meeting), settled on 8 August 2019.

ASX Listing Rule 10.11

Listing Rule 10.11 provides that, unless one of the exemptions in Listing Rule 10.12 applies, a listed entity must not issue or agree to issue equity securities to a related party without the approval of holders of the entity's ordinary securities.

Andrew Newbold is the Chairman and a Director of Althea. Consequently, Andrew and the entities which he controls are considered to be related parties of Althea for the purposes of the Corporations Act (Cth) 2001 and the ASX Listing Rules.

Accordingly, Resolution 4 requests Shareholders to approve the issue of 180,000 Shares in Althea to Panrich Pty Ltd as trustee for the Newbold Family Super Fund under the Placement.

Listing Rule 10.13.3 provides that, if Shareholder approval is obtained for the issue of Shares under Listing Rule 10.11, the relevant Shares need to be issued within 1 month of receipt of the Shareholder approval. If Shareholder approval is received, the 180,000 Shares to be issued to Panrich Pty Ltd as trustee for the Newbold Family Super Fund will be issued as soon as practicable following the Meeting.

Information required for Shareholder approval

In accordance with Listing Rule 10.13, the Company provides the following information in relation to Resolution 4:

1. The 180,000 Shares to be issued under the Placement will be issued to Panrich Pty Ltd as trustee for the Newbold Family Super Fund.
2. The maximum number of Shares to be issued to Panrich Pty Ltd as trustee for the Newbold Family Super Fund is 180,000 Shares.
3. The 180,000 Shares will be issued no later than 1 month after the date on which Shareholder approval is received.
4. Panrich Pty Ltd as trustee for the Newbold Family Super Fund is a fund controlled by Andrew Newbold - the Chairman and a Director of the Company.

5. Shares issued to Panrich Pty Ltd as trustee for the Newbold Family Super Fund will be issued with an issue price of A\$1.00. The Shares will otherwise be issued as fully paid ordinary shares in the capital of Althea and will rank equally with all other Shares on issue.
6. The funds raised on issue of the 180,000 Shares to Panrich Pty Ltd as trustee for the Newbold Family Super Fund will be used in the manner set out in the Investor Presentation lodged by the Company with ASX on 25 July, including to fund the cash consideration to be provided by Althea Canada to the Employee Shareholders on completion under the Sale Agreements and the cash required to fund Peak Processing OperationsCo to repay Gregg Battersby's shareholder loans.

ASX Listing Rule 7.1

Listing Rule 7.1 provides that, unless one of the exemptions in Listing Rule 7.2 applies, a listed entity must not issue or agree to issue more equity securities during any 12-month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12-month period without the approval of holders of the entity's ordinary securities.

As approval for the issue of 180,000 Shares to Panrich Pty Ltd as trustee for the Newbold Family Super Fund is being sought under Listing Rule 10.11, Exception 14 in Listing Rule 7.2 applies so that approval under Listing Rule 7.1 is not also required for the issue of such Shares

Board's recommendation

The Board (with Andrew Newbold abstaining) unanimously recommends that Shareholders vote in favour of Resolution 4.

Resolution 5: Approval of the issue of Shares to an entity controlled by Penelope Dobson

Background

As noted above, on 25 July 2019 Althea announced that it had successfully received commitments to raise the entire A\$30million sought from institutional investors under the Placement.

Penelope Dobson, a director of Althea, committed to supporting the Placement through Taylor Dobson Perpetual Pty Ltd ACN 162 133 137 (an entity which Penelope and her husband jointly control), subject to receiving Shareholder approval to do so in accordance with the Listing Rules.

The Placement, other than in respect of Penelope Dobson and Andrew Newbold's commitment (which is the subject of Resolution 4 at the Meeting), settled on 8 August 2019.

ASX Listing Rule 10.11

Listing Rule 10.11 provides that, unless one of the exemptions in Listing Rule 10.12 applies, a listed entity must not issue or agree to issue equity securities to a related party without the approval of holders of the entity's ordinary securities.

Penelope Dobson is a Director of Althea. Consequently, Penelope and the entities which she and/or her husband controls are considered to be related parties of Althea for the purposes of the Corporations Act (Cth) 2001 and the ASX Listing Rules.

Accordingly, Resolution 5 requests Shareholders to approve the issue of 30,000 Shares in Althea to Taylor Dobson Perpetual Pty Ltd under the Placement.

Listing Rule 10.13.3 provides that, if Shareholder approval is obtained for the issue of Shares under Listing Rule 10.11, the relevant Shares need to be issued within 1 month of receipt of the Shareholder approval. If Shareholder approval is received, the 30,000 Shares to be issued to Taylor Dobson Perpetual Pty Ltd will be issued as soon as practicable following the Meeting.

Information required for Shareholder approval

In accordance with Listing Rule 10.13, the Company provides the following information in relation to Resolution 4:

1. The 30,000 Shares to be issued under the Placement will be issued to Taylor Dobson Perpetual Pty Ltd.
2. The maximum number of Shares to be issued to Taylor Dobson Perpetual Pty Ltd is 30,000 Shares.
3. The 30,000 Shares will be issued no later than 1 month after the date on which Shareholder approval is received.
4. Taylor Dobson Perpetual Pty Ltd is an entity jointly controlled by Penelope Dobson - a Director of the Company - and her husband.
5. Shares issued to Taylor Dobson Perpetual Pty Ltd will be issued with an issue price of A\$1.00. The Shares will otherwise be issued as fully paid ordinary shares in the capital of Althea and will rank equally with all other Shares on issue.
6. The funds raised on issue of the 30,000 Shares to Taylor Dobson Perpetual Pty Ltd will be used in the manner set out in the *Investor Presentation* lodged by the Company with ASX on 25 July, including to fund the cash consideration to be provided by Althea Canada to the Employee Shareholders on completion under the Sale Agreements and the cash required to fund Peak Processing OperationsCo to repay Gregg Battersby's shareholder loans.

ASX Listing Rule 7.1

Listing Rule 7.1 provides that, unless one of the exemptions in Listing Rule 7.2 applies, a listed entity must not issue or agree to issue more equity securities during any 12-month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12-month period without the approval of holders of the entity's ordinary securities.

As approval for the issue of 30,000 Shares to Taylor Dobson Perpetual Pty Ltd is being sought under Listing Rule 10.11, Exception 14 in Listing Rule 7.2 applies so that approval under Listing Rule 7.1 is not also required for the issue of such Shares

Board's recommendation

The Board (with Penelope Dobson abstaining) unanimously recommends that Shareholders vote in favour of Resolution 5.

GLOSSARY

In the Notice of Meeting and accompanying Proxy Form, the following terms have the following meanings, unless the context requires otherwise:

Althea or Company means Althea Group Holdings Limited ACN 626 966 943.

Althea Canada means 1214029 B.C. Ltd., a company incorporated in British Columbia, Canada.

ASX means ASX Limited ACN 008 624 691, or the market operated by it (as the context requires).

Board means the board of directors of the Company.

Corporations Act means *Corporations Act 2001* (Cth).

Completion Tranche Exchangeable Share means a non-voting, convertible, redeemable, preferred share in the capital of Althea Canada issued on the terms and conditions summarised in Attachment 1.

Director means a director of the Company.

Earn-out Tranche 1 Exchangeable Share means a non-voting, convertible, redeemable, preferred share in the capital of Althea Canada issued on the terms and conditions summarised in Attachment 1.

Earn-out Tranche 2 Exchangeable Share means a non-voting, convertible, redeemable, preferred share in the capital of Althea Canada issued on the terms and conditions summarised in Attachment 1.

Earn-out Tranche 3 Exchangeable Share means a non-voting, convertible, redeemable, preferred share in the capital of Althea Canada issued on the terms and conditions summarised in Attachment 1.

Employee Shareholders means 2707808 Ontario Inc. (an entity controlled by Mary Jo Cambogia), 2691606 Ontario Ltd (an entity controlled by Michael Tolmie), 2685536 Ontario Ltd (an entity controlled by Michael Tolmie), 2707811 Ontario Inc. (an entity controlled by Ian Scott), Corey Balkwill, Matthew Shalhoub, Robert George Neufeld, Jeremy John Prince and Romia Holdings Inc. (an entity controlled by Max De Angelis).

Equity Securities has the meaning given in the Listing Rules and includes a share, an option over an issued or unissued security, a right to a share or option, a convertible security and any security that ASX decides to classify as an Equity Security.

Exchangeable Shares means, collectively, the Completion Tranche Exchangeable Shares, the Earn-out Tranche 1 Exchangeable Shares, the Earn-out Tranche 2 Exchangeable Shares and the Earn-out Tranche 3 Exchangeable Shares to be issued to 2707813 Ontario Inc. (an entity controlled by Gregg Battersby) and the Employee Shareholders on completion of the Proposed Acquisition.

Independent Expert means PKF Melbourne Corporate Pty Ltd ACN 063 564 045.

Independent Expert's Report means the report prepared by the Independent Expert and set out in Attachment 2.

Listing Rules means the listing rules of ASX (as amended or waived from time to time).

Meeting means the General Meeting of the Shareholders of the Company to be held on Monday, 14 October 2019 at 10:00am (AEDT) convened by way of the Notice of Meeting.

Notice of Meeting means the Notice of General Meeting of the Shareholders of the Company dated 13 September 2019.

Peak Processing HoldCo means 2613035 Ontario Limited, a company incorporated in Ontario, Canada.

Peak Processing OperationsCo means 2682130 Ontario Limited, a company incorporated in Ontario, Canada.

Proxy Form means the proxy form accompanying the Notice of Meeting.

Resolution means a resolution referred to in the Notice of Meeting.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a person or entity entered in the Company's register of members from time to time as the holder of Shares.

ATTACHMENT 1

Summary of terms of issue of Exchangeable Shares

1. **Exchange of Exchangeable Shares.** Each Exchangeable Share is a preferred share in the capital of Althea Canada, a wholly owned subsidiary of Althea incorporated in British Columbia, which may be exchanged by the holder of the Exchangeable Share (**Holder**) for a Share in Althea.
2. **Exchange of Exchangeable Shares.** Subject to the satisfaction of the milestones in item 3 below, a Holder is entitled at any time within 20 Business Days of satisfaction of the applicable milestones, subject to the exercise by Althea or any subsidiary of Althea (**Permitted Subsidiary**) of the Althea Call Right in item 7 or the exercise by Holders of the Holder Put Right in item 8, to require Althea Canada to redeem any or all of the Exchangeable Shares registered in the name of such holder for an amount per Exchangeable Share equal to one Share in Althea (as adjusted for Stock Splits referred in item 13).
3. **Exchange milestones.**
 - (a) A Holder of a Completion Tranche Exchangeable Share may not exercise its exchange rights under item 2 until the day that is twelve (12) months after the date of issuance of such Completion Tranche Exchangeable Share.
 - (b) A Holder of an Earn-out Tranche 1 Exchangeable Share may not exercise its exchange rights under item 2:
 - (i) unless Peak Processing receives a Canadian Cannabis Processor Licence on or before June 30, 2021 (the date on which Peak Processing receives the Canadian Cannabis Processor Licence, being the **Licence Date**); and
 - (ii) subject to satisfaction of the condition in paragraph (i) above, until the day that is twelve (12) months after the Licence Date.
 - (c) A holder of an Earn-out Tranche 2 Exchangeable Share may not exercise its exchange rights under item 2 unless:
 - (i) the condition in paragraph (b)(i) above is satisfied in respect of the Earn-out Tranche 1 Exchangeable Shares; and
 - (ii) Peak Processing achieves revenue of C\$7,000,000 and earnings before interest, tax, depreciation and amortization of C\$2,000,000 in the twelve (12) month period following the Licence Date.
 - (d) A holder of an Earn-out Tranche 3 Exchangeable Share may not exercise its exchange rights under item 2 unless:
 - (i) the condition in paragraph (b)(i) above is satisfied in respect of the Earn-out Tranche 1 Exchangeable Shares; and
 - (ii) Peak Processing achieves revenue of C\$25,000,000 and earnings before interest, tax, depreciation and amortization of C\$12,500,000 in the eighteen (18) month period following the Licence Date.

The above exchange milestones do not apply if a change in control event occurs in the manner contemplated in item 4 below.

4. **Redemption events.** Subject to applicable law, and so long as neither Althea nor a Permitted Subsidiary has exercised the Althea Call Right in item 7 and a Holder has not exercised its Holder Put Right in item 8, Althea Canada will on the occurrence of the following events redeem all of the then outstanding Exchangeable Shares for an amount per Exchangeable Share equal to one Althea Share (as adjusted for Stock Splits referred in item 13):

- (a) A change in control occurs in respect of Althea, including under a takeover bid or schedule arrangement.
 - (b) A change in control occurs in relation to Althea Canada or Peak Processing.
 - (c) Althea disposes of Althea Canada or Peak Processing or Althea disposes all of its assets or the assets of Althea Canada or Peak Processing.
5. **Redemption if exchange milestones not met.** If any of the exchange milestones in item 3 are not satisfied, Althea Canada will redeem all of the applicable Exchangeable Shares for which the exchange milestones are not satisfied for C\$0.000001 per Exchangeable Share.
6. **Althea Canada Liquidation Event.** Upon a voluntary or involuntary liquidation, dissolution or winding-up of Althea Canada or any other distribution of the assets of Althea Canada among its shareholders for the purpose of winding up its affairs, subject to the exercise by Althea or any Permitted Subsidiary of the Althea Call Right in item 7 or the exercise by Holders of the Holder Put Right in item 8, a holder of Exchangeable Shares is entitled to receive from the assets of Althea Canada, before any distribution of any part of the assets of Althea Canada among the holders of the common shares in Althea Canada, an amount per share equal to one Share in Althea (as adjusted for Stock Splits referred in item 13). The obligations under this paragraph are subject to compliance with all applicable solvency and other laws.
7. **Althea Call Rights.** If a Holder requires Althea Canada to redeem any or all of the Exchangeable Shares in accordance with their terms of issue, Althea or a Permitted Subsidiary has an overriding call right to exchange with the Holder the relevant Exchangeable Shares for an exchange price per Exchangeable Share equal to one Share in Althea.
8. **Holder Put Rights.** If a Holder requires Althea Canada to redeem any or all of the Exchangeable Shares, and provided that Althea or a Permitted Subsidiary has not exercised the corresponding call right referred to in item 7, such Holder shall have the right to require Althea or a Permitted Subsidiary to purchase from such Holder the relevant Exchangeable Shares for consideration per Exchangeable Share equal to one Share in Althea.
9. **No voting rights.** Holders of Exchangeable Shares are not entitled to receive notice of or to attend any meeting of the shareholders of Althea Canada or to vote at any such meeting, excepts as required by law. Holders of the Exchangeable Shares are also not entitled to receive notice of or to attend any meeting of the shareholders of Althea or to vote at any such meeting.
10. **No dividend rights.** Holders of Exchangeable Shares are not entitled to receive dividends in respect of Althea Canada and the directors shall not declare any dividends on the Exchangeable Shares. Holders of Exchangeable Shares are not entitled to participate in or receive any dividend from Althea in respect of their Exchangeable Shares by virtue of any dividends being declared and paid by Althea on Shares in Althea.
11. **Rights on winding up of Althea.** The Exchangeable Shares will have no right to participate in the surplus profits or assets of Althea upon the dissolution or winding up of Althea, respectively.
12. **Transferability.** The Exchangeable Shares are non-transferrable and Holders of the Exchangeable Shares are not entitled to transfer any Exchangeable Shares to any person.
13. **Reorganisations by Althea.** If Althea subdivides its Shares into a greater number or consolidates its Shares into a smaller number of Shares by any means other than in connection with a "Change in Control" (**Stock Split**), the number of Shares to which each Exchangeable Share may be exchanged will be adjusted on a pro rata basis on the same basis as which the Stock Split has been implemented.

ATTACHMENT 2

The Independent Expert has formed the opinion that the Proposed Acquisition is **not fair but reasonable** to non-associated Shareholders of Althea. A copy of the Independent Expert's Report is enclosed with this explanatory statement as Attachment 2.



13 August 2019

The Directors
Althea Group Holdings Limited
Level 37, 360 Elizabeth Street
Melbourne VIC 3000

Dear Directors

Re: Independent Expert's Report

1. Introduction

The Directors of Althea Group Holdings Limited ("Althea" or "AGH" or "the Company") have requested PKF Melbourne Corporate Pty Ltd ("PKF Corporate") to prepare an Independent Expert's Report ("IER") in respect of the proposed transaction that would see 1214029 B.C. Ltd, a wholly owned Canadian subsidiary of Althea ("Althea Canada"), acquire 100% of the issued capital in 2613035 Ontario Limited ("Hold Co") and all of the issued capital in 2682130 Ontario Limited ("Peak Processing") which is not otherwise held by Hold Co.

Mr Gregg Battersby, a former director of Althea, is the sole shareholder of Hold Co. On a fully diluted basis, Hold Co holds a 53.65% shareholding interest in Peak Processing with the remaining 46.35% of shares held by employees and independent contractors of Peak Processing ("the Employee Shareholders").

The Australian Securities Exchange (ASX) Listing Rule 10.1 requires that a company obtain shareholder approval at a general meeting when the acquisition of a substantial asset is made from a related party or a shareholder holding shares in at least 10% of the company's voting securities. As Mr Battersby was a director of Althea in the past 6 months, he is considered to be a related party of Althea. Accordingly, ASX Listing Rule 10.1 requires that the Company obtain shareholder approval for the Proposed Transaction.

2. The Proposed Transaction

Althea Canada has entered into Share Sale and Purchase Agreements with Mr Battersby and the Employee Shareholders ("the Agreements") to acquire all of the issued capital of Hold Co and all of the issued capital in Peak Processing which is not otherwise held by Hold Co, subject among other things to Althea shareholders' approval.

2.1 The Consideration Payable

The consideration payable by Althea Canada is to be satisfied via a mix of cash and shares in Althea Canada, which will be exchangeable into the same number of ordinary shares in Althea in accordance with their terms of issue ("Exchangeable Shares").

The upfront component of the consideration is to be settled on completion of the transaction and will include:

1. A cash amount equal to \$1,649,851 million Canadian Dollars (C\$) plus the amount of all third party debt held by Hold Co and Peak Processing on completion of the transaction up to C\$2,559,829.32; and

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2. A scrip component of 6,834,075 Exchangeable Shares in Althea Canada, exchangeable into the same number of ordinary shares in Althea on the date falling 12 months after completion of the transaction.

The deferred scrip component of the transaction will include the issue of up to 19,019,569 Exchangeable Shares in three tranches on achievement of the respective milestones (“the Earn-Out Tranches”):

3. 5,705,871 Exchangeable Shares on Peak Processing obtaining a Canadian cannabis processor licence on or before 30 June 2021 and then a further 12 month period elapsing from the date on which the Cannabis Processor Licence is received (“Tranche 1”). If Tranche 1 is not achieved, the subsequent two Earn-Out Tranches will lapse;
4. 5,705,871 Exchangeable Shares on achievement of Tranche 1 and on Peak Processing achieving consolidated revenue of C\$7 million and consolidated earnings before interest, taxation, depreciation and amortisation (EBITDA) of C\$2 million in the 12 month period following the date on which the Cannabis Processor Licence is granted to Peak Processing; and
5. 7,607,827 Exchangeable Shares on achievement of Tranche 1 and on Peak Processing achieving consolidated revenue of C\$25 million and consolidated EBITDA of C\$12.5 million in the 18 month period following the date on which the Cannabis Processor Licence is granted to Peak Processing.

The Exchangeable Shares will be exchangeable into the same number of ordinary shares in Althea in accordance with their terms of issue. Each tranche of Exchangeable Shares will also be exchangeable on occurrence of certain voluntary liquidation or sale events in respect of Althea Canada, Hold Co and Peak Processing or certain change in control events effecting Althea.

Immediately following completion under the Agreements, Althea will also fund Peak Processing to enable repayment to Mr Battersby of C\$973,713.06 of shareholder loans owing by Peak Processing.

2.2 Proposed Resolutions to be Approved by Shareholders

Althea intends to seek shareholder approval for the acquisition of Hold Co and Peak Processing at the forthcoming General Meeting (“the Meeting”). The Notice of General Meeting (“the Notice”) requires the shareholders to vote on the following relevant ordinary resolutions:

- Resolution 1: *“That, subject to Shareholders passing Resolutions 2 and 3, for the purposes of Listing Rule 10.1 and for all other purposes, the Shareholders approve 12140259 B.C. Ltd (a wholly-owned subsidiary of the Company) acquiring a substantial asset, comprising 100 Class 1 Common Shares in 2613035 Ontario Limited (a company incorporated in Ontario, Canada), from 2707813 Ontario Inc. (an entity controlled by Gregg Battersby and a related party of the Company) on the terms and conditions and in the manner detailed in the Explanatory Statement.”*
- Resolution 2: *“That, subject to Shareholders passing Resolutions 1 and 3, for the purposes of Listing Rule 10.11 and for all other purposes, the Shareholders approve the Company issuing up to 15,707,518 Shares to 2707813 Ontario Inc. (a company incorporated in Ontario, Canada and controlled by Gregg Battersby) on the terms and conditions and in the manner detailed in the Explanatory Statement.”*

Resolution 3: *“That, subject to Shareholders passing Resolutions 1 and 2, for the purposes of Listing Rule 7.1 and for all other purposes, the Shareholders approve the Company issuing up to 10,146,126 Shares to those parties set out in the Explanatory Statement on the terms and conditions and in the manner detailed in the Explanatory Statement.”*

Whilst we are only required to express an opinion on whether Resolution 1 is fair and reasonable to Non-Associated Shareholders, as the above resolutions are subject to one another, we regard them as one transaction to which we refer to as “the Proposed Transaction” in the balance of this report.

2.3 Impact of the Proposed Transaction

Approval of Resolutions 1 to 3 will result in Althea Canada acquiring the outstanding securities in Hold Co and Peak Processing (which are not already owned by Hold Co). Althea has currently 233,100,000 shares on issue. If shareholders approve the proposed issue of 210,000 new shares in Althea to related parties of the directors of Althea under the \$30 million capital raising announced on 25 July 2019 (Resolutions 4 and 5) and if the shareholders approve the Proposed Transaction and the total 25,853,644 consideration Exchangeable Shares are issued and subsequently converted to ordinary shares in Althea, Althea will have 259,163,644 shares on issue.

Mr Gregg Battersby currently holds 250,000 shares in Althea. If the shareholders approve the Proposed Transaction and the total 15,707,518 consideration Exchangeable Shares are issued to Mr Battersby and subsequently converted to ordinary shares in Althea, Mr Battersby will emerge with a holding of 15,957,518 shares, or 6.16% of the issued capital in Althea.

The Directors of Althea have requested PKF Corporate to prepare an IER in accordance with ASIC Regulatory Guide 111 – Content of expert reports. ASIC Regulatory Guide 111 requires the Independent Expert to advise the shareholders whether the Proposed Transaction is fair and reasonable, when considered in the context of the interests of the Non-Associated Shareholders (all shareholders entitled to vote on the Proposed Transaction).

3. Summary opinions

In our opinion, the Proposed Transaction is **not fair but reasonable to the Non-Associated Shareholders**. Our principal reasons for reaching this opinion are:

Fairness

- a) In Section 7 of this report we assessed the value of Hold Co and Peak Processing that Althea Canada may acquire to be in a range of A\$2.907 million to A\$3.553 million. This value range reflects merely the value of the underlying tangible assets of Hold Co and Peak Processing as the value of their intangible assets, including the value of the Licence application with Health Canada, are not able to be objectively measured at this point in time;
- b) In Section 9 of this report we assessed the consideration being offered in a range of A\$13.105 million to A\$13.820 million; and
- c) As the value of Hold Co and Peak Processing that Althea Canada may acquire (net tangible assets of A\$2.907 million to A\$3.553 million) is less than the consideration being offered (A\$13.105 million to A\$13.820 million), we have concluded that the Proposed Transaction is **not fair**.

Reasonableness

The key reasons for assessing the Proposed Transaction as **reasonable** are:

- If shareholders approve the Proposed Transaction and Peak Processing is successful in the Licence application with Health Canada as well as executing its business strategy, Althea will expand its global presence as well as emerge with a global market presence in both medicinal and recreational cannabis markets.
- The value of the scrip component, which makes up between 64% to 75% of the upfront consideration payable, is based on the value of Althea shares. As can be seen from table 16, approximately 80% of the value of Althea shares is attributed to intangible assets, which at this point in time are difficult to substantiate. In our valuation of Hold Co and Peak Processing set out in Section 7 of this report, in view of the absence of empirical evidence to support the value of the intangible assets of the Hold Co and Peak Processing, we have placed no value on these assets (including the Licence application with Health Canada). As such, in our assessment of fairness, no value is ascribed to the intangible assets of Hold Co and Peak Processing, yet the value of the share component of the consideration given does include the value of Althea's intangible assets as reflected in Althea's share price.
- In view of the preceding comment we assessed the net tangible asset backing of Althea's shares to be \$0.187 per share. Based on this net asset backing, the value of the upfront consideration is reduced to approximately A\$7.045 million. When the net asset backing of the consideration offered of A\$7.045 million is compared to the net tangible asset backing of Hold Co and Peak Processing of A\$2.907 million to A\$3.553 million, the Proposed Transaction remains not fair, however, the premium paid to acquire Hold Co and Peak Processing and the associated Canadian opportunity appears to be significantly more reasonable.

4. Structure of this report

The remainder of this report is divided into the following sections:

<u>Section</u>		<u>Page</u>
5	Purpose of the report	5
6	Hold Co and Peak Processing - key information	7
7	Assessment of the value of Hold Co and Peak Processing	12
8	Althea - key information	17
9	Assessment of the value of the consideration payable	23
10	Assessment as to Fairness	30
11	Assessment as to Reasonableness	30
12	Assessment as to Fairness and Reasonableness	32
13	Financial Services Guide	33
 <u>Appendix</u>		
A	Sources of Information	35
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5. Purpose of the report

This report has been prepared to meet the following regulatory requirements:

- **ASX Listing Rules 10.1 and 10.2**

Listing Rules 10.1 and 10.2 require a company to obtain shareholder approval at a general meeting when the disposal or acquisition of a substantial asset, which has a value in excess of 5% of the shareholders' funds, as set out in the latest financial statements given to the ASX, is to be made to or from:

- (i) a related party;
- (ii) a subsidiary;
- (iii) a substantial shareholder who is entitled to at least 10% of the voting securities, or a person who was a substantial shareholder entitled to at least 10% of the voting securities at any time in the 6 months before the transaction;
- (iv) an associate of a person referred to in paragraphs (i), (ii) or (iii) above; or
- (v) a person whose relationship to the entity or a person referred to above is such that, in the ASX's opinion, the transaction should be approved by security holders.

As

- Mr Gregg Battersby was a director of Althea in the past 6 months, he is considered to be a related party of Althea; and
- the value of the Proposed Transaction exceeds 5% of the equity interest of Althea as set out in the latest financial statements given to the ASX (5% x total equity of \$21,494,000 as at 31 December 2018 = \$1,074,700).

Listing Rule 10.1 will apply to the Proposed Transaction.

- **ASIC Regulatory Guides**

This report has been prepared in accordance with the ASIC Regulatory Guides and more particularly:

RG 111 – Content of Expert Reports (“RG111”)

RG111.9 It has long been accepted in Australian mergers and acquisitions practice that the words ‘fair and reasonable’ in S640 established two distinct criteria for an expert analysing a control transaction:

- (a) is the offer ‘fair’; and
- (b) is it ‘reasonable’?

That is, ‘fair and reasonable’ is not regarded as a compound phrase.

RG111.11 An offer is ‘reasonable’ if it is fair. It might also be ‘reasonable’ if, despite being ‘not fair’, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111.55 Generally, ASIC expects an expert who is asked to analyse a related party transaction to express an opinion on whether the transaction is ‘fair and reasonable’ from the perspective of non-associated members.

- **General**

The terms “fair” and “reasonable” are not defined in the Corporations Act 2001, however, guidance as to the meaning of these terms is provided by ASIC in Regulatory Guide 111. For the purpose of this report, we have defined them as follows:

Fairness	the Proposed Transaction is “fair” if the value of Hold Co and Peak Processing that Althea Canada may acquire is equal to or more than the consideration being offered.
Reasonableness	the Proposed Transaction is “reasonable” if it is fair. It may also be “reasonable” if, despite not being “fair” but after considering other significant factors, we consider that the advantages of proceeding with the Proposed Transaction outweigh the disadvantages of proceeding.

What is fair and reasonable for the Non-Associated Shareholders should be judged in all the circumstances of the proposal.

The methodology that we have used to form an opinion as to whether the Proposed Transaction is fair and reasonable, is summarised as follows:

- (i) In determining whether the Proposed Transaction is fair, we have:
 - assessed the value of Hold Co and Peak Processing to be acquired by Althea Canada;
 - assessed the value of the consideration being offered by Althea Canada; and
 - compared the value of Hold Co and Peak Processing to be acquired by Althea Canada with the value of the consideration being offered by Althea Canada.
- (ii) In determining whether the Proposed Transaction is reasonable, we have analysed other significant factors that the Non-Associated Shareholders should review and consider prior to accepting or rejecting the Proposed Transaction.

6. Hold Co and Peak Processing - key information

6.1 Background

- 6.1.1 Hold Co was incorporated on 28 December 2017 and Peak Processing was incorporated on 21 February 2019. On a fully diluted basis, Hold Co holds 53.65% of the shares in Peak Processing with the remaining 46.35% of shares held by the Employee Shareholders. Peak Processing was established to become a global market leader in the manufacturing and distribution of cannabis infused edible, cosmetic and drinkable products.
- 6.1.2 Hold Co owns the freehold title to premises located at 2065 Solar Crescent, Tecumseh, Ontario, Canada ("the Business Premises"). The Business Premises are leased to Peak Processing for the purposes of undertaking its proposed cannabis extraction, extraction refinement, cannabinol isolation, toll processing and contract manufacturing services business in Canada.
- 6.1.3 Peak Processing is an early-stage business that has made an application for the grant of one of the industry's first large-scale infused cannabis processor's licence ("the Licence") under the *Cannabis Act (Canada)*, and the cannabis regulations promulgated under this Act, for the Business Premises. It is proposed that this licence will enable Peak Processing to undertake cannabis extraction, extraction refinement, cannabinol isolation, toll processing and contract manufacturing services in Canada, and will include a sales licence to sell and distribute and send and deliver cannabis and cannabis products. Peak Processing is expected to be a first mover in the cannabis-infused market.
- 6.1.4 During April 2019, Peak Processing submitted its license application to Health Canada for Cannabis Processor Status. In anticipation of receiving approval from Health Canada, Peak Processing intends to retrofit the Business Premises and secure manufacturing contracts with Canadian licensed producers.
- 6.1.5 At the date of this report, Mr Gregg Battersby is the sole director of Hold Co and Peak Processing and is also the sole shareholder of Hold Co, holding 100 Class 1 common shares in Hold Co.
- 6.1.6 The remaining Shareholders and Optionholders of Peak Processing at the date of this report are presented in the table below.

Table 1

Peak Processing Capital structure Shareholder/Optionholder name	Common share type	Undiluted basis				Fully diluted basis	
		Number of shares held	Percentage interest	Number of options held	Percentage interest	Number of shares held	Percentage interest
2613035 Ontario Limited (Hold Co)	Class 1	650,000	68.42%	-	0.00%	650,000	53.65%
Mary Jo Camboia	Class 2	100,000	10.53%	80,611	30.82%	180,611	14.91%
Michael Tolmie	Class 3	100,000	10.53%	44,444	16.99%	144,444	11.92%
Ian Scott	Class 3	100,000	10.53%	44,444	16.99%	144,444	11.92%
Matthew Shaloub	n/a	-	0.00%	42,424	16.22%	42,424	3.50%
Romia Holdings Inc. (Max DeAngelis)	n/a	-	0.00%	33,938	12.98%	33,938	2.80%
Corey Balkwill	n/a	-	0.00%	7,211	2.76%	7,211	0.60%
Robert George Neufeld	n/a	-	0.00%	4,242	1.62%	4,242	0.35%
Jeremy John Prince	n/a	-	0.00%	4,242	1.62%	4,242	0.35%
		950,000	100.00%	261,556	100.00%	1,211,556	100.00%

Source: Peak Processing Capital Table

The options issued to Ms Mary Jo Camboia, Mr Michael Tolmie and Mr Ian Scott are effectively performance rights, as they have an exercise price of \$0.00001 and, as such, are convertible into common shares in Peak Processing on the earlier of:

1. the date that Peak Processing receives a processing (including micro or standard processing) license from Health Canada; or
2. upon an event (or immediately prior to an event) which would cause a change of control of Peak Processing.

The options issued to Mr Corey Balkwill are on the same terms as those mentioned above, however, they are convertible into Class 3 common shares in Peak Processing.

The options issued to Mr Matthew Shaloub, Romia Holdings Inc., Mr Robert Neufeld and Mr Jeremy Prince are also effectively performance rights, as they have an exercise price of \$0.00001 and, as such, are convertible into Class 3 common shares in Peak Processing following the consummation of any of the following transactions before 28 October 2019:

1. the sale or other disposition of all or substantially all of Peak Processing's assets to one or more third parties acting at arm's length to Peak Processing; or
2. the sale of all or substantially all of the shares of Peak Processing to one or more third parties acting at arm's length to Peak Processing.

Given the Proposed Transaction, this would trigger the conversion of the above mentioned options and, as such, increase the common shares in Peak Processing by 261,556.

6.2 Overview of the Target Market

6.2.1 The cannabis industry is a rapid growth industry with a constantly evolving regulatory framework. In Canada, the federal government has announced that it will be adapting the current cannabis regulations to allow for the distribution and sale of added product forms or delivery methods of cannabis. From October 2019, new Canadian cannabis regulations will allow the distribution and sale of cannabis-infused products including edibles, topicals and beverages.

6.2.2 Current regulations restrict cannabis edibles and beverages from being manufactured in the same building as other food products. This creates a barrier for current food and beverage co-packers, confectionary manufacturers and beverage manufacturers and leaves very few options for non-licensed companies who are looking to build brands within the cannabis sector. Accordingly, any non-licensed company would need to abandon its current customer base if it was to focus exclusively on cannabis products.

6.2.3 Most of the federal licensed producers are focused on brand development and do not have space, expertise, nor the focus to effectively execute an operational edibles strategy.

6.2.4 Deloitte Canada published their third annual report (2019) on Canada's cannabis industry¹ titled "Nurturing new growth, Canada gets ready for Cannabis 2.0" ("the Deloitte Report"). The following information has been extracted from this publication.

- The Deloitte Report estimates that "the Canadian market for legal recreational and medical cannabis to be worth C\$2.6 billion to C\$6.13 billion overall" and states that "introducing alternative cannabis products will enable Canadian companies to realize even more of that potential market".
- The Deloitte Report estimates that "the Canadian market for edibles and alternative cannabis products to be worth C\$2.7 billion annually - with cannabis extract-based products including edibles accounting for C\$1.6 billion alone".
- The Deloitte Report estimates that in addition to edibles, opportunities also exist within "cannabis-infused beverages (C\$529 million), topicals (C\$174 million), concentrates (C\$140 million), tinctures (C\$116 million) and capsules (C\$114 million)".
- The Deloitte Report identifies that "Canada's cannabis cultivators, processors, testers and retailers continue to have important competitive advantages over their counterparts in more restrictive jurisdictions – but first-mover advantage has a shelf-life".

¹ <https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/c-and-ip/ca-en-consumer-nurturing-new-growth-en-aoda-may31.pdf>

- The Deloitte Report identifies that merger and acquisition activity in Canada has been high and expected to continue in particular from:
 - Alcohol and tobacco companies who are “eager to avoid losing market share to competing cannabis products”;
 - Pharmaceutical companies who are “making their own cannabis plays as consumers turn to CBD and other cannabis products to manage various health and wellness issues”; and
 - Consumer packaged goods and food and beverage companies who are “moving in to capitalize on consumers’ interest in cannabis beauty products, edibles, beverages and other products”.

6.2.5 Piper Jaffray² published a Cannabis industry note on 8 January 2019 titled “Cannabis: Growing Legal Opportunities Drive Attractive Growth Outlook” (“the Piper Jaffray Report”). The following information has been extracted from this publication.

- Similar to the Deloitte Report estimates (C\$2.6 billion to C\$6.13 billion), the Piper Jaffray Report estimates that the Canadian market for recreational and medical cannabis to be worth US\$3.678 billion to US\$5.106 billion.
- The Piper Jaffray Report estimates that the legal Canadian cannabis market may be worth US\$2.925 billion to US\$3.600 billion annually, assuming the legal cannabis market gains 65% to 80% of the estimated illicit market (US\$4.500 billion).
- The Piper Jaffray Report estimates that the potential cannabis market size from penetration into alcohol markets may be worth US\$338 million to US\$675 million of the beer market and US\$225 billion to US\$450 billion of the spirits market.
- The Piper Jaffray Report also expects consumer product goods companies “who are at risk of losing sales to cannabis products to make investments in the [cannabis] industry, such as beverage, pharmaceutical, and tobacco companies” as well as “soft drink companies”. The following table is taken from the Piper Jaffray Report which provides recent activity from consumer product goods and healthcare companies into the cannabis industry.

Exhibit 34

Recent activity from CPG/healthcare firms in cannabis industry

Cannabis company	Outsider	Sector	Details
Canopy Growth	Constellation Brands	Beverages	Acquired 38% stake with \$4B investment
Cronos	Altria	Tobacco	Acquired 45% stake with \$1.8B investment
Tilray	Sandoz (Novartis)	Pharmaceuticals	Global partnership to develop and distribute products
Tilray	AB Inbev	Beverages	Partnership to research cannabis-infused beverages
Hydrophocary Corp.	Molson Coors	Beverages	57.5% controlling interest in JV
Oxford Cannabinoid Tech	Imperial Brands	Tobacco	Undisclosed investment
Canadian American Standard Hemp	Turning Point Brands	Tobacco	Acquired 19.99% minority stake
Syque	Philip Morris	Tobacco	\$20M investment in startup with medical plant inhaler
Canada's Island Garden	Pyxus	Tobacco	Took 75% equity stake
Goldleaf Pharm Inc.	Pyxus	Tobacco	Took 80% equity stake

Source: Piper Jaffray & Co

² Piper Jaffray is a leading investment bank and asset management firm servicing clients in the US and internationally

6.3 Statements of financial position

The draft statements of financial position of Hold Co as at 30 May 2019 and Peak Processing as at 31 May 2019 are presented in the table below.

Table 2

Hold Co & Peak Processing Draft statement of financial position	Hold Co 30-May-19 C \$	Peak Processing 31-May-19 C \$
Assets		
Cash	76,848	41,883
Investment - Peak Processing	100	n/a
Building	2,749,515	n/a
Prepaid expenses	n/a	8,111
Leasehold improvements	n/a	20,000
Office furniture & equipment	n/a	1,560
Loan - Peak Processing	48,191	n/a
Total Assets	2,874,654	71,554
Liabilities		
Accrued expenses	1,000	20,000
Accounts payable	n/a	25,925
Other payables	n/a	17,178
Net GST/HST	(537)	(3,422)
Mortgage payable	1,995,589	n/a
Loans from owners	829,665	112,265
Shareholder loan	49,621	n/a
Total Liabilities	2,875,339	171,947
Net assets	(685)	(100,393)
Equity		
Issued capital	100	n/a
Owners withdrawals	(10,000)	n/a
Retained earnings	9,215	(100,393)
Total equity	(685)	(100,393)

Source: Hold Co and Peak Processing

6.4 Operating performance

The draft statement of profit and loss of Hold Co for the period ended 30 May 2019 and Peak Processing for the period ended 31 May 2019 are presented in the table below.

Table 3

Hold Co & Peak Processing Draft statement of profit or loss	Hold Co 30-May-19 C \$	Peak Processing 31-May-19 C \$
Revenue		
Consulting	69,566	n/a
Miscellaneous	24,167	n/a
General sales	n/a	2,500
	93,732	2,500
Expenses		
Accounting & legal	(18,911)	n/a
Interest & bank charges	(9,735)	n/a
Office supplies	(3,480)	n/a
Property taxes	(51,475)	n/a
Motor vehicle	(180)	n/a
Travel & entertainment	1,694	n/a
Payroll expenses	n/a	(44,744)
General & administration	n/a	(58,149)
	(82,087)	(102,893)
Net profit before income tax	11,645	(100,393)

Source: Hold Co and Peak Processing

7. Assessment of the value of Hold Co and Peak Processing

7.1 Value definition

PKF Corporate's valuation of the assets to be acquired by Althea Canada is on the basis of 'fair market value', defined as:

'the price that could be realized in an open market over a reasonable period of time given the current market conditions and currently available information, assuming that potential buyers have full information, in a transaction between a willing but not anxious seller and a willing but not anxious buyer acting at arm's length'.

7.2 Valuation methodologies

In selecting appropriate valuation methodologies, we considered the applicability of a range of generally accepted valuation methodologies. These included:

- share price history;
- capitalisation of future maintainable earnings;
- net present value of future cash flows;
- asset based methods;
- comparable market transactions; and
- alternate acquirer.

7.3 Share price history

7.3.1 The share price history valuation methodology values a company based on the past trading in its shares. We normally analyse the share prices up to a date immediately prior to the date when a takeover, merger or other significant transaction is announced to remove any price speculation or price escalations that may have occurred subsequent to the announcement of the Proposed Transaction.

7.3.2 Hold Co is an unlisted proprietary company and there have not been any arm's length transfers of Hold Co shares. Accordingly, we therefore consider that the share price history is not an applicable methodology to use to value Hold Co.

7.3.3 Peak Processing is also an unlisted proprietary company. Although there have been shares issued in Peak Processing, these were issued to key personnel in lieu of cash remuneration and, as such, are considered to be 'sweat equity'. Accordingly, there is no market in its shares and the issued capital in Peak Processing does not provide any market evidence of its share price that can be relied upon. We therefore consider that the share price history is not an applicable methodology to use to value Peak Processing.

7.4 Capitalisation of future maintainable earnings

7.4.1 Capitalisation of earnings is a method commonly used for valuing manufacturing and service companies and, in our experience, is the method most widely used by purchasers of such businesses. This method involves capitalising the earnings of a business at a multiple which reflects the risks of the business and its ability to earn future profits. There are different definitions of earnings to which a multiple can be applied. The traditional method is to use net profit after tax. Another common method is to use Earnings Before Interest and Tax, or EBIT. One advantage of using EBIT is that it enables a valuation to be determined which is independent of the financing and tax structure of the business. Different owners of the same business may have different funding strategies and these strategies should not alter the fundamental value of the business.

7.4.2 Hold Co is an asset holding entity which does not have an operating business and, as such, the capitalisation of maintainable earnings cannot be applied in valuing Hold Co.

7.4.3 Peak Processing is a start-up business which is yet to establish its core business operations. Accordingly, we consider that the capitalisation of maintainable earnings cannot be applied in valuing Peak Processing at this point in time.

7.5 Net present value of future cash flows

7.5.1 An analysis of the net present value of the projected cash flows of a business and/or asset (or discounted cash flow technique) is based on the premise that the value of the business and/or asset is the net present value of its future cash flows. This methodology requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value of the business and/or asset remaining at the end of the forecast period.

7.5.2 Hold Co is an asset holding entity which does not have an operating business and, as such, cannot be valued using the net present value of the future cash flows methodology.

7.5.3 We have reviewed and considered the Peak Processing forecast model prepared and reviewed by Peak Processing and Althea. The forecast cash flows have been prepared based on several key assumptions which we have set out below:

- the operation of Peak Processing on a standalone basis and assuming the requisite level of equity funding is secured to satisfy the capital expenditure required to equip the Business Premises with the required fitout, facilities and plant and machinery;
- the Licence from Health Canada for Cannabis Processor Status to be received by April 2020;
- securing of commitments from customers by March 2020 and the subsequent generation of production revenue by May 2020; and
- an estimate of volumes in relation to Peak Processing's core business of tolling and contract manufacturing. As there is currently no market in Canada for recreational cannabis products, the market demand and level of competition impacting the revenue assumptions (volumes and pricing) on which the forecast cash flows are based are not supported by empirical evidence.

Having regard to the above, we have been unable to satisfy ourselves as to the reasonableness of the critical assumptions on which the forecasts are based. Accordingly, Peak Processing cannot be valued using the net present value of the future cash flows methodology.

7.6 Asset based methods

7.6.1 This methodology is based on the realisable value of a company's identifiable net assets. Asset based valuation methodologies include:

(a) Net assets

The net asset valuation methodology involves deriving the value of a company or business by reference to the value of its assets. This methodology is likely to be appropriate for a business whose value derives mainly from the underlying value of its assets rather than its earnings, such as property holding companies and investment businesses that periodically revalue their assets to market. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realization costs.

Holding Co's statement of financial position as at 30 May 2019 disclosed a deficiency of net assets of C\$685 (refer to table 2 of this report) or approximately \$762³ Australian Dollars ("A\$"). This amount includes the book value of the Business Premises (approximately C\$2.749 million), amounts receivable from Peak Processing (C\$48,191) and the amount of Hold Co's issued capital (C\$100) in Peak Processing as well as third party borrowed funds (approximately C\$1.996 million) and amounts payable to Mr Battersby and/or his controlled entities (approximately C\$879,286).

Peak Processing's statement of financial position as at 31 May 2019 disclosed a deficiency of net assets of C\$100,393 (refer to table 2 of this report) or approximately A\$111,737⁴. This amount does not include any capitalised costs in preparing the application for the Licence with Health Canada but includes amounts payable to Hold Co and the Employee Shareholders (approximately C\$112,265). We understand that the costs incurred in preparing the application of the Licence with Health Canada include a mix of employment costs (approximately C\$45,000 as disclosed in table 3 of this report) as well as 'sweat equity' in lieu of cash remuneration and, as such, the historical cost of the Licence application cannot be accurately assessed.

We have prepared a draft pro forma consolidated statement of financial position for Hold Co in the table below, including Peak Processing.

Table 4

Hold Co & Peak Processing draft proforma consolidated statement of financial position	note	Hold Co 30-May-19 C \$	Peak Processing 31-May-19 C \$	Adjustments C \$	Proforma 31-May-19 ¹ C \$
Assets					
Cash		76,848	41,883		118,731
Investment - Peak Processing		100	n/a	(100)	-
Building	2	2,749,515	n/a		2,749,515
Prepaid expenses		n/a	8,111		8,111
Leasehold improvements		n/a	20,000		20,000
Office furniture & equipment		n/a	1,560		1,560
Loan - Peak Processing	3	48,191	n/a	(48,191)	-
Total Assets		2,874,654	71,554	(48,291)	2,897,917
Liabilities					
Accrued expenses	4	1,000	20,000	(21,000)	-
Accounts payable	4	n/a	25,925	(25,925)	-
Other payables	4	n/a	17,178	(17,178)	-
Net GST/HST		(537)	(3,422)		(3,958)
Mortgage payable	4	1,995,589	n/a	(1,995,589)	-
Loans from owners	3, 5	829,665	112,265	(941,930)	-
Shareholder loan	5	49,621	n/a	(49,621)	-
Total Liabilities		2,875,339	171,947	(3,051,244)	(3,958)
Net assets	5, 6	(685)	(100,393)	3,002,953	2,901,875

Source: Hold Co and Peak Processing Trial Balances, PKF Corporate analysis

Note 1: We have assumed that the net asset position of Hold Co would not have changed from 30 May 2019 to 31 May 2019 and, as such, we have presented the draft proforma consolidated statement of financial position as at 31 May 2019.

³ converted based on the conversion rate of CA\$1 to AU\$1.113 as at 6 August 2019

⁴ converted based on the conversion rate of CA\$1 to AU\$1.113 as at 6 August 2019

- Note 2: We understand that the Business Premises were acquired during March 2019 from a third party. We have relied on management representations from Althea that the due diligence performed in relation to the Proposed Transaction was satisfied to the extent that the book value/purchase price of the Business Premises reflects a reasonable market value for this asset. Since acquiring the Business Premises, we understand that Peak Processing has obtained the relevant approval from the local municipality to ensure the Business Premises is appropriately zoned for cannabis manufacturing. Accordingly, the book value of the Business Premises may have appreciated following the local municipality approval.
- Note 3: We have eliminated the amounts receivable/payable between Hold Co and Peak Processing. We have assumed that the corresponding payable of C\$48,191 forms part of "Loans from Owners" as reported on the financial statement of Peak Processing.
- Note 4: As part of the Proposed Transaction, all third party debt held by Hold Co and Peak Processing will be settled by Althea Canada as part of the upfront cash consideration and, as such, the mortgage payable and all other payables will not form part of the proforma net asset position of Hold Co, including Peak Processing.
- Note 5: Immediately following completion of the Proposed Transaction, shareholder loans owing to Mr Battersby will be repaid in full. We understand that Althea Canada will fund the repayment of these amounts and, as such, we have assumed the net amount of C\$943,360 will not form part of the proforma net asset position of Hold Co, including Peak Processing.
- Note 6: The proforma net asset position of Hold Co, including Peak Processing, excludes any value attributed to the application for the Licence with Health Canada. The application for the Licence required time and expertise to prepare and the costs in doing so have not been capitalised by Peak Processing. Accordingly, the proforma net assets may be understated.

Having regard to our comments above and calculations in table 4 of this report, this produces a combined net asset backing value of Hold Co and Peak Processing of say C\$2.902 million (refer to table 4 of this report) or approximately A\$3.230 million⁵.

In our opinion, the provision of a single value does not appropriately reflect the uncertainty inherent in any valuation. To allow for this uncertainty, we have used a range of plus and minus 10% around the value of A\$3.230 million to develop a fair value range. Accordingly, we have estimated the combined value of Hold Co and Peak Processing to be in a range of say A\$2.907 million to A\$3.553 million.

(b) Orderly realisation of assets

The orderly realisation of assets method estimates the fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

Given the application for the Licence with Health Canada and support from the major shareholders of Hold Co and Peak Processing, by way of loan advances, to advance its business plan, we do not consider that an orderly realisation of the assets of Hold Co and Peak Processing is an appropriate valuation methodology to use in assessing the value of these entities at this point in time.

converted based on the conversion rate of CA\$1 to AU\$1.113 as at 6 August 2019

(c) Liquidation of assets

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a short time frame.

We consider that this methodology is an inappropriate valuation methodology to use as Hold Co and Peak Processing have existing cash resources, support from their major shareholders by way of loan advances and available equity from the Business Premises of approximately C\$750,000 (Book value of approximately C\$2.75 million less mortgage payable of approximately C\$2 million).

7.7 Comparable market transactions

7.7.1 Industry specific methods estimate market values using rules of thumb for a particular industry. Generally, rules of thumb provide less persuasive evidence of the market value of an asset than other valuation methods because they may not account for specific factors.

7.7.2 We are not aware of any specific rules of thumb to be applied to valuing Hold Co and/or Peak Processing and, as such, we are unable to apply this valuation methodology.

7.8 Alternate acquirer

7.8.1 The value that an alternative acquirer may be prepared to acquire Hold Co and/Peak Processing is a relevant valuation methodology to be considered.

7.8.2 We are not aware of any alternative proposals to acquire the assets and/or issued capital of Hold Co and/or Peak Processing and we can see no reason as to why an offer would be initiated at this time.

7.9 Conclusion

7.9.1 Under the net asset based valuation method, we have concluded that the value of Hold Co and Peak Processing that Althea Canada may acquire, if shareholders approve the Proposed Transaction, is in a range of A\$2.907 million to A\$3.553 million. The premise of the net asset approach is that Hold Co and Peak Processing are worth the book value of their net assets at a point in time and, as such, may not reflect the market value of the Business Premises post local municipality zoning approval and does not attribute any value to any intangible assets of Hold Co and Peak Processing such as the time, effort and expertise in submitting the application for the Licence with Health Canada.

7.9.2 In the current circumstances of Hold Co and Peak Processing, we have only been able to utilise the net asset backing valuation methodology. Based on this methodology, we have concluded that at this point in time the value of Hold Co and Peak Processing that Althea Canada may acquire, if shareholders approve the Proposed Transaction, is in a range of **A\$82.907 million to A\$3.553 million.**

8. Althea - key information

8.1 Background

8.1.1 Althea is a holder of Australian licenses to produce, supply, import and export pharmaceutical grade medicinal cannabis. Althea also offers a range of education, access and management services to support eligible patients and healthcare professionals (“HCPs”) in navigating medicinal cannabis treatment pathways.

8.1.2 Althea has been granted the full suite of licenses for pharmaceutical grade medicinal cannabis from The Office of Drug Control (ODC) in Australia. These licenses position Althea as a:

- Producer, Cultivator and Manufacturer allowing Althea the right to grow and manufacture medicinal cannabis products;
- Supplier and Importer allowing Althea the right to import medicinal cannabis products for distribution to patients in Australia; and
- Exporter allowing Althea to export medicinal cannabis products into other jurisdictions.

In addition to the above, Althea has been granted a Hemp Cultivation Licence by Agriculture Victoria allowing the cultivation and processing of low-THC (Hemp) cannabis. This licence presents commercial opportunities for Althea in Hemp foods and Isolated-CBD markets including Europe and the USA.

8.1.3 Althea is a supplier of five Althea branded medicinal cannabis products in Australia. Althea’s medicinal cannabis products are currently greenhouse grown and manufactured by its second largest shareholder, Aphria Inc, a Canadian cannabis company dual listed on the Toronto Stock Exchange (TSX:APHA) and New York Stock Exchange (NYSE:APHA).

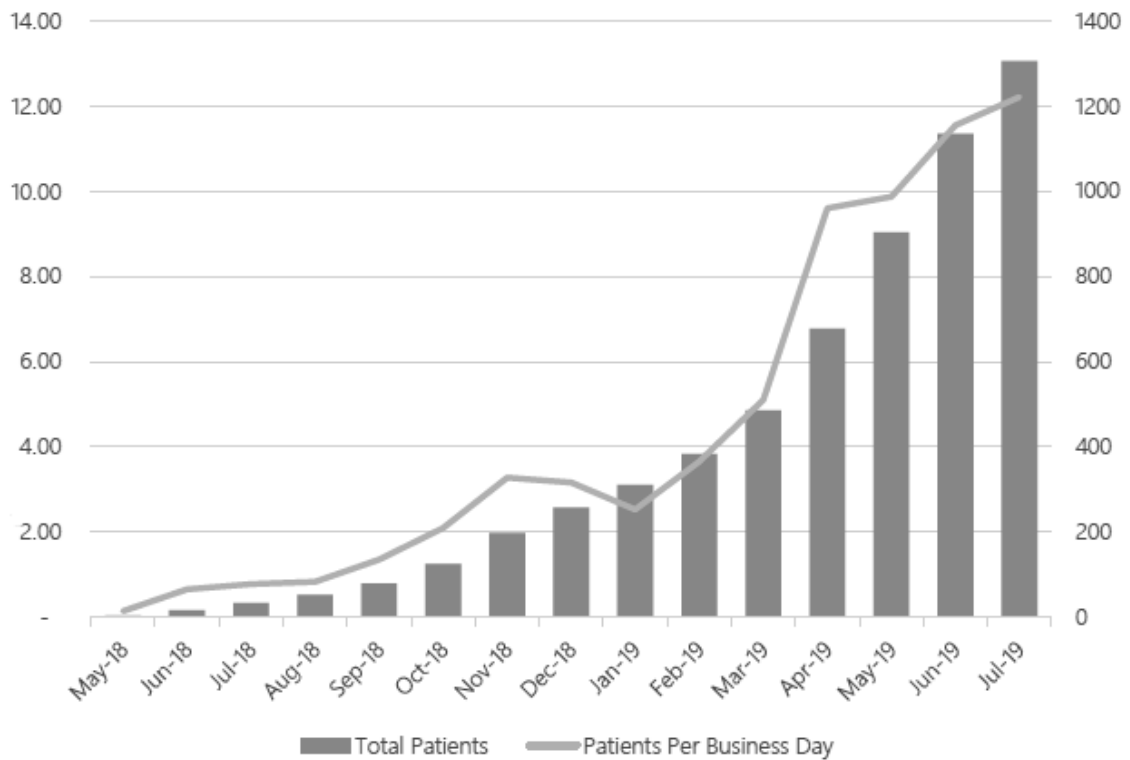
8.1.4 In addition to Althea’s full suite of licenses, it also offers a range of education, access and management services to support eligible patients and HCPs in navigating medicinal cannabis treatment pathways. These services are underpinned by Althea’s web-based platform and mobile application known as ‘Althea Concierge’.

8.1.5 ‘Althea Concierge’ is a free online service for patients, HCPs and pharmacists, and is designed to simplify access to medicinal cannabis and patient management. ‘Althea Concierge’ was launched in September 2018 in Australia and was launched in May 2019 in the United Kingdom (UK). ‘Althea Concierge’ is supported in the field by a team of Medical Science Liaisons who work face-to-face with HCPs, assisting medical practitioners become prescribers and pharmacists becoming suppliers of Althea products.

8.1.6 During early July 2019, Althea launched its own chain of private medical clinics in the UK under the “MyAccess Clinics” brand. The clinics are dedicated to providing UK patients with the highest level of medicinal cannabis care, where conventional treatments have not been effective. Subject to the processing of MyAccess Clinic’s application, Althea expects its clinics to be licenced by the Care Quality Commission. Althea currently has one MyAccess Clinic located in Central London with a further two clinics set to begin assessing patients during 2019 and to be located in Bristol and Glasgow.

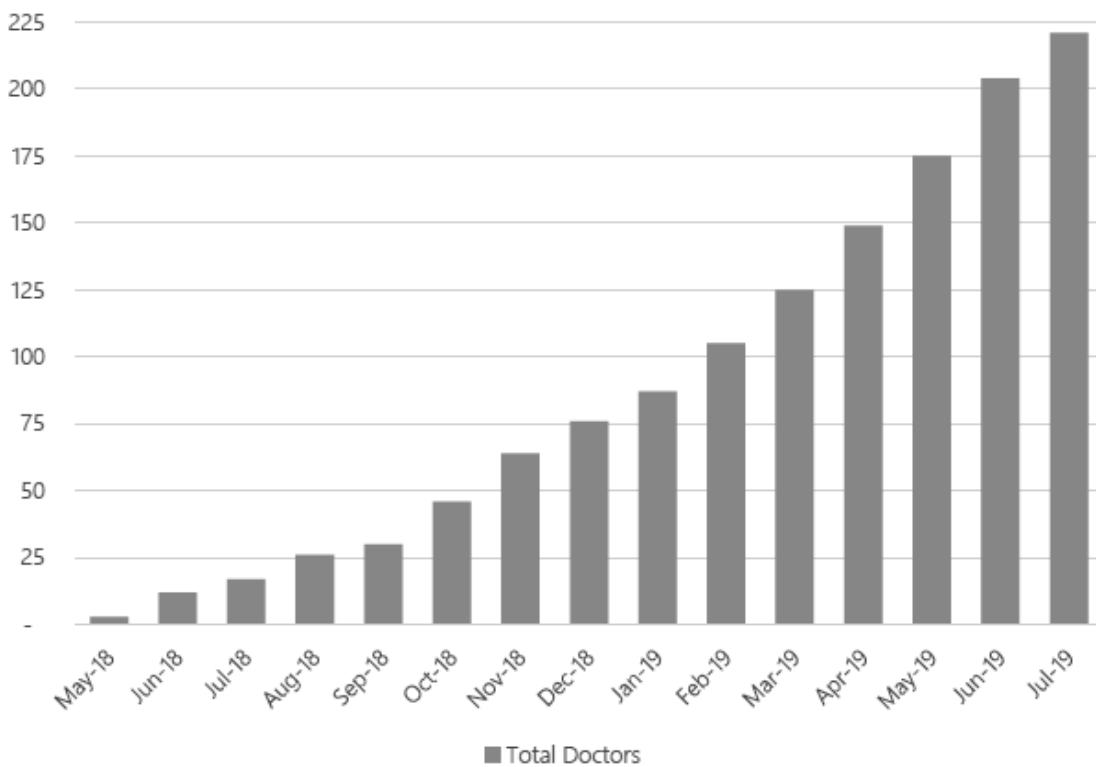
8.1.7 During July 2019, Althea received a UK import licence for the first shipment of medicinal cannabis products from Australia. Althea is also in advanced negotiations regarding a 50/50 joint venture to establish cultivation, extraction and manufacturing (European Union good manufacturing practice (EU-GMP) certified) facilities in Portugal.

8.1.8 As at July 2019, over 1,200 patients have been prescribed Althea medicinal cannabis products in Australia. Below is an extract from Althea’s announcement on the ASX on 25 July 2019.



Source: ASX announcement

8.1.9 As at July 2019, over 200 Australian HCPs have prescribed Althea medicinal cannabis products in Australia. Below is an extract from Althea’s announcement on the ASX on 25 July 2019.



Source: ASX announcement

8.2 Directors

Althea's Board of Directors and other key executives at the date of this report are presented in the table below.

Table 5

Althea Group Holdings Limited	
Board of Directors	Other
Andrew Newbold (Non Executive Chairman)	Patty Holmes (Chief Operating Officer)
Alan Boyd (Non Executive Director)	Robert Meissner (Company Secretary)
Penelope Dobson (Non Executive Director)	
Joshua Fegan (Chief Executive Officer)	

Source: ASX announcement

8.3 Share capital

8.3.1 As at 10 July 2019, Althea had on issue 203,310,000 fully paid ordinary shares, which include 131,719,639 escrowed fully paid ordinary shares. The major shareholders of Althea on 10 July 2019 are presented in the table below. As at that date, the top 5 shareholders, as recorded on the share register, held 65.43% of the issued ordinary capital of Althea.

Table 6

Althea Group Holdings Limited Shareholder name	Number of shares held	Percentage interest
Mr Joshua Michael Fegan ¹	56,250,000	27.67%
Aphria Inc. ²	50,750,000	24.96%
Mancann Pty Ltd	10,000,000	4.92%
HSBC Custody Nominees (Australia) Limited	8,512,286	4.19%
Hootch Pty Ltd	7,500,000	3.69%
	<u>133,012,286</u>	<u>65.43%</u>

Source: Althea's Share Register – 10 July 2019

¹ escrowed shares as at the date of this report

² includes 12.25 million escrowed shares as at the date of this report

8.3.2 As at 10 July 2019, shares held by strategic shareholders, directors and employees total 127,264,315⁶ Althea shares or 62.60% of the issued capital. The balance of the issued capital is 76,045,685 Althea shares or 37.40% of the issued capital and this represents the 'free float' that is readily tradeable on market.

8.3.3 Althea also has a total of 2.675 million unlisted pre-initial public offering ("Pre-IPO") options issued to consultants that are exercisable at A\$0.20 per share on or before 21 September 2022 and are classified by the ASX as restricted securities to be held in escrow until 21 September 2020.

8.3.4 In addition to the above, Althea has 5.1 million performance rights on issue that are convertible into ordinary shares of Althea and are held by Mr Josh Fegan. The performance rights on issue are convertible in two equal tranches, both conditional on satisfaction of various milestones being achieved by 21 September 2020. The performance rights on issue are classified by the ASX as restricted securities to be held in escrow until 21 September 2020.

⁶ sourced from S&P Capital IQ

8.4 Statements of financial position

Althea's consolidated statements of financial position as at 30 June 2018, 31 December 2018 and 30 June 2019 are presented in the table below.

Table 7

Althea Group Holdings Limited	Audited	Reviewed	Draft
Consolidated statement of financial position	30-Jun-18	31-Dec-18	30-Jun-19
	A \$'000	A \$'000	A \$'000
Assets			
Current assets			
Cash and cash equivalents	2,300	14,874	14,918
Trade and other receivables	66	111	506
Prepayments	648	646	167
Inventories	85	125	630
Financial assets	200	5,200	-
Other current assets	-	215	237
Total current assets	3,299	21,171	16,458
Non current assets			
Property, plant and equipment	-	434	1,059
Intangible assets	-	157	764
Total non current assets	-	591	1,823
Total assets	3,299	21,762	18,281
Liabilities			
Current liabilities			
Trade and other payables	151	237	1,160
Employee provisions	12	31	68
Total current liabilities	163	268	1,228
Total liabilities	163	268	1,228
Net assets	3,136	21,494	17,053
Equity			
Issued capital	5,007	25,732	25,732
Reserves	-	-	1,866
Retained earnings	(1,871)	(4,238)	(10,545)
Total Equity	3,136	21,494	17,053

Source: Althea Half-Year Financial Report – 31 December 2018, Althea draft Annual Report – 30 June 2019

8.5 Operating performance

Althea's consolidated statements of comprehensive income for the financial years ended 30 June 2018 ("2018") and 30 June 2019 ("2019") are presented in the table below.

Table 8

Althea Group Holdings Limited	Audited	Draft
Consolidated statement of profit or loss	2018	2019
and other comprehensive income	A \$'000	A \$'000
Revenue		
Revenue	11	767
Interest income	5	206
	16	973
Expenses		
Cost of goods sold	(10)	(311)
Distribution expenses	(14)	(136)
Employee benefits expense	(192)	(1,713)
Share based payment expense	-	(1,841)
Marketing expenses	(1,079)	(2,901)
Depreciation and amortisation expense	-	(48)
Professional services	(232)	(869)
Occupancy expenses	(45)	(266)
Administration expenses	(237)	(1,152)
Finance costs	(1)	(6)
Foreign exchange loss	(1)	(79)
Other expenses	(76)	(325)
	(1,887)	(9,647)
Loss before income tax	(1,871)	(8,674)
Income tax benefit/(expense)	-	-
Loss after income tax	(1,871)	(8,674)
Other comprehensive income, net of tax	-	25
Total comprehensive income for the period	(1,871)	(8,649)

Source: Althea draft Annual Report – 30 June 2019

8.6 Cash flow statements

Althea's consolidated statement of cash flows for the financial years ended financial years ended 30 June 2018 ("2018") and 30 June 2019 ("2019") are presented in the table below.

Table 9

Althea Group Holdings Limited	Audited	Draft
Consolidated statement of cash flows	2018	2019
	AUD \$'000	AUD \$'000
Cash flows from operating activities		
Receipts from customers	1	520
Payments to suppliers and employees	(2,005)	(6,856)
Net interest received	4	200
Net cash from/(used in) operating activities	(2,000)	(6,136)
Cash flows from investing activities		
Payments for intangible assets	-	(751)
Payments for property, plant and equipment	-	(1,165)
Transfer from term deposit	-	200
Net cash from/(used) in investing activities	-	(1,716)
Cash flows from financing activities		
Proceeds from issue of shares	4,300	20,725
Loans to related parties	-	(18)
Payment of bank guarantee	-	(237)
Net cash from financing activities	4,300	20,470
Net increase/decrease in cash and cash equivalents	2,300	12,618
Cash and cash equivalents at the beginning of the period	-	2,300
Cash and cash equivalents at the end of the period	2,300	14,918

Source: Althea draft Annual Report – 30 June 2019

9. Assessment of the value of the consideration

9.1 As described in Section 2.1 of this report, the consideration payable by Althea to acquire the shares in Hold Co and Peak Processing comprises of:

- a cash component of an amount equal to C\$1,649,851 million plus the amount of all third party debt held by Hold Co and Peak Processing on completion of the transaction up to C\$2,559,829.32; and
- an upfront scrip component of 6,834,075 Exchangeable Shares in Althea Canada on completion of the Proposed Transaction as well as a further 19,019,569 Exchangeable Shares to be issued in accordance with the Earn-Out Tranches.

In addition to the above and immediately following completion under the Agreements, Althea will also fund Peak Processing to enable repayment to Mr Battersby of C\$973,713.06 of shareholder loans owing by Peak Processing.

As the consideration payable by Althea comprises of shares in Althea Canada to be issued to the vendors of Hold Co and Peak Processing, we have considered the applicability of the generally accepted valuation methodologies set out in Section 7.2 of this report. The upfront Exchangeable Shares in Althea Canada are effectively ordinary shares in Althea with a 12 month escrow period after completion of the Proposed Transaction.

Accordingly, in our assessment of the upfront scrip component payable we have treated the Exchangeable Shares to be escrowed Althea ordinary shares. Escrowed shares generally have a lower value than shares that are freely tradeable. In our opinion, the unlisted nature of escrowed shares reduces their value in comparison with the underlying ordinary shares in Althea. Shares in listed companies are readily marketable and therefore liquid and, as such, are more valuable than shares in unlisted companies, which supports a discount due to their reduced marketability.

It should be noted that the value of the consideration payable does not include the earn-out components of the Proposed Transaction as these values are not able to be assessed at this point in time.

9.2 Share price history

9.2.1 As the share price history of Althea will incorporate all publicly available information, we consider that the share price history is an appropriate methodology to consider in assessing the value of a share in Althea.

9.2.2 We note that the Proposed Transaction was announced on the ASX on 25 July 2019 following the trading halt that was the subject of the Proposed Transaction on 19 July 2019. Set out below is a graph showing the daily closing share price and volume of Althea shares up to the date of the trading halt relating to the Proposed Transaction as well as a selection of market sensitive announcements on the ASX.

Graph 1



Source: ASX, PKF Corporate analysis

As can be seen from the above graph, over the mid-term the Althea share price has continued to rise over the past six months following the announcement of several milestones, in particular in relation to its UK presence. However, following the announcement to the ASX of the acquisition of Hold Co and Peak Processing and the \$30 million capital raising⁷, the Althea share price has fallen back to the levels of June 2019. The fall in the Althea share price has also been impacted by the overall performance of the Australian and Global equity capital markets.

9.2.3 We have also examined the recent share price and volume traded in Althea shares up to the date the Proposed Transaction was announced to the ASX on 19 July 2019 including the volume weighted average share price (VWAP) of Althea shares based on closing daily prices on the ASX for business trading days. We have set out our analysis in the table below.

Table 10

Althea Group Holdings Limited Share price analysis	Shares Traded		VWAP A\$	Share Price (AU)	
	Number	Value (AU)		Low	High
5 days to 19 July 2019	9,234,281	\$10,921,375	\$1.183	\$1.070	\$1.285
10 days to 19 July 2019	11,754,191	\$13,559,009	\$1.154	\$1.025	\$1.285
20 days to 19 July 2019	27,683,227	\$29,776,996	\$1.076	\$0.870	\$1.285
30 days to 19 July 2019	37,040,086	\$37,042,090	\$1.000	\$0.620	\$1.285
60 days to 19 July 2019	51,117,105	\$45,570,746	\$0.891	\$0.455	\$1.285

Source: ASX, PKF Corporate analysis

As can be seen from the above table, the VWAP calculated has increased over the past 60 business days up to 19 July 2019 during which the share price of Althea traded in a range of A\$0.455 to A\$1.285 per share. The more recent share price of Althea has traded in a range of A\$1.025 to A\$1.285 per share.

⁷ on 25 July 2019, Althea announced to the ASX a capital raising of A\$30 million (A\$28.5 million net of placement fees) at an offer price of A\$1.00 per Althea share

9.2.4 As set out in paragraph 8.3.2 of this report, the 'free float' of Althea shares that is readily tradeable on market is 76,045,685 Althea shares or 37.40% of the issued capital. We have also calculated the volume of shares traded in Althea over the past 60 business days of the 'free float'. We have set out our analysis in the table below.

Table 11

Althea Group Holdings Limited		% of free float traded				
		5 days	10 days	20 days	30 days	60 days
Share volume						
Number of shares traded to 19 July 2019		9,234,281	11,754,191	27,683,227	37,040,086	51,117,105
AGH free float	76,045,685	12.14%	15.46%	36.40%	48.71%	67.22%

Source: ASX, PKF Corporate analysis

9.2.5 Based on the above information and our analysis, we consider that the market in Althea shares is relatively liquid. As at 19 July 2019, the closing share price of Althea was A\$1.195 and the share price of Althea traded in a range of A\$1.130 to A\$1.240 per share on this day. Accordingly, we have formed the opinion that the Althea shares have a market value in a range of A\$1.130 to A\$1.240 per share as at 19 July 2019.

9.2.6 The share prices upon which we have formed our opinion reflect the prices at which minority parcels of shares are traded on a daily basis and, as such, do not incorporate a control premium. We have considered the application of a control premium which represents the difference between the price that would have to be paid for a share to which a controlling interest attaches and the price at which a share which does not carry with it control of Althea could be acquired. The upfront scrip consideration payable is 6,834,075 Althea shares (via Althea Canada Exchangeable Shares) and this will represent approximately 2.85% of the issued capital on completion of the Proposed Transaction. We have set out our calculations in the table below.

Table 12

Althea Group Holdings Limited	Number of shares held	Percentage interest
Existing shares on issue	203,310,000	84.74%
Number of shares yet to be issued ¹	29,790,000	12.42%
Upfront consideration shares to be issued ²	6,834,075	2.85%
	239,934,075	100.01%

Source: ASX, PKF Corporate analysis

¹ 29,790,000 Althea shares issued in respect to the \$30 million capital raising in accordance with the Appendix 3B announced to the ASX on 9 August 2019

² assumes upfront consideration of Exchangeable Shares are converted to Althea ordinary shares in accordance with their terms

Having regard to the above calculations, we consider the upfront scrip consideration payable to represent a minority interest and we have therefore not adjusted the share price valuation to include a control premium.

9.2.7 The upfront scrip component of the consideration comprises of 6,834,075 Althea shares, which in paragraph 9.2.5 above we concluded had a value in range of A\$1.130 to A\$1.240 per share. The scrip consideration however will effectively be subject to a 12 month escrow as the Althea Canada Exchangeable Shares cannot be exchanged for Althea shares for a period of 12 month. In our experience shares with a 12 months escrow are less valuable than freely traded shares. For this reason we have applied an escrow discount of 5%. Set out in the table below is our assessment of the value of the upfront scrip consideration.

Table 13

Althea Group Holdings Limited		
Assessment of the upfront scrip component	Low	High
Share price (minority basis)	A\$1.130	A\$1.240
Upfront consideration shares to be issued	6,834,075	6,834,075
Value of upfront consideration of AGH shares	A\$7,722,505	A\$8,474,253
Less: discount for 12 month escrow	5.00%	5.00%
Value of upfront consideration of AGH shares	A\$7,336,380	A\$8,050,540

Source: PKF Corporate analysis

9.2.8 In our opinion, the value of the upfront scrip component of the consideration payable of 6,834,075 Althea shares is in a range of say A\$7.336 million to A\$8.051 million. We have set out our calculations in the table below of the value of the total upfront consideration in relation to the Proposed Transaction assessed under the share price valuation methodology.

Table 14

Althea Group Holdings Limited		
Assessment of the value of the consideration	Low	High
	A \$	A \$
Value of the cash consideration ¹	1,836,284	1,836,284
Add: third party debt ^{1,2}	2,849,090	2,849,090
	4,685,374	4,685,374
Value of upfront consideration of AGH shares	7,336,380	8,050,540
Amount to fund repayment of shareholder loans ^{1,3}	1,083,743	1,083,743
Total value of the upfront consideration	A\$13,105,497	A\$13,819,657

Source: PKF Corporate analysis

¹ converted based on the conversion rate of C\$1 to A\$1.113 as at 6 August 2019

² all third party debt as advised by Althea

³ shareholder loans repayable to Gregg Battersby as advised by Althea

9.2.9 Having regard to the above, we have concluded that the value of the upfront consideration payable by Althea in relation to the Proposed Transaction is in a range of say **A\$13.105 million to A\$13.820 million** as assessed under the share price valuation methodology.

9.3 Capitalisation of future maintainable earnings

9.3.1 As Althea is an early stage business it is yet to generate profitable earnings. Accordingly, we consider that the capitalisation of maintainable earnings is not an applicable methodology to use to value the Althea shares.

9.4 Net present value of future cash flows

9.4.1 Althea has generated positive cash flows because of its ability to raise funds (refer to Section 8.6 of this report). As Althea is an early stage business, it has not yet generated positive cash flows from its operating activities and, as such, there is insufficient certainty as to the cash flows that may be derived in the near future. Althea also does not have any long term cash flow forecasts. Accordingly, the net present value of the future cash flows methodology cannot be used to value the Althea shares.

9.5 Asset based methods

9.5.1 This methodology is based on the realisable value of a company's identifiable net assets. Asset based valuation methodologies include:

(a) Net assets

The net assets of Althea as at 30 June 2019 as per the draft consolidated statement of financial position (refer to Section 8.5 of this report) disclosed net assets of A\$17.053 million. This amount is predominantly comprised of approximately A\$14.918 million in cash and cash equivalents.

The net asset backing of Althea includes A\$764,000 of intangible assets which relate to capitalised costs associated with the development of software. Accordingly, the net asset backing of Althea does not attribute any value to any other intangible assets of Althea such as brand names in relation to branded products and MyAccess Clinics, customers, suppliers and distributors contracts, licenses held such as those granted from ODC in Australia and Agriculture Victoria and any other software assets in relation to 'Althea Concierge'.

The net asset backing of Althea as at 30 June 2019 also does not consider the recent capital raising of A\$30 million (net amount after placement fees of A\$28.5 million). In light of this, we have adjusted the net assets of Althea and reflected our adjustments in the table below and in the corresponding notes.

Table 15

Althea Group Holdings Limited Net asset approach	note	Proforma A \$'000
Reported net assets as at 30 June 2019		17,053
Add: net cash raised	1	28,500
Adjusted net assets		<u><u>45,553</u></u>

Source: Althea draft Annual Report – 30 June 2019, ASX announcement

Note 1: We have assumed there has been no material change to the net assets of Althea since 30 June 2019 with the exception of the cash position. As Althea has raised A\$28.500 million net of placement fees in cash, this has increased Althea's cash assets. Although these funds are yet to be received by Althea and the corresponding ordinary shares in Althea are yet to be issued, we have assumed that this transaction will occur and the proceeds received.

Having regard to our comments above and calculations in table 15 of this report, this produces a net asset backing value of say A\$45.553 million.

In our opinion, the provision of a single value does not appropriately reflect the uncertainty inherent in any valuation. However, given the majority of the adjusted net asset backing value of Althea relates to cash resources, we have not used a range around the value of A\$49.994 million to develop a fair value range.

As mentioned above and save for \$764,000 of intangible assets which relate to capitalised costs associated with the development of software, the net asset backing of Althea does not attribute any value to any other intangible assets of Althea. In light of this observation, we have reviewed available information regarding Althea and comparable ASX companies and set out in the table below the implied intangible asset value placed by the market on these companies. In performing these calculations we have relied on the market capitalisations as at 6 August 2019 and the net assets as at the most available date of the comparable ASX companies, being 31 December 2018. The net assets of Althea are as at 30 June 2019. We have set out our calculations in the table below.

Table 16

Comparable companies Company name	notes	Stock Code ASX	Market ¹ Cap AUD m	Reported ² NAB AUD m	Reported ² IA/GW AUD m	Assessed ³ NTAB AUD m	Implied ⁴ IA AUD m	Implied ⁵ IA on MC
Elixinol Global Limited	1	EXL	419.2	143.7	86.2	57.5	361.7	86.29%
Cann Group Limited	2	CAN	275.1	82.0	0.1	81.9	193.2	70.25%
AusCann Group Holdings Ltd	3	AC8	133.2	43.3	-	43.3	89.9	67.52%
Medlab Clinical Limited	4	MDC	106.6	18.1	-	18.1	88.5	83.03%
THC Global Group Limited	5	THC	63.1	28.1	4.4	23.7	39.4	62.41%
Creso Pharma Limited	6	CPH	62.1	16.5	4.1	12.4	49.7	80.04%
Zelda Therapeutics Limited	7	ZLD	58.3	4.3	-	4.3	54.0	92.67%
MGC Pharmaceuticals Limited	8	MXC	57.0	13.5	5.1	8.4	48.6	85.22%
Average								78.43%
Median								81.53%
Althea Group Holdings Limited	9	AGH	225.7	45.6	0.8	44.8	180.9	80.16%

Source: ASX announcements, S&P Capital IQ, PKF Corporate analysis

¹ market capitalisation based on closing share prices as at 6 August 2019

² reported net assets, intangible assets and goodwill as at 31 December 2018, with the exception of Althea being 30 June 2019

³ assessed net tangible asset backing = reported net asset backing less reported intangible assets/goodwill

⁴ implied intangible assets = market capitalisation less assessed net tangible asset backing

⁵ implied intangible assets as a percentage of market capitalisation = implied intangible assets/goodwill divided by market capitalisation

Note 1: EXL is a global cannabis company focused on selling hemp-derived CBD dietary supplements, hemp food and wellness products as well as the manufacturing and global distribution of hemp based dietary supplement and skincare products.

Note 2: CAN is focused on breeding, cultivating and manufacturing medicinal cannabis for sale and use within Australia. It has established research and cultivation facilities in Melbourne and is striving to provide access to medicinal cannabis for Australian patients.

Note 3: AC8 is focused on the development, production and marketing of cannabinoids-based pharmaceuticals within Australia and internationally. It has a focus on making cannabinoids-based pharmaceutical dose forms accessible to patients, physician and HCPs worldwide.

Note 4: MDC is a medical life science company developing cannabis-based medicines in pain management.

Note 5: THC is focused on the production of medicinal cannabis to service both domestic patients and the global export market with operations in Australia, New Zealand and Canada as well as partnerships across Europe, Asia and the Middle East.

Note 6: CPH is focused on developing cannabis and hemp derived therapeutic, nutraceutical and life style products with wide patient and consumer reach for human and animal health.

Note 7: ZLD is focused on developing a range of cannabinoid-based formulations for the treatment of a variety of medical conditions. It is undertaking a human clinical trial program and a pre-clinical research program in partnership with various world-leading researchers and organisations.

Note 8: MXC is focused on developing and supplying high quality cannabinoids-based pharmaceutical products for the medical markets in Europe, North America and Australasia.

Note 9: Althea's market capitalisation and net asset backing have been adjusted to reflect the recent capital raising.

Having regard to the above analysis, it is clear that Althea and its comparable ASX companies are trading at a significant premium to their respective net tangible asset backing and, as such, this suggests that the market is placing a significant value on the intangible assets of these companies. Based on the calculations and analysis in table 16 of this report, the implied intangible assets of Althea reflect 80.16% of its market capitalisation and the implied intangible assets of its comparable ASX companies reflect on average 78.43% of their market capitalisation.

In light of the above comments, we have concluded that the net asset approach does not reflect the market value of Althea's intangible assets and, as such, we do not consider this to be a valid valuation methodology of Althea's shares.

(b) Orderly realisation of assets

Given the traction and milestones achieved by Althea with on boarding patients and HCPs (refer to Section 8.1 of this report), the suite of licenses held as well as support from its major shareholders to advance its business plans, we do not consider that an orderly realisation of the assets of Althea is an appropriate valuation methodology to use to value the Althea shares.

(c) Liquidation of assets

We consider that this methodology is an inappropriate valuation methodology to use as Althea has existing cash resources and support from its major shareholders.

9.6 Comparable market transactions

9.6.1 We are not aware of any specific rules of thumb to be applied to valuing Althea and, as such, we are unable to apply this valuation methodology.

9.7 Alternate acquirer

9.7.1 We are not aware of any offers for the Althea shares and we can see no reason as to why an offer would be initiated at this time without the consent and support of its shareholders.

9.8 Conclusion

9.8.1 Under the share price valuation method, we have concluded that the value of the consideration payable is in a range of **A\$13.105 million to A\$13.820 million**. The value of the consideration payable includes only the upfront component of cash and scrip and, as such, does not include the Earn-Out Tranches of the Proposed Transaction as these values are not able to be assessed at this point in time as they relate to performance milestones which are non-market events.

10. Assessment as to Fairness

- 10.1 The Proposed Transaction is 'fair' if the value of Hold Co and Peak Processing that Althea Canada may acquire is equal to or less than the consideration being offered.
- 10.2 In Section 7 of this report we assessed the value of Hold Co and Peak Processing that Althea Canada may acquire to be in a range of A\$2.907 million to A\$3.553 million. This value range reflects merely the value of the underlying tangible assets of Hold Co and Peak Processing as the value of their intangible assets, including the value of the Licence application with Health Canada, are not able to be objectively measured at this point in time.
- 10.3 In Section 9 of this report we assessed the value of the consideration being offered to be in a range of A\$13.105 million to A\$13.820 million. It should be noted that the consideration offered in return excludes the Earn-Out Tranches as these values are not able to be assessed at this point in time.
- 10.4 As the value of Hold Co and Peak Processing that Althea Canada may acquire (net tangible assets of A\$2.907 million to A\$3.553 million) is less than the consideration being offered (A\$13.105 million to A\$13.820 million), we have concluded that the Proposed Transaction is **not fair**.

11. Assessment as to Reasonableness

- 11.1 Prior to deciding whether to approve or reject the Proposed Transaction, the Althea shareholders should also consider the following significant factors:
- In Section 10 of this report, we assessed the Proposed Transaction as being not fair.
 - If shareholders approve the Proposed Transaction and Peak Processing is successful in the Licence application with Health Canada as well as executing its business strategy, Althea will expand its global presence as well as emerge with a global market presence in both medicinal and recreational cannabis markets.
 - As can be seen from table 14 of this report, the value of the scrip component of the upfront consideration is in a range of A\$7.336 million to A\$8.051 million, or 64% to 75% of the upfront consideration payable. The value of the scrip component is based on the value of Althea shares. As can be seen from table 16 of this report, approximately 80% of the value of Althea shares is attributed to intangible assets, which at this point in time are difficult to substantiate. In our valuation of Hold Co and Peak Processing set out in Section 7 of this report, in view of the absence of empirical evidence to support the value of the intangible assets of the Hold Co and Peak Processing, we have placed no value on these assets (including the Licence application with Health Canada). As such, in our assessment of fairness, no value is ascribed to the intangibles assets of Hold Co and Peak Processing, yet the value of the share component of the consideration given does include the value of Althea's intangible assets as reflected in Althea's share price.
 - In view of the preceding comment we assessed the net tangible asset backing of Althea's shares to be \$0.187 per share. Based on this net asset backing, the value of the upfront consideration is reduced to approximately A\$7.045 million. When the net asset backing of the consideration offered of A\$7.045 million is compared to the net tangible asset backing of Hold Co and Peak Processing of A\$2.907 to A\$3.553 million, the Proposed Transaction remains not fair, however, the premium paid to acquire Hold Co and Peak Processing and the associated Canadian opportunity appears to be significantly more reasonable.

- In Section 9.2 of this report, we analysed the share price of Althea. As can be seen from Graph 1, the share price has fallen since the announcement of the Proposed Transaction and corresponding capital raising at A\$1.00 per Althea share. Although this may suggest that the share market has viewed the Proposed Transaction as not being value accretive for the Althea shareholders the share price fall has also been impacted by the overall performance of the Australian and Global equity capital markets during this period and the discount to the then market value at which the capital raising was priced.
- The Proposed Transaction may see the emergence of Althea as a first mover in the Canadian cannabis-infused market, via Peak Processing, and extend Althea's capabilities globally as a specialised extraction, toll processing and contract manufacturing company of cannabis-infused recreational products. However, as Althea does not have a presence in Canada, the acquisition may expose Althea to further operational and business risks.
- If shareholders approve the Proposed Transaction and the granting of the Licence application with Health Canada is delayed, the execution of Peak Processing's business strategy may be materially affected and may impact the overall position of Althea.
- The Proposed Transaction, assuming the Earn-Out Tranches are achieved, will see the emergence of Mr Battersby as a major investor on Althea's share register which may support the future development and activities of Althea both domestically, in Canada and globally.
- The acquisition of Hold Co and Peak Processing will provide Althea with a first mover advantage into the Canadian recreational cannabis market. Although we have not considered any speculative upside in our valuation of Althea post completion of the Proposed Transaction, we recognise that investors may place speculative value on Peak Processing as a stand-alone business and/or added value towards Althea upon successful integration by achieving synergy benefits. This may be attractive to investors who have an appetite for speculative gains and may result in greater coverage by analysts in North America, resulting in greater liquidity of the market in Althea's shares.
- The acquisition of Hold Co and Peak Processing is speculative as Peak Processing is effectively a start-up business and, as such, the shareholders of Althea will be exposed to the risks associated with an investment in a start-up business that is also pending regulatory approval. Accordingly, shareholders will be exposed to an investment with a higher risk profile which may not be consistent with shareholder investment objectives.
- The acquisition of Hold Co and Peak Processing will provide Althea with key personnel who have the relevant market expertise which will allow Peak Processing to operate independently of Althea and also assist in the growth and expansion of Althea's existing medicinal cannabis operations globally.
- The net cash component of the consideration payable is approximately A\$5.769 million. The upfront consideration payable is also made up of Exchangeable Shares which, if converted into shares in Althea, will have the impact of diluting the current shareholders. Further, if the milestones attaching to the Earn-Out Tranches are achieved and the Exchangeable Shares subsequently converted to shares in Althea, they will have a further diluting impact on current shareholders. Although, it would be expected that the milestones attaching to the Earn-Out Tranches would be highly value accretive to Althea shareholders.
- If shareholders approve the Proposed Transaction and the milestones attaching to the Earn-Out Tranches are not achieved, Althea will be left with a freehold property via Hold Co and Peak Processing.
- If shareholders do not approve the Proposed Transaction, the recent capital raising funds assigned to the acquisition will be used by Althea for working capital purposes and any other complementary acquisitions.

- The Directors of Althea have sought external advice and performed due diligence regarding the Proposed Transaction, which they have subsequently approved.
- If the shareholders do not approve the Proposed Transaction, those investors who participated in the recent capital raising may have done so given the opportunity to acquire Hold Co and Peak Processing and, as such, may subsequently sell their shares on market. This may have an adverse impact on Althea's share price.

11.2 Based on the above, we consider that the advantages of the Proposed Transaction outweigh the disadvantages of the Proposed Transaction, and for this reason, we consider that the Proposed Transaction is **reasonable** for the Non-Associated Shareholders of Althea.

12. **Assessment as to Fairness and Reasonableness**

After considering the above matters, we have concluded that the Proposed Transaction is **not fair but is reasonable**.

13. Financial Services Guide

This Financial Services Guide provides information to assist retail and wholesale investors in making a decision as to their use of the general financial product advice included in the above report.

13.1 PKF Corporate

PKF Corporate holds Australian Financial Services Licence No. 222050, authorizing it to provide general financial product advice in respect of securities to retail and wholesale investors.

13.2 Financial Services Offered by PKF Corporate

PKF Corporate prepares reports commissioned by a company or other entity ("Entity"). The reports prepared by PKF Corporate are provided by the Entity to its members.

All reports prepared by PKF Corporate include a description of the circumstances of the engagement and of PKF Corporate's independence of the Entity commissioning the report and other parties to the transactions.

PKF Corporate does not accept instructions from retail investors. PKF Corporate provides no financial services directly to retail investors and receives no remuneration from retail investors for financial services. PKF Corporate does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice to retail investors.

13.3 General Financial Product Advice

In the report, PKF Corporate provides general financial product advice. This advice does not take into account the personal objectives, financial situation or needs of individual retail investors.

Investors should consider the appropriateness of a report having regard to their own objectives, financial situation and needs before acting on the advice in a report. Where the advice relates to the acquisition or possible acquisition of a financial product, an investor should also obtain a product disclosure statement relating to the financial product and consider that statement before making any decision about whether to acquire the financial product.

13.4 Independence

At the date of this report, none of PKF Corporate, Mr Paul Lom, Mr Steven Perri nor Mr Stefan Galbo have any interest in the outcome of the Proposed Transaction, nor any relationship with Althea, Hold Co, Peak Processing or any of their directors.

Drafts of this report were provided to and discussed with the management of Althea and its advisers. Certain changes were made to factual statements in this report as a result of the reviews of the draft reports. There were no alterations to the methodology, valuations or conclusions that have been formed by PKF Corporate.

PKF Corporate and its related entities do not have any shareholding in or other relationship with Althea that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

PKF Corporate had no part in the formulation of the Proposed Transaction. Its only role has been the preparation of this report.

PKF Corporate considers itself to be independent in terms of Regulatory Guide 112 issued by ASIC on 30 March 2011.

13.5 Remuneration

PKF Corporate is entitled to receive a fee of approximately \$35,000 for the preparation of this report. With the exception of the above, PKF Corporate will not receive any other benefits, whether directly or indirectly, for or in connection with the making of this report.

13.6 Complaints Process

As the holder of an Australian Financial Services Licence, PKF Corporate is required to have suitable compensation arrangements in place. In order to satisfy this requirement PKF Corporate holds a professional indemnity insurance policy that is compliant with the requirements of Section 912B of the Act.

PKF Corporate is also required to have a system for handling complaints from persons to whom PKF Corporate provides financial services. All complaints must be in writing and sent to PKF Corporate at the above address.

PKF Corporate will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited – GPO Box 3, Melbourne Vic 3000.

Yours faithfully

PKF Melbourne Corporate Pty Ltd



Paul Lom
Director



Steven Perri
Director

Althea Group Holdings Limited**Sources of Information**

The key documents we have relied upon in preparing this report are:

- Share Sale and Purchase Agreement between Althea, Althea Canada and Gregg Battersby;
- Share Sale and Purchase Agreement between Althea, Althea Canada and the Employee Shareholders;
- Althea's Half-Year Financial Report for the period ended 31 December 2018;
- Althea's draft Annual Report for 30 June 2019;
- Althea draft resolution relating to the Proposed Transaction for the purpose of the Notice of General Meeting and Explanatory Memorandum;
- Althea's share register as at 10 July 2019;
- "PEAK Dataroom" in relation to Hold Co and Peak Processing;
- Peak Processing financial forecast model;
- Research data from publicly accessible web sites in particular Althea's ASX announcements; and
- Discussions with the management of Althea.

Althea Group Holdings Limited**Declarations, Qualifications and Consents****1. Declarations**

This report has been prepared at the request of the Directors of Althea pursuant to Chapter 10 of the ASX listing rules to accompany the notice of meeting of shareholders to approve the Proposed Transaction. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Proposed Transaction is fair and reasonable.

This report has also been prepared in accordance with the Accounting Professional and Ethical Standards Board professional standard APES 225 – Valuation Services.

The procedures that we performed and the enquiries that we made in the course of the preparation of this report do not include verification work nor constitute an audit in accordance with Australian Auditing Standards.

2. Qualifications

Mr Paul Lom, director of PKF Corporate, and Mr Stefan Galbo, prepared this report. They have been responsible for the preparation of expert reports and are involved in the provision of advice in respect of valuations, takeovers, capital reconstructions and reporting on all aspects thereof.

Mr Lom is a Fellow of Chartered Accountants Australia and New Zealand (CAANZ) and an Accredited Business Valuation Specialist (CA BV Specialist) with more than 35 years experience in the accounting profession. He was a partner of KPMG and Touche Ross between 1989 and 1996, specialising in audit. He has extensive experience in business acquisitions, business valuations and privatisations in Australia and Europe.

Mr Galbo is a Member of Chartered Accountants Australia and New Zealand (CAANZ) and an Accredited Business Valuation Specialist (CA BV Specialist). He has been responsible for the preparation of valuation reports relating to shares, businesses, options and performance rights and intellectual property for the purpose of acquisitions, divestments, litigation, taxation and capital reconstruction.

Mr Steven Perri, a director of PKF Corporate reviewed this report. Mr Perri is a Member of Chartered Accountants Australia and New Zealand (CAANZ) and an Accredited Business Valuation Specialist (CA BV Specialist).

3. Consent

PKF Corporate consents to the inclusion of this report in the form and context in which it is included in the Explanatory Memorandum.

