

19 December 2018

Market Announcements Office
Australian Securities Exchange
20 Bridge Street
SYDNEY NSW 2000

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Dear Sir / Madam

Receipt of Non-Binding Indicative Offer

Alterra Ltd (ASX: 1AG) (**Alterra** or **Company**) wishes to advise shareholders that it has received a non-binding indicative offer from Sandon Capital Pty Ltd (**Sandon**) as the manager of ASX listed investment entity Sandon Capital Investments Limited and the Sandon Capital Activist Fund (see attachments to this letter), to acquire all of the shares in Alterra, subject to indicative conditions, at an indicative offer price per Alterra share of \$0.05 each in cash (**NBIO**).

The Company does not consider the NBIO to be material on the basis:

1. it is non-binding and incapable of acceptance;
2. it is highly conditional;
3. a number of conditions are highly unlikely to be satisfied;
4. it is made at a substantial discount to Alterra's net asset backing of \$0.076 (based on Alterra's financial statements for the year ended 30 September 2018) and does not provide an adequate premium for control;
5. it is unclear how Sandon intends to finance the NBIO;
6. there are no assurances Sandon, as the manager of a listed investment entity, will obtain regulatory approval to complete the NBIO; and
7. it is unclear whether the NBIO is consistent with Sandon's investment mandate as a listed investment entity and the ASX Listing Rules.

At this stage, there is no takeover offer from Sandon that is capable of acceptance by Alterra's shareholders and there is no certainty that one shall eventuate. Alterra shall continue to keep the market updated as appropriate.

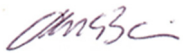
The board of Alterra considers that the NBIO has been made purely for the purpose of compelling the cancellation or adjournment of the general meeting to be convened on 20 December 2018 (**General Meeting**). Further Alterra does not consider the NBIO to be an offer capable of acceptance. Accordingly, Alterra does not intend to postpone the General Meeting.

The board notes that the proxies received for the General Meeting indicate that shareholders overwhelmingly support the board's strategy to unlock value for ALL Alterra Shareholders.

Sandon, as the manager of a listed investment entity, has not expressed an intention to run the Company in the event that it successfully acquires its minimum acceptance threshold of 50.1% of the Company's shares, but not 100%. Based on past performance, the board believes Sandon, if successful, intends to strip the Company of assets and wind it up for its own benefit. Such a proposal is likely to incur material winding up costs and may jeopardise relationships with Alterra's stakeholders and key customers of the Carbon Business. The board believes such a proposal will destroy value for Alterra shareholders.

Alterra encourages shareholders to attend the General Meeting tomorrow.

Yours faithfully

A handwritten signature in purple ink, appearing to read 'AMcBain', is positioned above the printed name.

Andrew McBain
Managing Director

19 December 2018

Mr Gabriel Radzynski
Director
Sandon Capital Pty Ltd

Email: gabriel@sandoncapital.com.au

Dear Gabriel

Response to Non-Binding Indicative Offer

I refer your letter dated 18 December 2018 setting out, as investment manager for Sandon Capital Activist Fund and Sandon Capital Investments Ltd (ASX:SNC), Sandon Capital Pty Ltd's non-binding indicative offer to acquire all of the shares in Alterra Limited (**Alterra**), subject to indicative conditions, at an indicative offer price per Alterra share of \$0.05 each in cash (**NBIO**).

The board of Alterra (**Board**) is of the opinion that the NBIO is not capable of in-principle acceptance on the following basis:

1. The offer significantly undervalues Alterra.
 - a. Sandon's announcement of 12 December 2018 sets out that Alterra has net assets of "7.8 cents per share".
 - b. As at 30 September 2018, Alterra had net assets of \$11,173,486 and comprises the Carbon Business (as defined in Alterra's notice of meeting dated 19 November 2018), which is expected to generate forecast revenue of \$21,000,000.
 - c. Based on the above, Alterra has net assets per share of at least \$0.076. Not only does the NBIO grossly undervalue Alterra's shares, but Sandon is aware that the offer is made at a discount of at least 34.2% to Alterra's net asset backing.
2. The NBIO does not provide an adequate premium for control.
3. Sandon's letter states that it is not capable of acceptance.
4. Sandon is not currently financially positioned to complete the offer:
 - a. **Sandon does not have the requisite cash backing to complete the NBIO:** the NBIO is a cash offer. As at 30 November 2018, Sandon held 99% of its portfolio in listed equities, 1% in cash and has gross assets of approximately \$46,900,000. Based on these figures, Sandon holds approximately \$469,000 in cash as at 30 November 2018, which is insufficient to complete the NBIO.

- b. **Sandon is unlikely to immediately liquidate a portion of its investment portfolio in order obtain the cash required to complete the NBIO:** Sandon's business is based on value and activist investing. Each of Sandon's 34 investments are acquired on the basis that Sandon perceives them to be undervalued. In the event that Sandon was forced to prematurely liquidate a portion of its existing investments in order to raise the cash required to complete the NBIO, prior to realising the relevant investments' underlying value, such a liquidation would result in a significant opportunity loss to Sandon's shareholders.
 - c. **Sandon is unlikely to raise capital:** As at 30 November 2018, Sandon had a net tangible asset backing of \$0.9236. As at the close of trading on 18 December 2018, Sandon was trading at \$0.84. As Sandon is currently trading at a 10% discount to its net tangible asset backing (**NTA**) as at 30 November 2018, any potential capital raising will unduly dilute its shareholders. Sandon is therefore unlikely to raise capital whilst trading at a substantial discount to its NTA.
5. Sandon is a listed investment entity (**LIC**), its securities are quoted on the Australian Securities Exchange (**ASX**) and it is subject to the ASX Listing Rules (**Listing Rules**). The Listing Rules set out that an investment entity's objectives:

Do not include exercising control over or managing any entity, or the business of an entity, in which it invests.

In accordance with the above, the Board is unable to recommend an offer in circumstances where it is unclear whether Sandon would obtain regulatory approval to complete the offer. In order to complete the NBIO, the Board believes that Sandon should obtain confirmation from ASX confirming that completion of the NBIO would not breach the Listing Rules, including Listing Rule 11.1.2 and 11.1.3, and ASX's policy in relation to the activities of a LIC.

6. Sandon would be in breach of its investor mandate if it sought to complete the NBIO. Sandon is an activist investor. According to Sandon's prospectus, dated 19 November 2013:

Activism does not involve exercising day to day control over the entities that form part of the Portfolio (as defined in the prospectus). Activism describes the exercise of the rights afforded to investors, including convening meetings of members, voting at meetings and otherwise seeking to influence change.

Further, the Board notes:

- 7. the timing of the NBIO. On 19 November 2018, Alterra announced that a general meeting would be convened on 20 December 2018 (**General Meeting**). The NBIO was made 29 days after the announcement of the General Meeting, and subsequent to the time by which valid proxies may be received;
- 8. proxies voted strongly in favour of approving the proposed demerger;

9. it cannot support the NBIO; and


10. even if Sandon could provide an offer capable of acceptance (which it is not) the Board does not believe it can achieve the stated 50.1% threshold.

Based on the above, the Board believes the NBIO it is not genuinely available to be accepted and that the NBIO has been made solely for the purposes of compelling the cancellation or adjournment of the General Meeting.

It is the Board's view that an offer that is made in good faith and that is not designed to compel the cancellation or adjournment of the General Meeting, would be a binding offer that is capable of acceptance and would include at a minimum:

1. confirmation from ASX that it does not object to a LIC making an offer that would result in it exercising control and day to day management of a listed entity;
2. Sandon's proposed funding strategy, including identifying any assets Sandon would be likely to liquidate in order to fund a cash offer, or alternatively, the terms of any likely capital raising;
3. Sandon's intention in the event that it acquires greater than 50.1% but less than 100% of Alterra; and
4. how Sandon believes the offer will comply with its investment mandate.

Yours faithfully



Andrew McBain
Managing Director

18 December 2018

Mr Trevor Stoney
Non Executive Chairman
Alterra Limited

Copy: Andrew McBain
Anthony Fitzgerald

By email

Dear Mr Stoney,

NON-BINDING INDICATIVE OFFER

Sandon Capital Pty Ltd (**Sandon**) is the manager of Sandon Capital Investments Limited and Sandon Capital Activist Fund. Sandon is pleased to set out the terms of an incomplete, indicative and non-binding offer to acquire all of the shares in Alterra Limited (ABN 20 129 035 221) (ASX: 1AG) (**Alterra**) that Sandon and its associates do not control (the **Proposal**).

The Proposal would be implemented as a recommended off-market takeover bid.

Indicative proposal

Based on our review of publicly available information with respect to Alterra, we are pleased to present this non-binding indicative proposal.

Proposal terms

The indicative offer price per Alterra share is \$0.05 in cash.

The offer conditions would include:

1. reaching 50.1% minimum acceptance by Alterra Shareholders;
2. no prescribed occurrences occurring (see section 652C of the Corporations Act) ;
3. the cancellation or adjournment for an appropriate period of time of the General Meeting scheduled for 20 December 2018;
4. obtaining any necessary agreements from third parties that might exist under change of control provisions; and
5. access to information in relation to Alterra to allow Sandon to conduct appropriate due diligence inquiries.

Timetable

After you have confirmed your in-principle interest in this Proposal, we will instruct our lawyers, Kardos Scanlan, to immediately prepare an implementation agreement. The implementation agreement would require directors of Alterra to recommend the Proposal in the absence of a superior proposal.

Sandon wishes to pursue discussions with Alterra in relation to the Proposal in a compelling and constructive manner.

Sandon believes that it is in the best interests of all stakeholders, including Alterra shareholders that the parties progress quickly to announce an agreed transaction.

With this in mind, we require your response to this letter by 1.00 pm (Sydney time) on 19 December 2018.

Confidentiality

Sandon has taken appropriate steps to maintain the confidentiality of this letter and has confined knowledge of this initiative and the proposal to a very small circle of persons on a need to know basis. It is our expectation that Alterra will do the same until we are able to execute a definitive agreement and make a joint announcement.

Conclusion

The Proposal is incomplete, conditional and non-binding. This letter sets out current intentions only, is not an offer capable of acceptance and does not otherwise give rise to a binding contract. This letter is not, and cannot be considered to be, a notification of a proposed offer pursuant to section 631 of the Corporations Act.

Unless a binding document is entered into, Sandon will not be under any obligation to Alterra with respect to the Proposal or this letter (whether legal, moral or otherwise).

Sandon believes that the Proposal is a compelling proposition for Alterra shareholders. The proposal represents an 11% premium to the 3 month volume weighted average market price of Alterra shares. It offers Alterra shareholders an opportunity to realise their entire investment for 5.0 cents per share in cash. Alterra shares have not traded at this price since 14 September 2018.

Should you wish to discuss the Proposal in more detail please feel free to contact me on 0408 936 357 or gabriel@sandoncapital.com.au.

Yours sincerely,



Gabriel Radzynski
Director

Sandon Capital Pty Ltd as investment manager for Sandon Capital Activist Fund and Sandon Capital Investments Ltd