



# *Choose* an Althea<sup>TM</sup> *life* 2020

## ANNUAL FINANCIAL REPORT

For the year ended - 30 June 2020

**Althea Group Holdings Limited  
and Controlled Entities**

ABN 78 626 966 943

Lodged with the ASX under Listing Rule 4.2A





# APPENDIX 4E

## 1. COMPANY DETAILS

**Name of entity:** Althea Group Holdings Limited

**ABN:** 78 626 966 943

**Reporting period:** For the year ended 30 June 2020

**Previous period:** For the year ended 30 June 2019

## 2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

				\$'000
Revenues from ordinary activities	up	559.9%	to	5,062
Loss from ordinary activities after tax attributable to the owners of Althea Group Holdings Limited	up	70.2%	to	(14,768)
Loss for the year attributable to the owners of Althea Group Holdings Limited	up	70.2%	to	(14,768)

### COMMENTS

The loss for the consolidated entity after providing for income tax amounted to \$14,768,000 (30 June 2019: \$8,675,000 loss).

## 3. NET TANGIBLE ASSETS

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	11.23	8.01

## 4. CONTROL GAINED OVER ENTITIES

**Name of entities (or group of entities)** 2682130 Ontario Limited 2613035 Ontario Limited

**Date control gained** 16 October 2019

Control was gained of 2682130 Ontario Limited and 2613035 Ontario Limited (collectively known as 'Peak Processing Solutions') on 16 October 2019 and the figures are now fully consolidated into the Group.

## 5. LOSS OF CONTROL OVER ENTITIES

Not applicable.

## 6. DIVIDENDS

### CURRENT PERIOD

There were no dividends paid, recommended or declared during the current financial period.

### PREVIOUS PERIOD

There were no dividends paid, recommended or declared during the previous financial period.

## 7. DIVIDEND REINVESTMENT PLANS

Not applicable.

## 8. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

Not applicable.

## 9. FOREIGN ENTITIES

### DETAILS OF ORIGIN OF ACCOUNTING STANDARDS USED IN COMPILING THE REPORT:

International Financial Reporting Standards (IFRS).

## 10. AUDIT QUALIFICATION OR REVIEW

### DETAILS OF AUDIT/REVIEW DISPUTE OR QUALIFICATION (IF ANY):

The financial statements have been audited and an unqualified opinion has been issued.

## 11. ATTACHMENTS

### DETAILS OF ATTACHMENTS (IF ANY):

The Annual Report of Althea Group Holdings Limited for the year ended 30 June 2020 is attached.

## 12. SIGNED



Signed

Andrew Newbold  
Chairman

Date: 27 August 2020



# ALTHEA GROUP HOLDINGS LIMITED

ABN 78 626 966 943

ANNUAL REPORT - 30 JUNE 2020







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## GENERAL INFORMATION

The financial statements cover Althea Group Holdings Limited as a consolidated entity consisting of Althea Group Holdings Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Althea Group Holdings Limited's functional and presentation currency.

Althea Group Holdings Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

**Suite 2, Level 37  
360 Elizabeth Street  
Melbourne, VIC 3000**

A description of the nature of the consolidated entity's operations and its principal activities are included in the Directors' Report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 27 August 2020. The Directors have the power to amend and reissue the financial statements.

# CORPORATE DIRECTORY

## DIRECTORS

Andrew Newbold (Non-executive Chairman)  
Joshua Fegan (Managing Director and Chief Executive Officer)  
Alan Boyd (Non-Executive Director)  
Penelope Dobson (Non-Executive Director)

## COMPANY SECRETARY

Robert Meissner

## REGISTERED OFFICE

Suite 2, Level 37  
360 Elizabeth Street  
Melbourne, VIC 3000

## PRINCIPAL PLACE OF BUSINESS

Suite 2, Level 37  
360 Elizabeth Street  
Melbourne, VIC 3000

## SHARE REGISTER

Computershare Investor Services Pty Ltd  
Yarra Falls, 452 Johnston Street  
Abbotsford, VIC 3067  
1300 787 272

## AUDITOR

RSM Australia Partners  
Level 21, 55 Collins Street  
Melbourne VIC 3000

## SOLICITOR

DLA Piper Australia  
140 William Street  
Melbourne VIC 3000

## STOCK EXCHANGE LISTING

Althea Group Holdings Limited shares are listed on the  
Australian Securities Exchange (ASX code: AGH)

## WEBSITE

[www.althea.life](http://www.althea.life)







# DIRECTORS' REPORT

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Althea Group Holdings Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

## DIRECTORS

The following persons were Directors of Althea Group Holdings Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

**Andrew Newbold**

**Joshua Fegan**

**Alan Boyd**

**Penelope Dobson**

## PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the period were the sales and distribution of medicinal cannabis products in Australia and the United Kingdom, and the construction of a cannabis extraction and manufacturing facility in Canada.

## DIVIDENDS

There were no dividends paid, recommended or declared during the current or previous financial year.

## REVIEW OF OPERATIONS

The loss for the consolidated entity after providing for income tax amounted to \$14,768,000 (30 June 2019: \$8,675,000 loss).

Althea is a licensed producer, supplier and exporter of pharmaceutical-grade medicinal cannabis. Through the provision of medicinal cannabis education, access and management services, Althea supports eligible patients and Healthcare Professionals in navigating medicinal cannabis treatment pathways.

Althea operates in highly regulated medicinal cannabis markets, starting with Australia and recently expanding into the United Kingdom and Germany. During the 2020 fiscal year, Althea continued to execute its strategic growth plans, making significant progress across all facets of its business.

### Australia

The rapid uptake of Althea's medicinal cannabis products in Australia is driven by Althea's two-pronged strategy comprised of its on-the-ground Medical Science Liaison team and Althea Concierge™, a proprietary technology platform that greatly reduces application times for Healthcare Professionals (HCPs) prescribing Althea's medicinal cannabis products.

Althea ended FY20 with 7,294 patients, more than seven times the 1,142 patients as at June 30 2019. The number of HCPs that have prescribed Althea's medicinal cannabis products also increased significantly, almost tripling to 590 during the fiscal year.

The record growth was achieved despite disruptions caused by COVID-19 restrictions, which had an impact on sales in April and May. Thanks to Althea Concierge™, Althea was able to quickly transition from face-to-face meetings to online means of providing HCPs with product information, clinical evidence, regulatory applications, and patient treatment plans.

Althea's growth in Australia was further supported by a regulatory change. From September 30 2019, NSW Health simplified the requirements for prescribers of medicinal cannabis in New South Wales, Australia's most populous state. As a result, the uptake of Althea's medicinal cannabis products within NSW accelerated significantly in the latter half of FY20.

The fiscal year also saw Althea launch 'Althea CBD100', a highly concentrated cannabidiol (CBD) oral oil medicinal cannabis product. The full spectrum product, which was launched in October 2019, is manufactured in Australia to Good Manufacturing Practice (GMP) standards and has been exported to international markets. 'Althea CBD100' has been well received by patients and HCPs and represented approximately a quarter of total sales in the second half of FY20.

### United Kingdom

During the fiscal year, Althea continued to make significant progress in replicating the highly successful strategy it has employed in the Australian market to simplify patient access to medicinal cannabis in the UK.

In August 2019, Althea achieved a major milestone, successfully exporting the first shipment of its medical cannabis products to the UK. The shipment followed the Australian Government's Office of Drug Control granting Althea an export permit for its medicinal cannabis products.

In November 2019, the Bristol site of Althea's wholly owned UK subsidiary MyAccess Clinics was registered with, and received a licence from, the Care Quality Commission (CQC), the independent regulator of health and social care in England. CQC registration also allows for telehealth and domiciliary care.

Later in the fiscal year the CQC approved a further five new clinic locations, bringing the total number of UK clinics up to seven. In addition to the initial clinics in London and Bristol, MyAccess Clinics now operates clinics in Birmingham, Leeds, Liverpool, and Manchester.

In March 2020, the UK Department of Health and Social Care and Home Office announced that, following the relaxation of import restrictions, patients prescribed cannabis-based medicines would be able to get their treatment in days rather than months. The Home Office advised that "Import restrictions had been changed to help ensure people with prescriptions for cannabis-based products for medicinal use do not have their treatment delayed or interrupted."

Until that point of time Althea had experienced unexpected regulatory headwinds when importing its products into the UK, which saw patients waiting up to 12 weeks to receive their medicinal cannabis following receipt of their prescription, whilst product shipments were limited to the number of units written on the patients prescription.

With the import issue resolved, Althea now has the ability to ensure it has ample stock on hand for future use by patients with prescriptions in the UK, whilst significantly reducing patient wait times.

Unaudited revenue from UK operations was AUD\$50k in June 2020, up from AUD\$20k in May. Revenue is the key metric for the UK business as Althea only receives pharmaceutical orders without any individual patient details.

### Germany

Althea continued its expansion into Europe during fiscal 2020, signing an MOU and a subsequent three-year supply and distribution agreement with Nimbus Health GmbH (Nimbus), an independent and global pharmaceutical wholesaler specialising in distributing and importing medicinal cannabis products in Germany.

Under the agreement, Nimbus will sell and distribute Althea's full suite of products under the Althea brand name.

Nimbus will adopt the same strategy Althea has successfully implemented in Australia and the UK, using a highly trained infield sales team and a localised version of Althea Concierge™. The combination of these initiatives with Nimbus' local expertise, makes Althea ideally positioned to become a market-leading medicinal cannabis brand in Germany.

### Cannabis Production

In October 2019, Althea completed the acquisition of Canadian cannabis extraction and contract manufacturing company Peak Processing Solutions (Peak), following a AUD\$30m institutional capital raise.

Peak is an early-stage business set up to operate under recent changes to Canadian cannabis regulations which allow the distribution and sale of cannabis-infused products including edibles, topicals, and beverages, commonly known as 'Cannabis 2.0 products.'

In March 2020, Peak finished the construction of its custom-built 3,716 sqm facility in Ontario, on budget and with only a slight delay to the intended timeline. Shortly afterwards, Peak submitted its final evidence package to Health Canada, the final step in the application for its Standard Processing Licence. Following receipt of the licence, Peak will be able to commence commercial operations at its facility and aims to achieve CAD\$25m of revenue within 18 months.



Peak has already secured its first customer in advance of securing the licence, entering an agreement with Collective Project Limited, the cannabis-focused sister company of Collective Arts Brewing Limited. The agreement, which will see Peak manufacture and distribute cannabis-infused beverages on behalf of Collective Project, was an important milestone for Peak and an early validation of its industry-leading production capabilities.

Peak will also produce a range of medicinal cannabis products for Althea.

Subsequent to the end of fiscal 2020, the following events occurred:

**Australia:** Althea completed a comprehensive update of Althea Concierge™, adding new features including online sales to patients, customisable interactive treatment plans, and an independently validated assessment tool used to collect real-world evidence. Althea also passed the 8,000-patient milestone and achieved record revenue in July.

**UK:** MyAccess Clinics experienced higher than anticipated patient demand and was booked out for weeks in advance. Althea is recruiting more support staff and specialist prescribers to cater for the increased demand.

**Germany:** Althea continues preparatory work with Nimbus and is finalising its market access strategy for Germany. This includes plans to establish an infield sales team and launching a localised version of Althea Concierge™.

**Canada:** The Company has been informed by Health Canada that its licence application is under active review.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 16 October 2019, Althea Group Holdings Limited successfully completed the transaction to acquire Peak Processing Solutions, a Canadian-based contract extraction and manufacturing company. Full control was gained on acquisition.

Other than noted above, there were no significant changes in the state of affairs of the consolidated entity during the financial year.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The impact of the Coronavirus (COVID-19) pandemic is ongoing and it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian State and Federal Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided, including response to Victoria's Stage 4 lockdown measures.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect, the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

## ENVIRONMENTAL REGULATION

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

## INFORMATION ON DIRECTORS

<b>Name:</b>	Andrew Newbold
<b>Title:</b>	Non-executive Chairman
<b>Qualifications:</b>	LLB / BEc
<b>Experience and expertise:</b>	<p>Andrew is a qualified lawyer having practised for nearly 20 years at a large commercial firm. Following his retirement from law in 2006, he founded a renewable energy business which he sold to Origin Energy in 2009. Since that time he has been involved in a start-up property app business which he sold to ANZ in 2015 and various other businesses.</p> <p>Andrew has been a director of numerous private companies and not-for-profit organisations and currently is a director of Supra Capital, a Commissioner of the AFL and Chairman of Golf Australia.</p>
<b>Other current directorships:</b>	None
<b>Former directorships (last 3 years):</b>	None
<b>Special responsibilities:</b>	Audit, Risk and Compliance Management Committee & Remuneration and Nomination Committee
<b>Interests in shares:</b>	2,068,000
<b>Name:</b>	Joshua Fegan
<b>Title:</b>	Managing Director and Chief Executive Officer
<b>Qualifications:</b>	B Bus (Management and Marketing)
<b>Experience and expertise:</b>	<p>Sales and Marketing Manager – Strathfield Group.</p> <p>Joshua is the founder of Althea Group and has extensive experience in business building, sales and marketing. He has a range of proven business and strategy skills and has previously held a number of senior management roles at national value-based retailer, Strathfield Group.</p> <p>Joshua founded Althea Health and Wellbeing in 2016, coinciding with registration of the Narcotic Drugs Amendment Act 2016 (Cth) (ND Amendment Act), an Act to amend the Narcotic Drugs Act 1967 (Cth) (ND Act), legalising medicinal cannabis.</p>
<b>Other current directorships:</b>	None
<b>Former directorships (last 3 years):</b>	None
<b>Special responsibilities:</b>	Remuneration and Nomination Committee
<b>Interests in shares:</b>	56,394,621



<b>Name:</b>	Alan Boyd
<b>Title:</b>	Non-Executive Director
<b>Qualifications:</b>	BA (Econ), CA ANZ, GIA
<b>Experience and expertise:</b>	<p>Alan is the Chief Financial Officer and Company Secretary of Ridley Corporation Limited, an ASX-listed provider of high performance animal nutrition solutions. Prior to this role, Alan occupied the same position with listed biotechnology companies Avexa Limited and Zenyth Therapeutics Limited, website pioneer Sausage Software Limited, and unlisted public entity HRL Limited, where he later served as a non-executive director and Chair of the Audit Committee.</p> <p>Alan started his professional career in chartered accounting firms in England and Australia and has broad financial experience across many industry sectors.</p>
<b>Other current directorships:</b>	None
<b>Former directorships (last 3 years):</b>	None
<b>Special responsibilities:</b>	Audit, Risk and Compliance Management Committee & Remuneration and Nomination Committee
<b>Interests in shares:</b>	350,000

<b>Name:</b>	Penelope Dobson
<b>Title:</b>	Non-Executive Director
<b>Qualifications:</b>	Dip Pharm, MPS, MBA (MGSM), GAICD
<b>Experience and expertise:</b>	<p>Penny is an experienced global healthcare executive. She has worked in the broad life-sciences space since her training as a pharmacist in New Zealand, including many years in the global pharmaceutical industry. Penny is currently principal of Valida Consulting, offering a range of services to companies in the healthcare, Pharma, Biotech, Not for Profit, Device and Diagnostics sector.</p>
<b>Other current directorships:</b>	Australian Nuclear Science and Technology Organisation, Invetec Ltd
<b>Former directorships (last 3 years):</b>	None
<b>Special responsibilities:</b>	Audit, Risk and Compliance Management Committee & Remuneration and Nomination Committee
<b>Interests in shares:</b>	30,000

Former directorships (last 3 years) quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

## COMPANY SECRETARY

### Robert Meissner

Robert has held the role of Company Secretary since April 2019. He currently acts as the Chief Financial Officer of the consolidated entity and has held this position since October 2018. Robert was previously the Financial Controller for Village Cinemas, one of the leading cinema operators in Australia. Robert is a Certified Practising Accountant.

## MEETINGS OF DIRECTORS

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 30 June 2020, and the number of meetings attended by each Director were:

	Full Board		Remuneration and Nomination Committee		Audit, Risk and Compliance Management Committee	
	Attended	Held	Attended	Held	Attended	Held
Andrew Newbold	10	10	4	4	4	4
Joshua Fegan	10	10	4	4	4	4
Alan Boyd	10	10	4	4	4	4
Penelope Dobson	10	10	4	4	4	4

**Held:** represents the number of meetings held during the time the Director held office.

## REMUNERATION REPORT (AUDITED)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including all directors.

### THE REMUNERATION REPORT IS SET OUT UNDER THE FOLLOWING MAIN HEADINGS:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional disclosures relating to key management personnel

### PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Remuneration and Nomination Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performing and high quality personnel.

The Remuneration and Nomination Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

### Non-executive directors remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Remuneration and Nomination Committee. The Remuneration and Nomination Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive directors have not received share options or other incentives.

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

#### **Executive remuneration**

The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has two components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of each comprises executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Remuneration and Nomination Committee based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPIs include profit contribution, customer satisfaction, leadership contribution, product management and OH&S.

The long-term incentives ('LTI') include long service leave and share-based payments. Shares are awarded to executives over a period of three years based on long-term incentive measures. LTI payments are granted to executives based on specific targets which include increase in shareholder value relative to the entire market and the increase compared to the consolidated entity's direct competitors. The Remuneration and Nomination Committee reviewed the long-term equity-linked performance incentives specifically for executives during the year ended 30 June 2020.

#### **Consolidated entity performance and link to remuneration**

Remuneration for the Chief Executive Officer is directly linked to performance of the consolidated entity as the vesting of the performance rights offered is dependent on defined performance milestones being met. The remuneration for the remaining senior executives is not linked to the performance of the consolidated entity as all remuneration was fixed and consisted of base salary and superannuation, where applicable.

#### **Use of remuneration consultants**

During the financial year ended 30 June 2020, the consolidated entity, through the Remuneration and Nomination Committee, engaged remuneration consultants, Godfrey Remuneration Group, to review its existing remuneration policies and provide recommendations on how to improve both the STI and LTI programs. This has resulted in share-based payments remuneration in the form of options being proposed and approved under the LTI program with implementation expected in 2021. Godfrey Remuneration Group was paid \$77,000 for these services.

#### **Voting and comments made at the Company's 2019 Annual General Meeting ("AGM")**

At the 2019 AGM, the remuneration report for the year ended 30 June 2019 was put forward for shareholder approval with 99.72% votes, cast in favour. The company did not receive any specific feedback at the AGM regarding its remuneration practices.



**DETAILS OF REMUNERATION****Amounts of remuneration**

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

	Short-term Benefits			Post-employment benefits	Long-term benefits	Share based payments	
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long Service Leave	Equity settled	Total
<b>30 JUNE 2020</b>	\$	\$	\$	\$	\$	\$	\$
<b>Non-Executive Directors:</b>							
Andrew Newbold	81,492	-	-	7,742	-	-	89,234
Alan Boyd	37,557	-	-	3,568	-	-	41,125
Penelope Dobson	37,557	-	-	3,568	-	-	41,125
<b>Executive Directors:</b>							
Joshua Fegan	375,000	150,336	-	25,000	-	(492,534)	57,802
<b>Other Key Management Personnel:</b>							
Robert Meissner	230,000	-	-	21,850	-	-	251,850
	<b>761,606</b>	<b>150,336</b>	-	<b>61,728</b>	-	<b>(492,534)</b>	<b>481,136</b>

	Short-term Benefits			Post-employment benefits	Long-term benefits	Share based payments	
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long Service Leave	Equity settled	Total
<b>30 JUNE 2019</b>	\$	\$	\$	\$	\$	\$	\$
<b>Non-Executive Directors:</b>							
Andrew Newbold	60,000	-	-	5,700	-	-	65,700
Alan Boyd	25,000	-	-	2,375	-	-	27,375
Penelope Dobson	14,583	-	-	1,385	-	-	15,968
Gregg Battersby*	12,499	-	-	-	-	-	12,499
<b>Executive Directors:</b>							
Joshua Fegan	200,000	-	-	19,000	-	492,534	711,534
<b>Other Key Management Personnel:</b>							
Robert Meissner	125,512	-	-	11,924	-	-	137,436
	<b>437,594</b>	-	-	<b>40,384</b>	-	<b>492,534</b>	<b>970,512</b>

\* Resigned 7 March 2019

The proportion of remuneration linked to performance and the fixed proportion are as follows:

NAME	Fixed remuneration		At risk - STI		At risk - LTI	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019
<b>Non-Executive Directors:</b>						
Andrew Newbold	100%	100%	-	-	-	-
Alan Boyd	100%	100%	-	-	-	-
Penelope Dobson	100%	100%	-	-	-	-
Gregg Battersby	-	100%	-	-	-	-
<b>Executive Directors:</b>						
Joshua Fegan	692%	31%	260%	-	(852%)	69%
<b>Other Key Management Personnel:</b>						
Robert Meissner	100%	100%	-	-	-	-

## SERVICE AGREEMENTS

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

**Name:** Joshua Fegan

**Title:** Managing Director and Chief Executive Officer

**Term of agreement** No fixed term

**Details:** Either the Company or Joshua may terminate the agreement by giving 3 months' notice, during which period the Company may request that he cease work, but must provide remuneration for the entire period. The Company may also terminate his engagement without notice in circumstances involving serious or persistent misconduct or for breaches of certain clauses of the agreement, including misuse of confidential information. Joshua's agreement includes a restraint on working for a competitor for up to 6 months after ceasing employment.

**Name:** Robert Meissner

**Title:** Chief Financial Officer & Company Secretary

**Term of agreement** No fixed term

**Details:** Either the Company or Robert may terminate the agreement by giving 3 months' notice, during which period the Company may request that he cease work, but must provide remuneration for the entire period. The Company may also terminate his engagement without notice in circumstances involving serious and persistent misconduct or breaches of certain clauses of the agreement, for example misuse of confidential information. Robert's agreement includes a restraint on working for a competitor for up to 6 months after ceasing employment.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

## SHARE-BASED COMPENSATION

### Issue of shares

There were no shares issued to Directors and other key management personnel as part of compensation during the year ended 30 June 2020.

### Performance rights

The terms and conditions of each grant of performance rights over ordinary shares affecting remuneration of Directors and other key management personnel in this financial year or future reporting years are as follows:

NAME	Number of rights granted	Grant date	Vesting date and exercisable date	Expiry date	Share price hurdle for vesting	Fair value per right at grant date
Joshua Fegan (Tranche1)	2,550,000	21 Sep 2018	21 Sep 2020	21 Sep 2021	\$0.00	\$0.600
Joshua Fegan (Tranche2)	2,550,000	21 Sep 2018	21 Sep 2020	21 Sep 2021	\$0.00	\$0.600

**Tranche 1** - 2,550,000 Performance Rights will vest on satisfaction of all of the following milestones within 3 years of ASX-listing:

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

**Tranche 2** - 2,550,000 Performance Rights will vest on satisfaction of all of the following milestones within 3 years of ASX-listing:

- The market capitalisation of Althea Group Holdings Limited, being the number of shares on issue multiplied by the Volume Weighted Average Price per Share over any 20 consecutive trading days on which shares in Althea Group Holdings Limited have actually traded on ASX, equals or exceeds \$100,000,000;
- Completion of construction of the medicinal cannabis growing facility contemplated under the Tranche 1 milestones and the issue of an occupancy permit for the facility by the Frankston City Council; and
- The cultivation permit required to allow operation of the medicinal cannabis growing facility contemplated under the Tranche 1 milestone is issued by the Office of Drug Control to an entity in the consolidated entity.

Performance rights granted carry no dividend or voting rights.

The number of performance rights over ordinary shares granted to and vested by Directors and other key management personnel as part of compensation during the year ended 30 June 2020 are set out below:

NAME	Number of rights granted during the year		Number of rights vested during the year	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019
Joshua Fegan	-	5,100,000	-	-

Values of performance rights over ordinary shares granted, vested and lapsed for Directors and other key management personnel as part of compensation during the year ended 30 June 2020 are set out below:

NAME	Value of rights granted during the year	Value of rights vested during the year	Value of rights lapsed during the year	Remuneration consisting of rights for the year
	\$	\$	\$	%
Joshua Fegan	-	(492,534)	-	-

Details of performance rights over ordinary shares granted, vested and lapsed for Directors and other key management personnel as part of compensation during the year ended 30 June 2020 are set out below:

NAME	Grant date	Vesting date	Number of rights granted	Value of rights granted \$	Value of rights vested \$	Number of rights lapsed \$	Value of rights lapsed \$
Joshua Fegan (Tranche 1)	21 Sep 2018	21 Sep 2020	2,550,000	280,745	(280,745)	-	-
Joshua Fegan (Tranche 2)	21 Sep 2018	21 Sep 2020	2,550,000	211,790	(211,790)	-	-

## ADDITIONAL DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

### Shareholding

The number of shares in the company held during the financial year by each Director and other members of key management personnel of the company, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/other	Balance at the end of the year
<b>Ordinary shares</b>					
Andrew Newbold	1,638,000	-	430,000	-	2,068,000
Joshua Fegan	56,276,315	-	118,306	-	56,394,621
Alan Boyd	100,000	-	250,000	-	350,000
Penelope Dobson	-	-	30,000	-	30,000
	<b>58,014,315</b>	<b>-</b>	<b>828,306</b>	<b>-</b>	<b>58,842,621</b>

### Performance rights holding

The number of performance rights over ordinary shares in the company held during the financial year by each Director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Vested	Expired/forfeited/other	Balance at the end of the year
<b>Performance rights over ordinary shares</b>					
Joshua Fegan	5,100,000	-	-	-	5,100,000
	5,100,000	-	-	-	5,100,000

**THIS CONCLUDES THE REMUNERATION REPORT, WHICH HAS BEEN AUDITED.**



## SHARES UNDER OPTION

Unissued ordinary shares of Althea Group Holdings Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
21 September 2018	21 September 2020	\$0.20	2,675,000

The 2,675,000 unlisted Pre-IPO Consultant Options exercisable at \$0.20 each on or before 21 September 2022 are classified by the ASX as restricted securities to be held in escrow until 21 September 2020.

### Disposal Restrictions

The Pre-IPO Consultant Options must not be sold, transferred, assigned, mortgaged or otherwise dealt with except in the event of death or legal incapacity of a Pre-IPO Consultant, in which case they may be transferred to the relevant Pre-IPO Consultant's estate or legal personal representative.

Any Shares received on exercise of the Pre-IPO Consultants Options must not be sold, transferred, assigned, mortgaged or otherwise dealt with (including entering into any agreement with respect to voting rights) until 21 September 2020.

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other related body corporate.

## SHARES UNDER PERFORMANCE RIGHTS

Unissued ordinary shares of Althea Group Holdings Limited under performance rights at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under rights
21 September 2018	21 September 2022	\$0.00	5,100,000

The 5,100,000 performance rights issued to Mr Joshua Fegan under the Company's LTI Plan are classified by ASX as restricted securities and to be held in escrow until 21 September 2020.

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the company or of any other related body corporate.

## SHARES ISSUED ON THE EXERCISE OF OPTIONS

There were no ordinary shares of Althea Group Holdings Limited issued on the exercise of options during the year ended 30 June 2020 and up to the date of this report.

## INDEMNITY AND INSURANCE OF OFFICERS

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

## INDEMNITY AND INSURANCE OF AUDITOR

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

## NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 25 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 25 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

## OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF RSM AUSTRALIA PARTNERS

There are no officers of the company who are former partners of RSM Australia Partners.

## ROUNDING OF AMOUNTS

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

## AUDITOR

RSM Australia Partners continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

### On behalf of the Directors



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**Andrew Newbold**  
Chairman

**27 August 2020**

# AUDITOR'S INDEPENDENCE DECLARATION



## RSM Australia Partners

Level 21, 55 Collins Street Melbourne VIC 3000  
PO Box 248 Collins Street West VIC 8007

T +61 (0) 3 9286 8000  
F +61 (0) 3 9286 8199

[www.rsm.com.au](http://www.rsm.com.au)

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Althea Group Holdings Limited for the year ended 30 June 2020 I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

A blue ink signature that appears to read 'RSM'.

**RSM AUSTRALIA PARTNERS**

A blue ink signature that appears to read 'BY Chan'.

**B Y CHAN**  
Partner

Dated: 27 August 2020  
Melbourne, Victoria

## THE POWER OF BEING UNDERSTOOD AUDIT | TAX | CONSULTING

RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036

Liability limited by a scheme approved under Professional Standards Legislation



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Consolidated	
		30 June 2020	30 June 2019
REVENUE	Note	\$'000	\$'000
Revenue	4	5,062	767
Cost of goods sold	5	(2,159)	(312)
<b>Gross profit</b>		<b>2,903</b>	<b>455</b>
Interest income		216	206
<b>EXPENSES</b>			
Employee benefits expense	5	(6,213)	(2,272)
Depreciation and amortisation expense	5	(848)	(48)
Other expenses		(520)	(325)
Distribution expenses		(768)	(136)
Marketing expenses		(2,717)	(2,901)
Occupancy expenses		(243)	(269)
Professional services	5	(3,201)	(2,832)
Foreign exchange loss	5	(1,615)	(79)
Administration expenses		(1,058)	(468)
Finance costs	5	(704)	(6)
<b>Total expenses</b>		<b>(17,887)</b>	<b>(9,336)</b>
Loss before income tax expense		(14,768)	(8,675)
Income tax expense	6	-	-
<b>Loss after income tax expense for the year</b>		<b>(14,768)</b>	<b>(8,675)</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Foreign currency translation gain		421	25
Other comprehensive income for the year, net of tax		421	25
<b>Total Comprehensive loss for the year</b>		<b>(14,347)</b>	<b>(8,650)</b>
		<b>Cents</b>	<b>Cents</b>
Basic loss per share	32	(6.42)	(5.11)
Diluted loss per share	32	(6.42)	(5.11)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Consolidated	
		30 June 2020	30 June 2019
ASSETS	Note	\$'000	\$'000
<b>Current assets</b>			
Cash and cash equivalents	7	10,143	14,918
Trade and other receivables	8	1,388	505
Inventories	9	2,231	630
Other	10	1,618	167
<b>Total current assets</b>		<b>15,380</b>	<b>16,220</b>
<b>Non-current assets</b>			
Other financial assets	11	285	237
Property, plant and equipment	12	14,126	1,058
Right-of-use assets	13	2,665	-
Intangibles	14	21,820	765
<b>Total non-current assets</b>		<b>38,896</b>	<b>2,060</b>
<b>Total assets</b>		<b>54,276</b>	<b>18,280</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	15	2,944	1,160
Lease liabilities	16	178	-
Provisions	17	313	68
Other	18	75	-
<b>Total current liabilities</b>		<b>3,510</b>	<b>1,228</b>
<b>Non-current liabilities</b>			
Lease liabilities	19	2,543	-
Other	20	206	-
<b>Total non-current liabilities</b>		<b>2,749</b>	<b>-</b>
<b>Total liabilities</b>		<b>6,259</b>	<b>1,228</b>
<b>Net assets</b>		<b>48,017</b>	<b>17,052</b>
<b>EQUITY</b>			
Issued capital	21	54,403	25,732
Reserves	22	18,928	1,866
Accumulated losses		(25,314)	(10,546)
<b>Total equity</b>		<b>48,017</b>	<b>17,052</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED	Issued capital \$'000	Share based payment reserve \$'000	Foreign currency translation reserve \$'000	Deferred consideration reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2019	25,732	1,841	25	-	(10,546)	17,052
Loss after income tax expense for the year	-	-	-	-	(14,768)	(14,768)
Other comprehensive income for the year, net of tax	-	-	421	-	-	421
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>421</b>	<b>-</b>	<b>(14,768)</b>	<b>(14,347)</b>
<b>Transactions with owners in their capacity as owners:</b>						
Contributions of equity, net of transaction costs (note 21)	28,671	-	-	-	-	28,671
Performance rights expense	-	(493)	-	-	-	(493)
Exchangeable shares issued on acquisition	-	-	-	17,134	-	17,134
<b>Balance at 30 June 2020</b>	<b>54,403</b>	<b>1,348</b>	<b>446</b>	<b>17,134</b>	<b>(25,314)</b>	<b>48,017</b>

  

CONSOLIDATED	Issued capital \$'000	Share based payment reserve \$'000	Foreign currency translation reserve \$'000	Deferred consideration reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2018	5,007	-	-	-	(1,871)	3,136
Loss after income tax expense for the year	-	-	-	-	(8,675)	(8,675)
Other comprehensive income for the year, net of tax	-	-	25	-	-	25
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>25</b>	<b>-</b>	<b>(8,675)</b>	<b>(8,650)</b>
<b>Transactions with owners in their capacity as owners:</b>						
Contributions of equity, net of transaction costs (note 21)	20,725	-	-	-	-	20,725
Share options expense	-	1,348	-	-	-	1,348
Performance rights expense	-	493	-	-	-	493
<b>Balance at 30 June 2019</b>	<b>25,732</b>	<b>1,841</b>	<b>25</b>	<b>-</b>	<b>(10,546)</b>	<b>17,052</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

		Consolidated	
		30 June 2020	30 June 2019
CASH FLOWS FROM OPERATING ACTIVITIES	Note	\$'000	\$'000
Receipts from customers (inclusive of GST)		4,563	520
Payments to suppliers and employees (inclusive of GST)		(18,855)	(6,882)
Interest received		216	206
Interest paid		(162)	-
<b>Net cash used in operating activities</b>	<b>31</b>	<b>(14,238)</b>	<b>(6,156)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for purchase of business, net of cash acquired	30	(1,651)	-
Payment for expenses relating to acquisitions	30	(806)	-
Payments for property, plant and equipment	12	(9,934)	(1,061)
Payments for intangibles	14	(1,748)	(810)
Transfer from term deposit		-	200
<b>Net cash used in investing activities</b>		<b>(14,139)</b>	<b>(1,671)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares, net of transaction costs	21	28,672	20,725
Proceeds from borrowings		45	-
Loans to other entities		(1,423)	(18)
Payment of bank guarantee		(49)	(218)
Repayment of borrowings		(3,315)	-
Repayment of lease liabilities		(157)	-
<b>Net cash from financing activities</b>		<b>23,773</b>	<b>20,489</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(4,604)</b>	<b>12,662</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>14,918</b>	<b>2,300</b>
<b>Effects of exchange rate changes on cash and cash equivalents</b>		<b>(171)</b>	<b>(44)</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>7</b>	<b>10,143</b>	<b>14,918</b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.



# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### BASIS OF PREPARATION

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

### Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

### Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

### NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

### AASB 16 Leases

The consolidated entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments is separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

### Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption as at 1 July 2019 was as follows:

	1 July 2019 \$'000
Operating lease commitments as at 1 July 2019 (AASB 117)	6,044
Operating lease commitments discount based on the weighted average incremental borrowing rate of 5% (AASB 16)	(3,140)
<b>Right-of-use assets (AASB 16)</b>	<b>2,904</b>
Lease liabilities - current (AASB 16)	(157)
Lease liabilities - non-current (AASB 16)	(2,747)
<b>Reduction in opening retained earnings as at 1 July 2019</b>	<b>-</b>

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

### Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are measured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

### PARENT ENTITY INFORMATION

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 28.

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Althea Group Holdings Limited ('company' or 'parent entity') as at 30 June 2020 and the results of all subsidiaries for the year then ended. Althea Group Holdings Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### OPERATING SEGMENTS

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM, who are responsible for the allocation of resources and assessing performance of the operating segments, has been identified as the Board of Directors.

### FOREIGN CURRENCY TRANSLATION

The financial statements are presented in Australian dollars ("AUD"), which is Althea Group Holdings Limited's functional and presentation currency. The major controlled entities of Althea Group Holdings Limited have Australian dollars ("AUD"), British pound ("GBP") and Canadian dollars ("CAD") as their functional currency.

### Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

### Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

### REVENUE RECOGNITION

The consolidated entity recognises revenue as follows:

#### Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

#### Sale of goods

Revenue from the sale of goods is measured at fair value of the consideration received or receivable and is shown net of sales taxes (GST, VAT and HST) and recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

#### Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.



## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### INCOME TAX

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Althea Group Holdings Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

### R&D TAX INCENTIVE

Grants that compensate the group for expenditures incurred are recognised in profit or loss on a systematic basis in the periods in which the expenditures are recognised. R&D tax offset receivables will be recognised in profit before tax and depreciation and amortised over the periods necessary to match the benefit of the credit with the costs for which it is intended to compensate. Such periods will depend on whether the R&D costs are capitalised or expensed as incurred. For R&D costs that have been capitalised, the grants related to those assets have been deferred and will be recognised over the useful economic life of the asset.

### CURRENT AND NON-CURRENT CLASSIFICATION

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### TRADE AND OTHER RECEIVABLES

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. At the end of each reporting period, the consolidated entity assesses whether there is objective evidence that trade and other receivables have been impaired. To measure the expected credit losses, trade receivables have been grouped based on days overdue. Credit losses are recognised in profit or loss.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

### INVENTORIES

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock on hand is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

### INVESTMENTS AND OTHER FINANCIAL ASSETS

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

### Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

### Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

**PROPERTY, PLANT AND EQUIPMENT**

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Capital Works (in progress)	not depreciated in the financial year
Buildings	25 years
Plant and equipment	2-10 years
Computer equipment	2-5 years
Office equipment	2-7 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

**RIGHT-OF-USE ASSETS**

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

**INTANGIBLE ASSETS**

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

### Software

During the reporting period, the consolidated entity capitalised costs associated with the development of software. Software has a finite life and is carried at cost less any accumulated amortisation and any impairment losses. Amortisation has commenced for implementation of software that has been completed and ready for use. Software that is not ready for use is capitalised as work in progress and transferred to another class of assets on the date of completion. Software is amortised over its useful life ranging from 2 to 5 years.

### Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

### IMPAIRMENT OF NON-FINANCIAL ASSETS

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

### TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

### LEASE LIABILITIES

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

### EMPLOYEE BENEFITS

#### Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

#### Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.



**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

**FAIR VALUE MEASUREMENT**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

There are no assets held at fair value on a recurring or non-recurring basis.

**ISSUED CAPITAL**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquiree.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

### EARNINGS PER SHARE

#### Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Althea Group Holdings Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

#### Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### GOODS AND SERVICES TAX ('GST') AND OTHER SIMILAR TAXES

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### ROUNDING OF AMOUNTS

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

### NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2020. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

### Conceptual Framework for Financial Reporting (Conceptual Framework)

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the consolidated entity has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the consolidated entity may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the consolidated entity's financial statements.

## NOTE 2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

### Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

### Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

### Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates

### Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

## NOTE 2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

### Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

### Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

### Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

### Employee benefits provision

As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

### Business combinations

As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

## NOTE 3. OPERATING SEGMENTS

### Identification of reportable operating segments

The consolidated entity is organised into 3 operating segments: Australia, United Kingdom and Canada. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews revenue, growth trajectories, gross margins and EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

### Intersegment transactions

Intersegment transactions were made at market rates and are eliminated on consolidation.

### Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

### Major customers

During the year ended 30 June 2020 approximately 15% (2019: 10%) of the consolidated entity's external revenue was derived from sales to one customer.

**NOTE 3. OPERATING SEGMENTS (CONTINUED)****OPERATING SEGMENT INFORMATION**

	Australia \$'000	United Kingdom \$'000	Canada \$'000	Intersegment eliminations/unallocated \$'000	Total \$'000
<b>CONSOLIDATED - 30 June 2020</b>					
<b>Revenue</b>					
Sales to external customers	4,943	34	218	(224)	4,971
Other revenue	91	-	-	-	91
Interest revenue	691	-	1	(476)	216
<b>Total revenue</b>	<b>5,725</b>	<b>34</b>	<b>219</b>	<b>(700)</b>	<b>5,278</b>
<b>EBITDA</b>	(8,041)	(3,739)	(1,653)	(1)	(13,434)
Depreciation and amortisation expense	(690)	(10)	(148)	-	(848)
Interest revenue	691	-	1	(476)	216
Finance costs	(164)	(140)	(871)	473	(702)
<b>Profit/(Loss) before income tax expense</b>	<b>(8,204)</b>	<b>(3,889)</b>	<b>(2,671)</b>	<b>(4)</b>	<b>(14,768)</b>
Income tax expense					-
<b>Loss after income tax expense</b>					<b>(14,768)</b>
<b>ASSETS</b>					
Segment assets	48,551	467	15,163	(9,905)	54,276
<b>Total assets</b>					<b>54,276</b>
<b>LIABILITIES</b>					
Segment liabilities	4,841	5,846	1,081	(5,509)	6,259
<b>Total liabilities</b>					<b>6,259</b>
<b>CONSOLIDATED - 30 June 2019</b>					
<b>Revenue</b>					
Sales to external customers	767	-	-	-	767
Interest revenue	206	-	-	-	206
<b>Total revenue</b>	<b>973</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>973</b>
<b>EBITDA</b>	(7,125)	(1,702)	-	-	(8,827)
Depreciation and amortisation expense	(48)	-	-	-	(48)
Interest revenue	206	-	-	-	206
Finance costs	(6)	-	-	-	(6)
<b>Loss before income tax expense</b>	<b>(6,973)</b>	<b>(1,702)</b>	<b>-</b>	<b>-</b>	<b>(8,675)</b>
Income tax expense					-
<b>Loss after income tax expense</b>					<b>(8,675)</b>
<b>ASSETS</b>					
Segment assets	30,573	282	-	(12,575)	18,280
<b>Total assets</b>					<b>18,280</b>
<b>LIABILITIES</b>					
Segment liabilities	6,836	1,959	-	(7,567)	1,228
<b>Total liabilities</b>					<b>1,228</b>



## NOTE 4. REVENUE

### DISAGGREGATION OF REVENUE

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
<b>Sales Channels</b>		
Goods sold directly to registered pharmacies and consumers	4,434	702
Goods sold through intermediaries	537	65
Other income	91	-
	<b>5,062</b>	<b>767</b>
<b>Geographical regions</b>		
Australia	4,995	767
United Kingdom	62	-
Canada	5	-
	<b>5,062</b>	<b>767</b>
<b>Timing of revenue recognition</b>		
Goods transferred at a point in time	4,930	767
Services transferred over time	132	-
	<b>5,062</b>	<b>767</b>

## NOTE 5. EXPENSES

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
<b>LOSS BEFORE INCOME TAX INCLUDES THE FOLLOWING SPECIFIC EXPENSES:</b>		
Cost of sales	2,159	312
<b>Finance costs</b>		
Interest and finance charges paid/payable on borrowings	552	6
Interest and finance charges paid/payable on lease liabilities	152	-
Net foreign exchange loss	1,615	79
<b>Employee benefits expense</b>		
Employee benefits expense	6,706	1,779
Share based employee expense	(493)	493
	<b>6,213</b>	<b>2,272</b>
Depreciation and amortisation expense	848	48
<b>Professional services</b>		
Accounting and taxation services	230	98
Consulting services	1,892	681
Legal fees	288	692
Acquisition related professional fees	749	-
Shared based professional services	-	1,348
Other professional fees	42	13
	<b>3,201</b>	<b>2,832</b>

**NOTE 6. INCOME TAX**

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
<b>Reconciliation of income tax benefit and tax at the statutory rate</b>		
Loss before income tax expense	(14,768)	(8,675)
Tax at the statutory tax rate of 27.5%	(4,061)	(2,386)
<b>Tax effect amounts which are not deductible/(taxable) in calculating taxable income:</b>		
Entertainment expenses	-	2
Share-based payments	-	506
	(4,061)	(1,878)
Current year tax losses not recognised	4,061	1,878
Income tax expense	-	-

Total carried forward tax losses not recognised as at 30 June 2020 amount to \$9,779,000.

**NOTE 7. CURRENT ASSETS - CASH AND CASH EQUIVALENTS**

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
Cash at bank	10,143	4,918
Cash on deposit	-	10,000
	<b>10,143</b>	<b>14,918</b>

**NOTE 8. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES**

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
Trade receivables	801	257
Less: Allowance for expected credit losses	(37)	-
	<b>764</b>	<b>257</b>
Other receivables	312	230
Receivable from related parties	-	18
R&D tax incentive receivable	312	-
	<b>1,388</b>	<b>505</b>

**NOTE 8. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES (CONTINUED)****ALLOWANCE FOR EXPECTED CREDIT LOSSES**

The consolidated entity has recognised a loss of \$37,000 (2019: \$nil) in profit or loss in respect of the expected credit losses for the year ended 30 June 2020.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	30 June 2020 %	30 June 2019 %	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 \$'000	30 June 2019 \$'000
<b>CONSOLIDATED</b>						
Not overdue	-	-	1,301	455	-	-
0 to 3 months overdue	-	-	31	44	-	-
3 to 6 months overdue	-	-	56	4	-	-
Over 6 months overdue	100%	-	37	2	37	-
			<b>1,425</b>	<b>505</b>	<b>37</b>	-

Movements in the allowance for expected credit losses are as follows:

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
Opening balance	-	-
Additional provisions recognised	37	-
Closing balance	<b>37</b>	-

**NOTE 9. CURRENT ASSETS - INVENTORIES**

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
Raw materials - at cost	900	127
Work in progress - at cost	2	-
Finished goods - at cost	1,106	496
Packaging and supplies	223	7
	<b>2,231</b>	<b>630</b>

**NOTE 10. CURRENT ASSETS - OTHER**

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
Prepayments	1,618	167

**NOTE 11. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS**

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
Security deposits	285	237

**NOTE 12. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT**

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
Land - at cost	600	-
Buildings - at cost	2,399	-
Less: Accumulated depreciation	(102)	-
	2,297	-
Asset under construction - at cost	7,331	1,012
Plant and equipment - at cost	3,008	-
Less: Accumulated depreciation	(9)	-
	2,999	-
Computer equipment - at cost	381	47
Less: Accumulated depreciation	(66)	(3)
	315	44
Office equipment - at cost	628	2
Less: Accumulated depreciation	(44)	-
	584	2
	<b>14,126</b>	<b>1,058</b>

**NOTE 12. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)****RECONCILIATIONS**

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

<b>CONSOLIDATED</b>	<b>Land &amp; Buildings \$'000</b>	<b>Asset under construction \$'000</b>	<b>Plant and Equipment \$'000</b>	<b>Computer Equipment \$'000</b>	<b>Office Equipment \$'000</b>	<b>Total \$'000</b>
<b>Balance at 1 July 2018</b>	-	-	-	-	-	-
<b>Additions</b>	-	1,011	-	48	2	1,061
<b>Depreciation expense</b>	-	-	-	(3)	-	(3)
<b>Balance at 30 June 2019</b>	-	1,011	-	45	2	1,058
<b>Additions</b>	-	6,568	2,379	341	646	9,934
<b>Additions through business combinations (note 30)</b>	3,121	-	823	5	-	3,949
<b>Exchange differences</b>	(158)	(248)	(194)	(12)	(19)	(631)
<b>Depreciation expense</b>	(66)	-	(9)	(64)	(45)	(184)
<b>Balance at 30 June 2020</b>	<b>2,897</b>	<b>7,331</b>	<b>2,999</b>	<b>315</b>	<b>584</b>	<b>14,126</b>

**NOTE 13. NON-CURRENT ASSETS - RIGHT-OF-USE ASSETS**

	<b>Consolidated</b>	
	<b>30 June 2020 \$'000</b>	<b>30 June 2019 \$'000</b>
<b>Land and buildings - right-of-use</b>	2,968	-
<b>Less: Accumulated depreciation</b>	(303)	-
	<b>2,665</b>	<b>-</b>

Additions to the right-of-use assets during the year were \$2,968,000.

The consolidated entity leases land and buildings for its offices and cultivation and manufacturing sites under agreements of between six to thirty years. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

The consolidated entity also leases land and buildings under agreements less than one year. These leases are either short-term or low-value, so have been expensed as incurred and not capitalised as right-of-use assets.



**NOTE 14. NON CURRENT ASSETS - INTANGIBLES**

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
<b>Goodwill</b>	19,632	-
<b>Website - at cost</b>	190	59
<b>Less: Accumulated amortisation</b>	(27)	-
	163	59
<b>Patents and trademarks - at cost</b>	63	-
<b>Software - at cost</b>	2,115	751
<b>Less: Accumulated amortisation</b>	(377)	(45)
	1,738	706
<b>Intellectual Property - at cost</b>	224	-
	<b>21,820</b>	<b>765</b>

**RECONCILIATIONS**

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

CONSOLIDATED	Goodwill \$'000	Website \$'000	Patents and trademarks \$'000	Software \$'000	Intellectual property \$'000	Total \$'000
<b>Balance at 1 July 2018</b>	-	-	-	-	-	-
<b>Additions</b>	-	59	-	751	-	810
<b>Amortisation expense</b>	-	-	-	(45)	-	(45)
<b>Balance at 30 June 2019</b>	-	59	-	706	-	765
<b>Additions</b>	-	97	63	1,364	224	1,748
<b>Additions through business combinations (note 30)</b>	19,632	42	-	-	-	19,674
<b>Exchange differences</b>	-	(7)	-	-	-	(7)
<b>Amortisation expense</b>	-	(28)	-	(332)	-	(360)
<b>Balance at 30 June 2020</b>	<b>19,632</b>	<b>163</b>	<b>63</b>	<b>1,738</b>	<b>224</b>	<b>21,820</b>

**IMPAIRMENT TESTING**

Goodwill acquired through business combinations have been allocated to the following cash-generating units:

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
<b>2682130 Ontario Limited ("Peak Processing Solutions")</b>	<b>19,632</b>	<b>-</b>

**NOTE 14. NON CURRENT ASSETS - INTANGIBLES (CONTINUED)**

The recoverable amount of the consolidated entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 2 year projection period approved by management and extrapolated for a further 3 years using a steady rate, together with a terminal value.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model for Peak Processing Solutions business:

- 37.41% pre-tax discount rate;
- 2% per annum projected revenue growth rate after year 3;
- EBITDA percentage of revenue of 30% per annum after year 3; and
- 2% terminal growth rate.

The discount rate of 37.41% pre-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital adjusted for the Peak Processing Solutions division, the risk free rate and the volatility of the share price relative to market movements.

Management believes projected 2% revenue growth rate after year 3 is prudent and justified, based on the rapid growth expected upon licensing in years 1-3, with revenues stabilising after year 3 and as the market contracts with increased competition. 30% EBITDA as a percentage of revenue after year 3 is conservative and has been determined by management after taking into consideration margin compression expected in year 3 onwards.

There were no other key assumptions for the Peak Processing Solutions business.

Based on the above, the recoverable amount of the Peak Processing Solutions business exceeded the carrying amount by CAD\$10,758,000.

**Sensitivity**

As disclosed in note 2, the directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur, the resulting goodwill carrying amount may decrease. The sensitivities are as follows:

- Forecasted cash flows would need to decrease by more than 15.23% for Peak Processing Solutions before the goodwill would need to be impaired, with all other assumptions remaining constant.
- The discount rate would be required to increase by 10.06% for Peak Processing Solutions business before goodwill would need to be impaired, with all other assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of Peak Processing Solutions business goodwill is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

**NOTE 15. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES**

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
<b>Trade payables</b>	1,742	806
<b>Other payables</b>	1,202	354
	<b>2,944</b>	<b>1,160</b>

Refer to note 23 for further information on financial instruments.

**NOTE 16. CURRENT LIABILITIES - LEASE LIABILITIES**

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
Lease liability	178	-

Refer to note 23 for further information on financial instruments.

**NOTE 17. CURRENT LIABILITIES - PROVISIONS**

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
Annual leave	313	68

**NOTE 18. CURRENT LIABILITIES - OTHER**

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
Subsidies and grants received in advance	75	-

**NOTE 19. NON-CURRENT LIABILITIES - LEASE LIABILITIES**

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
Lease liability	2,543	-

Refer to note 23 for further information on financial instruments.

**NOTE 20. NON-CURRENT LIABILITIES - OTHER**

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
Subsidies and grants received in advance	135	-
Other non-current liabilities	71	-
	206	-

**NOTE 21. EQUITY - ISSUED CAPITAL**

	Consolidated			
	30 June 2020 Shares	30 June 2019 Shares	30 June 2020 \$'000	30 June 2019 \$'000
Ordinary shares - fully paid	233,310,000	203,310,000	54,403	25,732

**MOVEMENTS IN ORDINARY SHARE CAPITAL**

DETAILS	DATE	SHARES	ISSUE PRICE	\$'000
Balance	1 July 2018	12,000		5,007
Shares issued to Joshua Fegan on share split	9 Aug 2018	56,242,500	\$0.00	-
Shares issued to Aphria Inc. on share split	9 Aug 2018	33,745,500	\$0.00	-
Shares issued to institutional investors under the Pre-Prospectus Capital Raising	10 Aug 2018	12,000,000	\$0.16	2,000
Shares issued under the IPO offer	21 Sep 2018	98,250,000	\$0.20	19,650
Shares issued to PAC Partners (lead manager for IPO)	21 Sep 2018	3,060,000	\$0.00	-
IPO costs		-	\$0.00	(925)
Balance	30 June 2019	203,310,000		25,732
Placement	9 Aug 2019	29,790,000	\$1.00	29,790
Placement	22 Oct 2019	210,000	\$1.00	210
Capital raising costs		-	\$0.00	(1,329)
Balance	30 June 2020	233,310,000		54,403

**ORDINARY SHARES**

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll, each share shall have one vote.

**SHARE BUY-BACK**

There is no current on-market share buy-back.

**CAPITAL RISK MANAGEMENT**

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other shareholders, and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the company's current share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The consolidated entity is subject to certain financing arrangements and covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 2019 Annual Report.

**NOTE 22. EQUITY - RESERVES**

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
Foreign currency reserve	446	25
Share-based payments reserve	1,348	1,841
Deferred consideration reserve	17,134	-
	<b>18,928</b>	<b>1,866</b>

**FOREIGN CURRENCY RESERVE**

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

**DEFERRED CONSIDERATION RESERVE**

Deferred consideration reserve represents the fair value of contingent consideration that arose on acquisition of Peak Processing Solutions. As part of the consideration paid, 25,853,644 exchangeable shares were issued contingent on performance milestones being achieved. The fair value was determined with reference to the share price of Althea Group Holdings Limited at the date of acquisition and corresponding earn-out probabilities. The exchangeable shares have an expiry of 31 May 2023.

**MOVEMENTS IN RESERVES**

Movements in each class of reserve during the current and previous financial year are set out below:

	Foreign currency translation reserve \$'000	Share-based payment reserve \$'000	Deferred consideration reserve \$'000	Total equity \$'000
<b>CONSOLIDATED</b>				
Balance at 1 July 2018	-	-	-	-
Foreign currency translation	25	-	-	25
Share-based payment expense	-	1,841	-	1,841
 Balance at 30 June 2019	 25	 1,841	 -	 1,866
Foreign currency translation	421	-	-	421
Contingent consideration on business combination	-	-	17,134	17,134
Reversal of performance rights	-	(493)	-	(493)
<b>Balance at 30 June 2020</b>	<b>446</b>	<b>1,348</b>	<b>17,134</b>	<b>18,928</b>

**NOTE 23. FINANCIAL INSTRUMENTS****FINANCIAL RISK MANAGEMENT OBJECTIVES**

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.



**NOTE 23. FINANCIAL INSTRUMENTS (CONTINUED)**

Risk management is carried out by the Chief Financial Officer ('Finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

**MARKET RISK****Foreign currency risk**

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the consolidated entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

Exposure to foreign currency risk may result in the fair value of future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the consolidated entity holds financial instruments which are other than the Australian dollar functional currency of the consolidated entity.

The average exchange rates and reporting date exchange rates applied were as follows:

	Average exchange rates		Reporting date exchange rates	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019
<b>Australian dollars</b>				
<b>Pound Sterling</b>	1.8147	1.8246	1.7965	1.8079
<b>Canadian dollars</b>	1.0699	-	1.0661	-
<b>US Dollars</b>	1.4505	-	1.4511	-

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets		Liabilities	
	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 \$'000	30 June 2019 \$'000
<b>US dollars</b>	-	-	(187)	-
<b>Pound Sterling</b>	-	-	(13)	(339)
<b>Canadian dollars</b>	1,294	-	-	-
	1,294	-	(200)	(339)

The consolidated entity had net assets denominated in foreign currencies of \$1,094,000 (assets of \$1,294,000 less liabilities of \$200,000) as at 30 June 2020 (2019: liabilities of \$339,000 (assets of \$206,000 less liabilities of \$545,000)). Based on this exposure, had the Australian dollars weakened by 5%/strengthened by 5% (2019: weakened by 5%/strengthened by 5%) against these foreign currencies with all other variables held constant, the consolidated entity's profit before tax for the year would have been \$1,000 lower/\$1,000 higher (2019: \$85,000 lower/\$85,000 higher) and equity would have been \$55,000 lower/\$55,000 higher (2019: \$85,000 lower/\$85,000 higher). The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 12 months each year and the spot rate at each reporting date. The actual foreign exchange loss for the year ended 30 June 2020 was \$1,615,000 (2019: loss of \$79,000).

**Price risk**

The consolidated entity is not exposed to any significant price risk.

**NOTE 23. FINANCIAL INSTRUMENTS (CONTINUED)****CREDIT RISK**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

**LIQUIDITY RISK**

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

**Remaining contractual maturities**

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position

CONSOLIDATED - 30 June 2020	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>NON-DERIVATIVES</b>						
<b>Non-interest bearing</b>						
Trade payables	-	1,742	-	-	-	1,742
Other payables	-	1,202	-	-	-	1,202
<b>Interest-bearing - variable</b>						
Lease liability	5.00%	178	68	(39)	2,514	2,721
<b>Total non-derivatives</b>		<b>3,122</b>	<b>68</b>	<b>(39)</b>	<b>2,514</b>	<b>5,665</b>

CONSOLIDATED - 30 June 2019	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>NON-DERIVATIVES</b>						
<b>Non-interest bearing</b>						
Trade payables	-	806	-	-	-	806
Other payables	-	354	-	-	-	354
<b>Total non-derivatives</b>		<b>1,160</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,160</b>

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

**NOTE 23. FINANCIAL INSTRUMENTS (CONTINUED)****FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair values of financial assets and liabilities, together with their carrying amounts in the statement of financial position, for the consolidated entity are as follows:

	30 June 2020		30 June 2019	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
<b>CONSOLIDATED</b>				
<b>Assets</b>				
Cash at bank	10,143	10,143	4,918	4,918
Cash on deposit	-	-	10,000	10,000
Trade receivables	764	764	257	257
Other receivables	312	312	230	230
	<b>11,219</b>	<b>11,219</b>	<b>15,405</b>	<b>15,405</b>
<b>Liabilities</b>				
Trade payables	1,742	1,742	806	806
Other payables	1,202	1,202	354	354
Lease liability	2,721	2,721	-	-
	<b>5,665</b>	<b>5,665</b>	<b>1,160</b>	<b>1,160</b>

**NOTE 24. CONTINGENT LIABILITIES**

The consolidated entity has given bank guarantees as at 30 June 2020 of \$284,951 (2019: \$217,539) to various landlords for the operating and commercial leases of the consolidated entity's two premises located in Melbourne, Australia and one premises in London, United Kingdom. Except for these, the consolidated entity currently has no contingent liabilities at the date of signing this report.

**NOTE 25. REMUNERATION OF AUDITORS**

During the financial year the following fees were paid or payable for services provided by RSM Australia Partners, the auditor of the company:

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
<b>Audit services - RSM Australia Partners</b>		
Audit or review of the financial statements	61,000	58,500
<b>Other services - RSM Australia Partners</b>		
Due diligence	-	34,763
Other services	7,297	13,000
	<b>7,297</b>	<b>47,763</b>
	<b>68,297</b>	<b>106,263</b>

## NOTE 26. KEY MANAGEMENT PERSONNEL DISCLOSURES

### COMPENSATION

The aggregate compensation made to Directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
Short-term employee benefits	911,942	437,594
Post-employment benefits	61,728	40,384
Share-based payments	(492,534)	492,534
	<b>481,136</b>	<b>970,512</b>

## NOTE 27. RELATED PARTY TRANSACTIONS

### PARENT ENTITY

Althea Group Holdings Limited is the parent entity.

### SUBSIDIARIES

Interests in subsidiaries are set out in note 29.

### KEY MANAGEMENT PERSONNEL

Disclosures relating to key management personnel are set out in note 26 and the remuneration report included in the Directors' Report.

### TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties:

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
<b>Payment for goods and services:</b>		
Purchase of goods from other related party - Aphria Inc. (significant shareholder in 2019)	-	621
Purchase of goods from other related party - Wartorn Productions Pty Ltd (director related entity to Joshua Fegan)	-	17
<b>Payment for employee benefits:</b>		
Compensation paid to Joshua Fegan's family members	221	206

Payments to Joshua Fegan's family members have been paid at an arm's length to one full-time contracted employee.

### RECEIVABLE FROM AND PAYABLE TO RELATED PARTIES

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

### LOANS TO/FROM RELATED PARTIES

There were no loans to or from related parties at the current and previous reporting date.

### TERMS AND CONDITIONS

All transactions were made on normal commercial terms and conditions and at market rates.

**NOTE 28. PARENT ENTITY INFORMATION**

Set out below is the supplementary information about the parent entity.

	Parent	
	30 June 2020 \$'000	30 June 2019 \$'000
<b>STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME</b>		
Profit/(loss) after income tax	373	(1,643)
Total comprehensive income	373	(1,643)

	Parent	
	30 June 2020 \$'000	30 June 2019 \$'000
<b>STATEMENT OF FINANCIAL POSITION</b>		
Total current assets	9,819	14,768
Total assets	54,692	25,930
Total current liabilities	75	-
Total liabilities	210	-
<b>Equity</b>		
Issued capital	54,403	25,732
Share based payment reserve	1,348	1,841
Accumulated losses	(1,270)	(1,643)
<b>Total equity</b>	<b>54,481</b>	<b>25,930</b>

**GUARANTEES ENTERED INTO BY THE PARENT ENTITY IN RELATION TO THE DEBTS OF ITS SUBSIDIARIES**

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2020 and 30 June 2019.

**CONTINGENT LIABILITIES**

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

**CAPITAL COMMITMENTS - PROPERTY, PLANT AND EQUIPMENT**

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

**SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.



## NOTE 29. INTERESTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

NAME	Principal place of business / Country of incorporation	Ownership interest	
		30 June 2020 %	30 June 2019 %
<b>Althea Company Pty Ltd</b>	Australia	100.00%	100.00%
<b>Althea MMJ UK Ltd</b>	United Kingdom	100.00%	100.00%
<b>MMJ Clinic Group Ltd</b>	United Kingdom	100.00%	100.00%
<b>2613035 Ontario Limited</b>	Canada	100.00%	-
<b>2682130 Ontario Limited</b>	Canada	100.00%	-
<b>1214029 B.C. Ltd</b>	Canada	100.00%	-

1214029 B.C. Ltd is an entity associated with acquisition of Peak Processing.

## NOTE 30. BUSINESS COMBINATIONS

On 16 October 2019, the consolidated entity acquired 100% of the ordinary shares of 2682130 Ontario Limited and 2613035 Ontario Limited (collectively known as 'Peak Processing Solutions'), a Canadian based extraction and contract manufacturing company for the total consideration transferred of \$18,989,000. The acquisition was made to gain exposure into Canada's emerging recreational cannabis market. The goodwill of \$19,632,000 represents the expected value of Canada's cannabis industry and a large-scale (infused) cannabis processing licence which is expected to be granted to Peak Processing Solutions in 2020. The values identified in relation to the acquisition of Peak Processing Solutions are final as at 30 June 2020.

### Contingent consideration shares

The issuance of shares as consideration to previous shareholders is contingent upon the Canadian Government granting a cannabis manufacturing licence to Peak Processing Solutions and performance targets being achieved post acquisition. Performance targets for each earn-out conditions are as follows:

#### TRANCHE 1

(i) Granting of the Canadian Cannabis Processor Licence on or before 30 June 2021.

#### TRANCHE 2

(i) the conditions from Tranche 1 are satisfied; and

(ii) Peak Processing Solutions achieves revenue of CAD\$7,000,000 and EBITDA of CAD\$2,000,000 in the twelve (12) month period following the licence issuance date.

#### TRANCHE 3

(i) the conditions from Tranche 1 are satisfied; and

(ii) Peak Processing Solutions achieves revenue of CAD\$25,000,000 and EBITDA of CAD\$12,500,000 in the eighteen (18) month period following the licence issuance date.

The Directors of the company have estimated the possibility of this happening as being between 85-100% and have recognised the fair value of the shares, being \$17,134,000 as part of the acquisition consideration.

**NOTE 30. BUSINESS COMBINATIONS (CONTINUED)**

Details of the acquisition are as follows:

	<b>Fair value \$'000</b>
Cash and cash equivalents	204
Financial assets	133
Property, plant and equipment	3,949
Identifiable intangible assets	42
Financial liabilities	(4,971)
<b>Net liabilities acquired</b>	<b>(643)</b>
Goodwill	19,632
<b>Acquisition-date fair value of the total consideration transferred</b>	<b>18,989</b>
<b>Representing:</b>	
Cash paid or payable to vendor	1,855
Fair value of contingent consideration - equity instruments (exchangeable shares of parent company)	17,134
	<b>18,989</b>
<b>Acquisition costs expensed to profit or loss</b>	<b>806</b>
<b>Cash used to acquire business, net of cash acquired:</b>	
Acquisition-date fair value of the total consideration transferred	1,855
Less: cash and cash equivalents	(204)
Acquisition costs charged to expenses	806
<b>Net cash used</b>	<b>2,457</b>

## NOTE 31. RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH USED IN OPERATING ACTIVITIES

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
Loss after income tax expense for the year	(14,768)	(8,675)
<b>Adjustments for:</b>		
Depreciation and amortisation	848	48
Share-based payments	(493)	1,841
Interest paid on investing activities	542	-
Foreign exchange differences	1,451	69
<b>Change in operating assets and liabilities:</b>		
(Increase) in trade and other receivables	(920)	(439)
(Increase) in inventories	(1,601)	(546)
(Increase)/Decrease in prepayments	(1,451)	481
Increase in trade and other payables	1,784	1,009
Increase in employee benefits	245	-
Increase/(decrease) in other provisions	125	56
<b>Net cash used in operating activities</b>	<b>(14,238)</b>	<b>(6,156)</b>

## NOTE 32. LOSS PER SHARE

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
Loss after income tax	(14,768)	(8,675)
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	230,061,945	169,619,720
Weighted average number of ordinary shares used in calculating diluted earnings per share	230,061,945	169,619,720
	<b>Cents</b>	<b>Cents</b>
Basic loss per share	(6.42)	(5.11)
Diluted loss per share	(6.42)	(5.11)

5,100,000 (30 June 2019: 5,100,000) performance options and 2,675,000 (30 June 2019: 2,675,000) pre-IPO Consultant options have been excluded from the above calculations as their inclusion would be anti-dilutive.

## NOTE 33. SHARE-BASED PAYMENTS

Set out below are summaries of options granted to Pre-IPO Consultants

30 June 2020							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
21/09/2018	21/09/2022	\$0.20	2,675,000	-	-	-	2,675,000
			<b>2,675,000</b>	-	-	-	<b>2,675,000</b>

Set out below are summaries of performance rights granted under the LTI plan:

30 June 2020							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
21/09/2018	21/09/2021	\$0.00	5,100,000	-	-	-	5,100,000
			<b>5,100,000</b>	-	-	-	<b>5,100,000</b>

The terms and conditions of each grant of performance rights over ordinary shares are as follows:

**Tranche 1** - 2,550,000 Performance Rights will vest on satisfaction of all of the following milestones within 3 years of ASX-listing:

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

**Tranche 2** - 2,550,000 Performance Rights will vest on satisfaction of all of the following milestones within 3 years of ASX-listing:

- (i) The market capitalisation of Althea Group Holdings Limited, being the number of shares on issue multiplied by the Volume Weighted Average Price per Share over any 20 consecutive trading days on which shares in Althea Group Holdings Limited have actually traded on ASX, equals or exceeds \$100,000,000;
- (ii) Completion of construction of the medicinal cannabis growing facility contemplated under the Tranche 1 milestones and the issue of an occupancy permit for the facility by the Frankston City Council; and
- (iii) The cultivation permit required to allow operation of the medicinal cannabis growing facility contemplated under the Tranche 1 milestone is issued by the Office of Drug Control to an entity in the consolidated entity.

On a cumulative basis as at 30 June 2020, no amount has been recognised for goods or services received due to the performance rights granted over ordinary shares in Tranche 1 above failing to satisfy the vesting conditions. Performance condition (ii) will not be met during the vesting period and management have revised the share-based payment expense to reflect the best estimate of the number of equity instruments expected to vest. This has resulted in a net write-back to the profit and loss of \$493,000 as at 30 June 2020.

## NOTE 34. EVENTS AFTER THE REPORTING PERIOD

The impact of the Coronavirus (COVID-19) pandemic is ongoing and it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian State and Federal Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided, including response to Victoria's Stage 4 lockdown measures.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

# DIRECTORS' DECLARATION

## IN THE DIRECTORS' OPINION:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors



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**Andrew Newbold**  
Chairman

**27 August 2020**







# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALTHEA GROUP HOLDINGS LIMITED



## RSM Australia Partners

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## INDEPENDENT AUDITOR'S REPORT To the Members of Althea Group Holdings Limited

### Opinion

We have audited the financial report of Althea Group Holdings Limited (the Company), and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALTHEA GROUP HOLDINGS LIMITED



## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed this matter
<b>Impairment of Goodwill</b> Refer to Note 14 in the financial statements	
<p>The Group has goodwill of \$19.6 million relating to its acquisition of Peak Processing in the current year. We identified this area as a Key Audit Matter due to the size of the goodwill balance, and because the directors' assessment of the 'value in use' of the cash generating unit ("CGU") involves judgements about the future underlying cash flows of the business and the discount rates applied to them.</p> <p>For the year ended 30 June 2020 management have performed an impairment assessment over the goodwill balance by:</p> <ul style="list-style-type: none"> <li>Calculating the value in use the CGU using a discounted cash flow model. These models used cash flows (revenues, expenses and capital expenditure) for the CGU for 5 years, with a terminal growth rate applied to the 5th year. These cash flows were then discounted to net present value using the Group's weighted average cost of capital (WACC) adjusted for the CGU; and</li> <li>Comparing the resulting value in use of the CGU to their respective book values.</li> </ul> <p>Management also performed a sensitivity analysis over the value in use calculations, by varying the assumptions used (growth rates, terminal growth rate and WACC) to assess the impact on the valuation.</p>	<p>Our audit procedures in relation to management's assessment of impairment include:</p> <ul style="list-style-type: none"> <li>Assessing management's determination that the goodwill should be allocated to a single CGU based on the nature of the Group's business and the manner in which results are monitored and reported;</li> <li>Assessing the valuation methodology used;</li> <li>Challenging the reasonableness of key assumptions, including the cash flow projections, revenue growth rates, discount rates, and sensitivities used;</li> <li>Checking the mathematical accuracy of the cash flow model, and reconciling input data to supporting evidence such as approved budgets, and considering the reasonableness of these budgets; and</li> <li>Reviewing the accuracy of disclosures of critical estimates and assumptions in the financial statements in relation to the valuation methodologies.</li> </ul>

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALTHEA GROUP HOLDINGS LIMITED



## Key Audit Matters (continued.)

Key Audit Matter	How our audit addressed this matter
<b>Acquisition of Peak Processing</b> Refer to Note 30 in the financial statements	
<p>During the year, the Group acquired 100% of the share capital of Peak Processing and its controlled entities.</p> <p>This acquisition was considered a key audit matter as the accounting for the transaction is complex, and involves significant judgements in applying the accounting standards. This includes the recognition and valuation of consideration paid and contingent consideration payable, the determination of the fair value of the tangible assets and liabilities acquired, and the identification and valuation of intangible assets.</p>	<p>Our procedures to assess the accounting treatment of the acquisition included:</p> <ul style="list-style-type: none"> <li>• Obtaining the share purchase agreements and other associated documents to understand the key terms and conditions, and ensuring that the transaction had been accounted for in compliance with <i>AASB 3 Business Combinations</i>;</li> <li>• Testing the cash consideration paid to bank statements;</li> <li>• Assessing the valuation of contingent consideration payable in the form of exchangeable shares that are subject to a three-stage performance earnout, including managements estimation on the probabilities of achieving earnout targets;</li> <li>• Assessing the Group's determination of the fair value of the assets and liabilities acquired, having regard to the completeness of assets and liabilities identified and the reasonableness of any underlying assumptions in their respective valuations, including useful lives of the tangible assets acquired; and</li> <li>• Reviewing the disclosures in the financial report in order to assess compliance with the disclosure requirements of AASB 3.</li> </ul>

## Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALTHEA GROUP HOLDINGS LIMITED



## ***Responsibilities of the Directors for the Financial Report***

The directors of the Group are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## ***Auditor's Responsibilities for the Audit of the Financial Report***

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_responsibilities/ar2.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf). This description forms part of our auditor's report.

## **Report on the Remuneration Report**

### ***Opinion on the Remuneration Report***

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Althea Group Holdings Limited, for the year ended 30 June 2020, complies with section 300A of the Corporations Act 2001.

### ***Responsibilities***

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A blue ink signature, likely belonging to a partner at RSM Australia Partners.

**RSM AUSTRALIA PARTNERS**

A blue ink signature, likely belonging to B Y Chan.

**B Y CHAN**  
Partner

Dated: 27 August 2020  
Melbourne, Victoria

# SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 30 July 2020.

## DISTRIBUTION OF EQUITABLE SECURITIES

Analysis of number of equitable security holders by size of holding:

Range	Total Holders	Number of holders of options over ordinary shares
1 to 1,000	1,472	-
1,001 to 5,000	3,923	-
5,001 to 10,000	1,273	-
10,001 to 100,000	1,648	-
100,001 and over	172	-
	<b>8,488</b>	-
Holding less than a marketable parcel	2,755	-

## EQUITY SECURITY HOLDERS

### Unquoted equity securities

There are no unquoted equity securities.

### SUBSTANTIAL HOLDERS

The 20 largest shareholders in the consolidated entity are set out below:

Rank	Name	Units	% Units
1	Joshua Michael Fegan	56,250,000	24.11
2	HSBC Custody Nominees (Australia) Limited	19,560,597	8.38
3	Aphria Inc.	12,250,000	5.25
4	Mancann Pty Ltd	10,000,000	4.29
5	Hootch Pty Ltd	7,500,000	3.21
6	National Nominees Limited	5,347,880	2.29
7	UBS Nominees Pty Ltd	3,579,819	1.53
8	PAC Partners Pty Ltd	3,242,347	1.39
9	Citicorp Nominees Pty Limited	3,073,088	1.32
10	Mr Philip John Cawood	1,800,000	0.77
11	Newbold Family Super Fund	1,500,000	0.64
12	Mansfield Can Investments Pty Ltd (Mansfield Super Fund A/C)	1,366,035	0.59
13	PAC Partners Securities Pty Ltd	1,337,555	0.57
14	BNP Paribas Nominees Pty Ltd (IOOF INSMT MGMT LTD DRP)	1,300,000	0.56
15	Maelstrom Pty Ltd (Falkiner Super Fund A/C)	1,200,000	0.51
16	Sandhurst Trustees Ltd (Cyan C3G Fund A/C)	931,666	0.40
17	J P Morgan Nominees Australia Pty Limited	817,239	0.35
18	RMO Holdings Ltd	750,000	0.32
19	Mrs Margaret Lynette Harvey	650,000	0.28
20	Mr Shane Trevor Kennedy	550,000	0.24
		<b>133,006,226</b>	<b>57.00</b>
	<b>Total Remaining Holders Balance</b>	<b>100,303,774</b>	<b>43.00</b>

## VOTING RIGHTS

The voting rights attached to ordinary shares are set out below:

### ORDINARY SHARES

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.







# Althea<sup>TM</sup>

