FREEDOM TO LIVE AN Althea™ life 2020

HALF-YEAR FINANCIAL REPORT

For the period ended - 31 December 2019

Althea Group Holdings Limited and Controlled Entities

ABN 78 626 966 943

Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with the 30 June 2019 Annual Report

Althea™

APPENDIX 4D

1. COMPANY DETAILS

Name of entity: Althea Group Holdings Limited
ABN: 78 626 966 943
Reporting period: For the half-year ended 31 December 2019
Previous period: For the half-year ended 31 December 2018

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

				$'000
Revenues from ordinary activities	up	963.8%	to	1,851
Loss from ordinary activities after tax attributable to the owners of Althea Group Holdings Limited	up	253.0%	to	(8,351)
Loss for the half-year attributable to the owners of Althea Group Holdings Limited	up	253.0%	to	(8,351)

DIVIDENDS

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

COMMENTS

The loss for the consolidated entity after providing for income tax amounted to $8,351,000 (31 December 2018: $2,366,000 loss).

3. NET TANGIBLE ASSETS

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	14.37	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. DIVIDEND REINVESTMENT PLANS

Not applicable.

7. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

Not applicable.

8. ACCOUNTING STANDARDS USED BY FOREIGN ENTITIES

International Financial Reporting Standards.

9. AUDIT QUALIFICATION OR REVIEW

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

10. ATTACHMENTS

The Interim Report of Althea Group Holdings Limited for the half-year ended 31 December 2019 is attached.

ALTHEA GROUP HOLDINGS LIMITED

ABN 78 626 966 943

INTERIM REPORT - 31 DECEMBER 2019

CONTENTS

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 half-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 are:

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

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 26 February 2020.

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

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 half-year ended 31 December 2019.

DIRECTORS

The following persons were Directors of Althea Group Holdings Limited during the whole of the financial half-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 Group during the period were the sales and distribution of medicinal cannabis products in Australia and the United Kingdom, with the development of a cannabis extraction and manufacturing facility in Canada.

REVIEW OF OPERATIONS

KEY ACHIEVEMENTS

The year to date has seen significant progress being made throughout the organisation. During the period Althea continued to acquire both new prescribers and new patients at record rates, whilst successfully launching a highly concentrated full spectrum cannabidiol (CBD) product.

In addition to achieving our 4,000 patient target in Australia and amid increasing sales of Althea's medicinal cannabis products in Australia and the United Kingdom, the Group also completed the settlement of Canada-based Peak Processing Solutions, a business which forms an integral part of our global growth initiative.

PATIENT GROWTH EXCEEDING TARGETS

The company's unrelenting drive for sales continues to yield positive patient growth for Althea, with a total of 4,018 patients being prescribed our medicinal cannabis products in Australia to 31 December 2019. In a further positive sign for the business and despite seasonality issues associated with the summer holiday period, January 2020 delivered our second-best month on record with 572 new patients added, highlighting the increasing demand for Althea medications.

Positive patient growth has translated into strong market share for Althea and based on official Department of Health (DOH) published patient data, Althea patients represent 24% of all Australian medicinal cannabis consumers[1].

432 Healthcare Professionals (HCP's) had prescribed Althea products by year end 2019 and as at 31 January 2020, that number had increased to 459 HCP's. Althea is incredibly fortunate to have *Althea Concierge*, our proprietary online prescribing platform, which can service doctors and patients around the clock with all their medicinal cannabis needs.

1. Althea internal 2019 calendar year sales benchmarked against Australian Government Department of Health: Submission to the Senate Community Affairs References Committee for the Senate inquiry into the current barriers to patient access to medicinal cannabis in Australia, January 2020 at p14.

PORTFOLIO EXTENSION

In October 2019, we expanded the Althea medicinal cannabis product portfolio with the successful introduction of Althea CBD100, a unique and highly concentrated CBD preparation. The full spectrum cannabinoid profile of Althea CBD100 provides it with an advantage over some products in the market, which are generally 'purified' or 'isolate' CBD (otherwise known as 'CBD only'). Althea CBD100 has already delivered approximately 30% in additional sales and is testament to the hard work and dedication of our medical affairs and product development teams in servicing our patients' needs.

UK EXPANSION

Since receiving the first prescription for Althea medicinal cannabis in the United Kingdom (UK) in June 2019, the market has continued to experience steady growth, with a total of 88 prescriptions received as at 29 January 2020.

While Althea patient and prescription growth has been positive in the context of the introductory UK market, conditions created by political uncertainty within the country has impeded progress. Following the UK election in December and the subsequent certainty of Brexit, we are confident the Conservative Party majority will lead to a period of stability in the UK and enable a greater focus on domestic agenda items, such as patient access to medicinal cannabis.

PEAK PROCESSING SOLUTIONS

Another notable milestone during the first half of financial year 2020 (FY20) was the successful acquisition and settlement of Canadian-based cannabis extraction and contract manufacturing organisation, Peak Processing Solutions (Peak). Settlement was completed in October and Peak is well positioned to capitalise on the next generation of Canadian adult-use cannabis offerings (also known as 'cannabis 2.0'), a sector which reports indicate is expected to double in value to A$5.4 billion by the end of 2020[2].

Peak is an exciting new venture and we are confident the Group will be able to realise strong returns on this investment in the medium term.

GERMAN MARKET ENTRY

In early November 2019, Althea signed a Memorandum of Understanding (MOU) with nimbus health GmbH (Nimbus) for the sale and distribution of Althea's medicinal cannabis products throughout Germany.

The German market is distinctive in that public health insurers typically cover the entire fee for medicinal cannabis medications, meaning there is no cost to patients. A reported 60,000 patients in Germany were treated with medicinal cannabis in 2018[3] and this number is expected to rise to 1 million by 2024[4].

Althea and Nimbus have since made application to the German authorities for approval to import the full range of Althea's cannabis oil products, with approval and shipment expected to occur in the first half of calendar year 2020.

LOOKING AHEAD

I am pleased to announce that we have now surpassed 5,000 patients in Australia, building on the positive start to the year and continuing the awesome momentum that we are gathering through our robust sales program. Our patient and HCP growth positions us well to achieve profitability from our Australian operations within the next six months.

On the global front, we expect to achieve our one hundredth patient in the UK shortly, capitalising on our early mover advantage and positioning Althea as the market leader within an expansion territory which has enormous potential. Regarding Peak, we look forward to receiving our Health Canada processing licence which will enable us to commence commercial production.

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 manufacturing company. Full control was gained on acquisition There were no other significant changes in the state of affairs of the consolidated entity during the financial half-year.

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.

2. https://edition.cnn.com/2019/10/17/business/canada-cannabis-legalization-2-0/index.html
3. Prohibition Partners: The Germany Cannabis Report, 28 October 2019 at p2
4. Ibid at p34

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.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the Directors

Joshua Fegan

Director

26 February 2020

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Althea Group Holdings Limited for the half year ended 31 December 2019, 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 review; and

(ii) any applicable code of professional conduct in relation to the review.

RSM AUSTRALIA PARTNERS

B Y CHAN
Partner

Dated: 26 February 2020
Melbourne, Victoria

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Consolidated	
REVENUE	**Note**	**31 December 2019 $'000**	**31 December 2018 $'000**
Revenue	4	1,851	174
Cost of goods sold		(787)	(71)
Gross profit		1,064	103
Other income		1	-
Interest revenue calculated using the effective interest method		178	8
EXPENSES			
Employee benefits expense	5	(2,277)	(417)
Depreciation and amortisation expense	5	(296)	(1)
Share based payment expense	5	(434)	-
Other expenses		(358)	(101)
Distribution expenses		(335)	(31)
Marketing expenses		(1,822)	(864)
Occupancy expenses		(90)	(68)
Professional services	5	(2,433)	(752)
Foreign exchange loss	5	(387)	-
Administration expenses		(537)	(239)
Finance costs	5	(625)	(4)
Loss before income tax expense		(8,351)	(2,366)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Althea Group Holdings Limited		**(8,351)**	**(2,366)**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(37)	-
Other comprehensive income for the half-year, net of tax		(37)	-
Total comprehensive income for the half-year attributable to the owners of Althea Group Holdings Limited		**(8,388)**	**(2,366)**
		Cents	**Cents**
Basic loss per share	20	(3.68)	(2.06)
Diluted loss per share	20	(3.68)	(2.06)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Consolidated	
		31 December 2019	30 June 2019
ASSETS	**Note**	**$'000**	**$'000**
Current assets			
Cash and cash equivalents	6	22,361	14,918
Trade and other receivables	7	1,373	505
Inventories		2,617	630
Other		1,894	167
Total current assets		**28,245**	**16,220**
Non-current assets			
Other financial assets		286	237
Property, plant and equipment	8	6,625	1,058
Right-of-use assets	9	2,820	-
Intangible assets	10	21,357	765
Total non-current assets		**31,088**	**2,060**
Total assets		**59,333**	**18,280**
LIABILITIES			
Current liabilities			
Trade and other payables		1,458	1,160
Lease liabilities	11	167	-
Provisions		142	68
Total current liabilities		1,767	1,228
Non-current liabilities			
Lease liabilities	12	2,635	-
Other		28	-
Total non-current liabilities		2,663	-
Total liabilities		4,430	1,228
Net assets		**54,903**	**17,052**
EQUITY			
Issued capital	13	54,403	25,732
Reserves	14	19,397	1,866
Accumulated losses		(18,897)	(10,546)
Total equity		**54,903**	**17,052**

The above 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 on reserve	Accumulated losses $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2018	5,008	-	-	-	(1,872)	-	3,136
Loss after income tax expense for the half-year	-	-	-	-	(2,366)	-	(2,366)
Other comprehensive income for the half-year, net of tax	-	-	-	-	-	-	-
Total comprehensive income for the half-year	-	-	-	-	**(2,366)**	**-**	**(2,366)**
Transactions with owners in their capacity as owners:							
Shares issued during the period, net of capital raising costs	20,724	-	-	-	-	-	20,724
Balance at 31 December 2018	**25,732**	-	-	-	**(4,238)**	**-**	**21,494**

CONSOLIDATED	Issued capital $'000	Share based payment reserve $'000	Foreign currency translation reserve $'000	Deferred consideration on reserve	Accumulated losses $'000	Non-controlling interest $'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 half-year	-	-	-	-	(8,351)	-	(8,351)
Other comprehensive income for the half-year, net of tax	-	-	(37)	-	-	-	(37)
Total comprehensive income for the half-year	-	-	**(37)**	-	**(8,351)**	-	**(8,388)**
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs (note 13)	28,671	-	-	-	-	-	28,671
Share based payments	-	434	-	17,134	-	-	17,568
Balance at 31 December 2019	**54,403**	**2,275**	**(12)**	**17,134**	**(18,897)**	**-**	**54,903**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

		Consolidated	
CASH FLOWS FROM OPERATING ACTIVITIES	**Note**	**31 December 2019 $'000**	**31 December 2018 $'000**
Receipts from customers		1,545	129
Payments to suppliers and employees		(12,847)	(2,482)
Interest received		178	8
Interest and other finance costs paid		(538)	-
Net cash used in operating activities	21	**(11,662)**	**(2,345)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for investments		(1,655)	-
Payments for property, plant and equipment	8	(1,652)	-
Payments for intangibles	10	(1,191)	(157)
Purchase of non-current assets		-	(434)
Transfer from term deposit		-	(5,000)
Net cash used in investing activities		**(4,498)**	**(5,591)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares, net of capital raising costs	13	28,672	20,724
Repayment of borrowings on acquisition		(3,315)	-
Repayment of lease liabilities		(260)	-
Payment of bank guarantee		(49)	(215)
Loans to other entities		(1,423)	-
Net cash from financing activities		**23,625**	**20,509**
Net increase in cash and cash equivalents		7,465	12,573
Cash and cash equivalents at the beginning of the financial half-year		14,918	2,300
Effects of exchange rate changes on cash and cash equivalents		(22)	-
Cash and cash equivalents at the end of the financial half-year		**22,361**	**14,873**

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. BASIS OF PREPARATION

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

(a) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(b) Functional and presentation currency

The interim consolidated financial statements are presented in Australian Dollars, which is Althea's functional currency and amounts have been rounded to the nearest thousand dollars, unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191.

(a) Going concern

The interim consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

Where required by Accounting Standards, comparative balances have been re-classified to conform with changes in presentation for the current financial year.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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 Group:

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 classification 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 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 17. 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 are 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:

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	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)
Short-term leases not recognised as a right-of-use asset (AASB 16)	-
Low-value asset leases not recognsied as a right-of-use asset (AASB 16)	-
Right-of-use assets (AASB16)	2,904
Lease liabilities - current (AASB16)	(157)
Lease liabilities – non-current (AASB16)	(2,747)
Reduction in opening retained earnings as at 1 July 2019	-

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.

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 Maker(s) ("CODM")) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews 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.

NOTE 3. OPERATING SEGMENTS (CONTINUED)

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 period ended 31 December 2019, approximately 17% (2018: 10%) of the consolidated entity's external revenue was derived from sales to one customer.

OPERATING SEGMENT INFORMATION

CONSOLIDATED - 31 December 2019	Australia $'000	United Kingdom $'000	Canada $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue					
Sales to external customers	1,845	6	-	-	1,851
Interest revenue	178	-	-	-	178
Other revenue	-	1	-	-	1
Total revenue	**2,023**	**7**	-	-	**2,030**
EBITDA	(4,729)	(1,984)	(895)	-	(7,608)
Depreciation and amortisation expense	(270)	(2)	(24)	-	(296)
Interest revenue	178	-	-	-	178
Finance costs	(84)	(1)	(540)	-	(625)
Loss before income tax expense	**(4,905)**	**(1,987)**	**(1,459)**	-	**(8,351)**
Income tax expense					-
Loss after income tax expense					**(8,351)**
ASSETS					
Segment assets	37,700	886	25,145	(4,398)	59,333
Total assets					**59,333**
LIABILITIES					
Segment liabilities	3,804	215	411	-	4,430
Total liabilities					**4,430**

NOTE 3. OPERATING SEGMENTS (CONTINUED)

CONSOLIDATED - 31 December 2018	Australia $'000	United Kingdom $'000	Canada $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue					
Sales to external customers	174	-	-	-	174
Interest revenue	8	-	-	-	8
Total revenue	**182**	-	-	-	**182**
EBITDA	(2,369)	-	-	-	(2,369)
Depreciation and amortisation expense	(1)	-	-	-	(1)
Interest revenue	8	-	-	-	8
Finance costs	(4)	-	-	-	(4)
Loss before income tax expense	**(2,366)**	**-**	**-**	-	**(2,366)**
Income tax expense					-
Loss after income tax expense					**(2,366)**

CONSOLIDATED - 30 June 2019	Australia $'000	United Kingdom $'000	Canada $'000	Intersegment eliminations/ unallocated $'000	Total $'000
ASSETS					
Segment assets	18,280	-	-	-	18,280
Total assets					**18,280**
LIABILITIES					
Segment liabilities	1,228	-	-	-	1,288
Total liabilities					**1,288**

NOTE 4. REVENUE

DISAGGREGATION OF REVENUE

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

	Consolidated	
	31 December 2019 $'000	31 December 2018 $'000
Sales Channels		
Goods sold directly to registered pharmacies	1,534	174
Goods sold through intermediaries	317	-
	1,851	**174**

NOTE 5. EXPENSES

	Consolidated	
LOSS BEFORE INCOME TAX INCLUDES THE FOLLOWING SPECIFIC EXPENSES:	**31 December 2019 $'000**	**31 December 2018 $'000**
Cost of sales		
Cost of sales	787	71
Depreciation		
Plant and equipment	296	1
Finance costs		
Interest and finance charges paid/payable on borrowings	547	4
Interest and finance charges paid/payable on lease liabilities	78	-
Finance costs expensed	625	4
Net foreign exchange loss		
Net foreign exchange loss	387	-
Employee benefits expense		
Employee benefits expense	2,277	417
Share based employee expense	434	-
Total employee benefits expense	**2,711**	**417**
Professional services		
Accounting and taxation services	132	30
Consulting services	1,296	248
Legal fees	213	441
Acquisition related professional fees	749	-
Other professional fees	43	33
Total professional services	2,433	752

NOTE 6. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Consolidated	
	31 December 2019 $'000	**30 June 2019 $'000**
Cash at bank	22,361	4,918
Cash on deposit	-	10,000
	22,361	**14,918**

NOTE 7. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Trade receivables	650	257
Less: Allowance for expected credit losses	(14)	-
	636	**257**
Other receivables	737	230
Receivable from related parties	-	18
	1,373	**505**

ALLOWANCE FOR EXPECTED CREDIT LOSSES

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

	Expected credit loss rate %		Carrying amount $'000		Allowance for expected credit losses $'000	
CONSOLIDATED	31 December 2019 %	30 June 2019 %	31 December 2019 $'000	30 June 2019 $'000	31 December 2019 $'000	30 June 2019 $'000
Not overdue	-	-	1,141	455	-	-
0 to 1 months overdue	-	-	139	44	-	-
1 to 3 months overdue	-	-	79	4	-	-
Over 3 months overdue	50	-	28	2	**14**	-
			1,387	**505**	**14**	-

NOTE 8. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Land at cost	617	-
Asset under construction – at cost	3,452	1,011
Land and buildings - at cost	2,469	-
Less: Accumulated depreciation	(56)	-
	2,413	-
Plant and equipment - at cost	28	-
Less: Accumulated depreciation	(1)	-
	27	-
Computer equipment - at cost	130	50
Less: Accumulated depreciation	(20)	(3)
	110	47
Office equipment - at cost	7	-
Less: Accumulated depreciation	(1)	-
	6	-
	6,625	**1,058**

NOTE 9. NON-CURRENT ASSETS - RIGHT-OF-USE ASSETS

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Land and buildings – right-of-use	2,968	-
Less: Accumulated depreciation	(148)	-
	2,820	-

Additions to the right-of-use assets during the half-year were $64,000.

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 of 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 10. NON-CURRENT ASSETS - INTANGIBLE ASSETS

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Goodwill - at cost (i)	19,599	-
Website - at cost	118	59
Less: Accumulated amortisation	(11)	-
	107	59
Software - at cost	1,575	751
Less: Accumulated amortisation	(148)	(45)
	1,427	706
Intellectual Property - at cost	224	-
	21,357	**765**

(i) Refer to Note 17 Business Combinations for further details.

NOTE 11. CURRENT ASSETS - LEASE LIABILITIES

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Lease liability	167	-

NOTE 12. NON-CURRENT ASSETS - LEASE LIABILITIES

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Lease liability	2,635	-

NOTE 13. EQUITY - ISSUED CAPITAL

	Consolidated			
	31 December 2019 Shares	30 June 2019 Shares	31 December 2019 $'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 2019	203,310,000	-	25,732
Placement	9 August 2019	29,790,000	$1.00	29,790
Placement	22 October 2019	210,000	$1.00	210
Capital raising costs		-	$0.00	(1,329)
Balance	**31 December 2019**	**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.

NOTE 14. EQUITY - RESERVES

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Foreign currency reserve	(12)	25
Share based payment reserve	2,275	1,841
Deferred consideration reserve	17,134	-
	19,397	**1,866**

Deferred consideration reserve represents the fair value of contingent consideration that arose on acquisition of Peak Processing. 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 Ltd at date of acquisition and corresponding earn-out probabilities. The exchangeable shares have an expiry no later than 31 May 2023.

NOTE 15. CONTINGENT LIABILITIES

The Company has two bank guarantees totalling $285,875 for the operating and commercial leases of the consolidated entity's two premises located in Melbourne, Australia. Except for these, the consolidated entity currently has no contingent liabilities at the date of signing this report.

NOTE 16. RELATED PARTY TRANSACTIONS

PARENT ENTITY

Althea Group Holdings Limited is the parent entity.

SUBSIDIARIES

Interests in subsidiaries are set out in note 18.

TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties:

	Consolidated	
	31 December 2019 $000	31 December 2018 $000
Payment for goods and services:		
Purchase of goods from other related party - Wartorn Productions Pty Ltd (director related entity to Joshua Fegan)	-	16
Payment for employee benefits:		
Compensation paid to Joshua Fegan's family members	120	83

RECEIVABLE FROM AND PAYABLE TO RELATED PARTIES

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated	
	31 December 2019 $000	30 June 2019 $'000
Current assets:		
Prepayments - Aphria Inc. (inventory prepayment)	-	1

LOANS TO/FROM RELATED PARTIES

The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated	
	31 December 2019 $000	30 June 2019 $'000
Current receivables:		
To be reimbursed by Aphria Inc.	-	18

TERMS AND CONDITIONS

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

NOTE 17. BUSINESS COMBINATION

On 16 October 2019, the Consolidated entity acquired 100% of the equity of Peak Processing Solutions, a Canadian based extraction and contract manufacturing company, thereby obtaining control. The acquisition was made to gain exposure into Canada's emerging recreational cannabis market. The goodwill balance of $19,599,000 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 in early 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 and performance targets being achieved post acquisition. 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.

The amounts recognised at acquisition date in respect of the identifiable assets acquired and liabilities assumed are set out in the table below, which are now final amounts at 31 December 2019.

Details of the acquisition are as follows:

	Fair value $'000
Cash and cash equivalents	204
Financial assets	133
Property, plant and equipment	3,949
Identifiable intangible assets	42
Financial liabilities	(4,938)
Net liabilities acquired	(610)
Goodwill	19,599
Acquisition-date fair value of the total consideration transferred	**18,989**
Representing:	
Cash paid or payable to vendor	1,855
Fair value of contingent consideration - equity instruments (exchangeable shares of parent company)	17,134
	18,989
Acquisition costs expensed to profit or loss	806
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	1,855
Less: cash and cash equivalents	(204)
Acquisition costs charged to expenses	(806)
Net cash used	**845**

NOTE 18. INTERESTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policies described in note 2:

		Ownership interest	
NAME	Principal place of business / Country of incorporation	31 December 2019 %	30 June 2019 %
Althea Company Pty Ltd	Australia	100.00%	100.00%
Althea MMJ UK Ltd	United Kingdom	100.00%	100.00%
MMJ Clinic Group Ltd	United Kingdom	100.00%	100.00%
1214029 B.C. Ltd	Canada	100.00%	-
2613035 Ontario Limited	Canada	100.00%	-
2682130 Ontario Limited	Canada	100.00%	-

NOTE 19. EVENTS AFTER THE REPORTING PERIOD

No matter or circumstance has arisen since 31 December 2019 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.

NOTE 20. LOSS PER SHARE

	Consolidated	
	31 December 2019 $'000	31 December 2018 $'000
Loss after income tax attributable to the owners of Althea Group Holdings Limited	(8,351)	(2,366)
	Cents	Cents
Basic loss per share	(3.68)	(2.06)
Diluted loss per share	(3.68)	(2.06)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	226,831,639	114,744,822
Weighted average number of ordinary shares used in calculating diluted earnings per share	226,831,639	114,744,822

5,100,000 (31 December 2018: 5,100,000) performance options, 2,675,000 (31 December 2018: 2,675,000) pre-IPO Consultant options and 25,853,644 exchangeable shares have been excluded from the above calculation as their inclusion would be anti-dilutive.

NOTE 21. RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH USED IN OPERATING ACTIVITIES

	Consolidated	
	31 December 2019 $'000	31 December 2018 $'000
Loss after income tax expense for the half-year	(8,351)	(2,366)
Adjustments for:		
Depreciation and amortisation	296	1
Share-based payments	434	-
Unrealised foreign exchange loss	255	-
Change in operating assets and liabilities:		
(Increase) in trade and other receivables	(982)	(47)
(Increase) in inventories	(1,987)	(40)
(Increase)/decrease in prepayments	(1,727)	2
Increase in trade and other payables	298	86
Increase in employee benefits	74	19
Increase in other provisions	28	-
Net cash used in operating activities	**(11,662)**	**(2,345)**

DIRECTORS' DECLARATION

IN THE DIRECTORS' OPINION:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the financial half-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.

Signed in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the Directors

Andrew Newbold

Chairman

26 February 2020

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

We have reviewed the accompanying half-year financial report of Althea Group Holdings Limited which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Althea Group Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Althea Group Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

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

RSM

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Althea Group Holdings Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

RSM AUSTRALIA PARTNERS

B Y CHAN
Partner

Dated: 26 February 2020
Melbourne, Victoria


Althea™
FREEDOM
FROM
PAIN
FREEDOM
TO
LIVE