FREEDOM TO LIVE AN Althea™ life

2019

ANNUAL FINANCIAL REPORT

For the period ended - 30 June 2019

Althea Group Holdings Limited and Controlled Entities

ABN 78 626 966 943
Lodged with the ASX under Listing Rule 4.2A

Althea™

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 2019
Previous period: For the year ended 30 June 2018

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

				$'000
Revenues from ordinary activities	up	6,872.7%	to	767
Loss from ordinary activities after tax	up	363.7%	to	(8,675)
Loss for the year	up	363.7%	to	(8,675)

COMMENTS

The loss for the consolidated entity after providing for income tax amounted to $8,675,000 (30 June 2018: $1,871,000).

3. NET TANGIBLE ASSETS

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	8.01	26,133.33

4. CONTROL GAINED OVER ENTITIES

On 7 February 2019, Althea Group Holdings Limited acquired control over Althea MMJ UK Ltd by entering into a share sale and purchase agreement with Joshua Fegan to acquire 100% of Althea MMJ UK Ltd's ordinary shares.

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 2019 is attached.

12. SIGNED

Signed **Date: 22 August 2019**

ALTHEA GROUP HOLDINGS LIMITED

ABN 78 626 966 943

ANNUAL REPORT - 30 JUNE 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 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 22 August 2019. 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

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", "Althea" or "parent entity") and the entities it controlled at the end of, or during, the year ended 30 June 2019.

DIRECTORS

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

Andrew Newbold

Joshua Fegan

Alan Boyd

Penelope Dobson (Appointed 30/11/2018)

Gregg Battersby (Resigned 7/03/2019)

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the period were the sales and distribution of medicinal cannabis products along with the development of a manufacturing and cultivation facility.

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 $8,675,000 (30 June 2018: $1,871,000 loss).

GOALS AND STRATEGY

Althea was established to cultivate, produce and supply medicinal cannabis for eligible patients across Australia.

In order to achieve this, the consolidated entity has formed strategic partnerships and devised a three-stage business model built upon early revenue generation, sales-driven growth and scalable domestic production. Althea has engaged a team of medical science liaisons who are working to assist medical practitioners to become prescribers of Althea products. Similarly, they are working with pharmacists to act as suppliers.

Althea's focus on patient care underpins our business strategy. To this end, Althea has developed a complementary education and patient support service through our 'Althea Concierge' web-based platform. Althea Concierge provides a simple pathway for healthcare professionals and patients to access information and support to navigate the complexities associated with prescribing medicinal cannabis.

SUCCESSFUL LISTING AND IPO CAPITAL RAISING

Althea successfully completed its A$19.65 million Initial Public Offering ("IPO") and was admitted to the official list of the Australian Securities Exchange ("ASX") in September 2018. The IPO was heavily oversubscribed.

Althea has made significant progress since listing:

- In October 2018, Althea announced that it had reached the 100 patient milestone;
- In November 2018, Althea announced that, with the granting of both a Manufacturing and Export licence, it now holds the full complement of required licences;
- In January 2019, Althea announced that the 300 patient milestone had been reached;

- In February 2019, Althea announced its expansion into the United Kingdom as one of the first entrants into that market, as well the launch of its sponsored online portal providing RACGP and ACRRM accredited educational content on medicinal cannabis for General Practitioners;
- In April 2019, Althea announced that it had achieved the 650 patient milestone;
- In June 2019, Althea announced that it had been granted a Hemp Cultivation Licence allowing the cultivation and processing of low-THC (Hemp) cannabis for commercial purposes relating to non-therapeutic use. In the same month Althea achieved the 1,000 patient milestone, five months ahead of schedule.

EDUCATION, DISTRIBUTION AND SALES

In October 2018, Althea reached the 100 patient milestone with 42 healthcare professionals prescribing Althea medicinal cannabis products. By the end of June 2019, 200 registered healthcare professionals were prescribing Althea products to more than 1,000 patients.

MANUFACTURING AND EXPORT LICENCES

In November 2018, Althea was granted its Manufacturing and Export licences by the Australian Government's Office of Drug Control ("ODC"). The manufacturing licence provides Althea with the authorisation to manufacture extracts and tinctures of cannabis and cannabis resin in accordance with the relevant permits.

The export licence provides authorisation to export medical cannabis products and/or extracts manufactured in Australia.

Althea has a full complement of ODC cannabis licences necessary to become a fully-fledged "seed to sale" Australian producer of medicinal cannabis.

CULTIVATION AND MANUFACTURING FACILITY

Capital raised in the IPO is being applied to patient acquisition and marketing to build our brand awareness, enhance medical outreach, and fund the design and construction of a fully scalable medicinal cannabis cultivation, extraction and manufacturing facility in Melbourne.

Althea has received ODC approval for the construction of a medical cannabis cultivation, cannabinoid extraction and manufacturing facility. This approval is a key milestone in becoming a 'seed to sale' business.

In November 2018, Althea lodged a planning permit with the council for its ODC-approved, fully scalable facility. Progress on the facility is on track, having received strong support from the council and the Victorian Government.

EXPANSION

Althea's short-term goals include reaching the 5,000 patient milestone, adding new products to Althea's portfolio, and completing the construction of the proposed production facility.

Althea's expansion into the United Kingdom in February 2019 leverages the unique intellectual property created by the Australian business over the last two years, providing access to potentially millions of patients within a regulatory environment very similar to Australia. Althea believes its unique ability to educate healthcare professionals about Althea medicinal cannabis in highly regulated market places could potentially extend into a greater number of countries in Asia, Europe and North America.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

Subsequent to the year end, the following events occurred:

At the end of July 2019, Althea executed agreements to acquire Canadian extraction and contract manufacturing company Peak Processing Solutions in order to gain exposure into Canada's emerging recreational cannabis market. Peak Processing Solutions intends to extract, process and contract manufacture edibles, drinks and nutraceutical products for the Canadian and international market. Consideration for the acquisition will comprise $CAD 4.1million cash (less the amount of any third-party debt held by Peak Processing Solutions) and shares in Althea Group Holdings Limited ("Shares"), with a majority of those Shares to be subject to a three-stage performance milestone earn-out. The performance milestones include a combination of consolidated revenue and EBITDA targets. The acquisition is expected to complete by mid-September 2019 subject to shareholder approval.

In order to fund the acquisition of Peak Processing Solutions and future growth initiatives, Althea has issued 30 million new shares under a capital raising at $1.00 per new share from new and existing institutional shareholders in August 2019. Total shares on issue post-transaction will be approximately 233.3 million.

No other matter or circumstance has arisen since 30 June 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 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

Name:	Andrew Newbold
Title:	Non-executive Chairman
Qualifications:	LLB / Bec
Experience and expertise:	Andrew is a qualified lawyer having practised for nearly 20 years at a large commercial firm. Following his retirement from the law in 2006, he founded a renewable energy business which he sold to Origin Energy in 2009. Since that time he has been involved in a start-up property app business which he sold to ANZ in 2015 and various other businesses. Andrew has been a director of numerous private companies and not-for-profit organisations and currently is a director of Supra Capital, a Commissioner of the AFL and a Chairman of Golf Australia.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Audit, Risk and Compliance Committee & Remuneration and Nomination Committee
Interests in shares:	1,638,000

Name:	Joshua Fegan
Title:	Managing Director and Chief Executive Officer
Qualifications:	B Bus (Management and Marketing)
Experience and expertise:	Sales and Marketing Manager – Strathfield Group. 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. 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.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Remuneration and Nomination Committee
Interests in shares:	56,276,315
Interests in rights:	5,100,000

Name: Alan Boyd

Title: Non-Executive Director

Qualifications: BA (Econ), CA ANZ, GIA

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

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

Other current directorships: None

Former directorships (last 3 years): None

Special responsibilities: Audit, Risk and Compliance Committee & Remuneration and Nomination Committee

Interests in shares: 100,000

Name: Penelope Dobson

Title: Non-Executive Director

Qualifications: MBA (MGSM)

Experience and expertise: 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.

Other current directorships: Australian Nuclear Science and Technology Organisation, Invetus Ltd

Former directorships (last 3 years): None

Interests in shares: None

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

COMPANY SECRETARY

Robert Meissner (appointed 15/04/2019)
Peter Gillis (resigned 15/04/2019)

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors ("the Board") held during the year ended 30 June 2019, and the number of meetings attended by each Director were:

	Full Board		Remuneration and Nomination Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Andrew Newbold (Appointed 21/06/2018)	8	8	1	1	2	2
Joshua Fegan (Appointed 21/06/2018)	8	8	1	1	2	2
Alan Boyd (Appointed 21/06/2018)	8	8	1	1	2	2
Penelope Dobson (Appointed 30/11/2018)	6	6	1	1	2	2
Gregg Battersby (Appointed 21/06/2018, Resigned 7/03/2019)	3	3	-	-	-	1

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 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 performance 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 has 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 dividends and growth in share price, and delivering constant or increasing returns 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 did not receive share options or other incentives during the period.

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

For its initial year post listing on the Australian Securities Exchange ("ASX"), the annual base non-executive Director fees before superannuation currently agreed to be paid by Althea Group Holdings are $60,000 to the Chairman and $25,000 to each other non-executive Director. These amounts comprise fees paid in cash. In subsequent years, these figures may vary.

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, non-monetary benefits and statutory leave entitlements
- incentivisation plan (STI and LTI) currently under development

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is 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.

No short-term incentives ("STI") were established for key management personnel remuneration in the reporting period. A long-term incentives ("LTI") program was established for the Chief Executive Officer in the reporting period in the form of performance rights, which aligns this element of the remuneration with the creation of shareholder value.

Consolidated entity performance and link to remuneration

Remuneration for the Chief Executive Officer is directly linked to the 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 2019, the consolidated entity did not engage remuneration consultants to review its existing remuneration policies.

Voting and comments made at the Company's 2018 Annual General Meeting ("AGM")

At the 2018 AGM, the remuneration report for the year ended 30 June 2018 was not put forward for shareholder approval as the Company's shares were not listed on ASX until after 30 June 2018. The Company did not otherwise received any specific feedback at the AGM regarding its remuneration practices.

DETAILS OF REMUNERATION

Amounts of remuneration

Details of the remuneration of key management personnel ("KMP") 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
30 JUNE 2019	$	$	$	$	$	$	$
Non-Executive Directors:							
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
Executive Directors:							
Joshua Fegan	200,000	-	-	19,000	-	492,534	711,534
Other Key Management Personnel:							
Robert Meissner***	125,512	-	-	11,924	-	-	137,436
	437,594	-	-	**40,384**	-	**492,534**	**970,512**

*Directorship commenced 30 November 2018
**Resigned 7 March 2019
***Employment commenced 15 October 2018

	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
30 JUNE 2018	$	$	$	$	$	$	$
Executive Directors:							
Joshua Fegan	174,992	-	-	15,438	-	-	190,430
	174,992	-	-	**15,438**	-	-	**190,430**

Other than the executive director, there were no other KMPs paid by the consolidated entity during the financial year ended 30 June 2018

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

	Fixed remuneration		At risk - STI		At risk - LTI	
NAME	**30 June 2019**	**30 June 2018**	**30 June 2019**	**30 June 2018**	**30 June 2019**	**30 June 2018**
Non-Executive Directors:						
Andrew Newbold	100%	-	-	-	-	-
Alan Boyd	100%	-	-	-	-	-
Penelope Dobson*	100%	-	-	-	-	-
Gregg Battersby**	100%	-	-	-	-	-
Executive Directors:						
Joshua Fegan	31%	100%	-	-	69%	-
Other Key Management Personnel:						
Robert Meissner***	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:	As Joshua has already been employed on an informal basis with the Company, his executive services agreement does not have a probation period. Either the Company or Joshua may terminate the agreement by giving 3 months' notice, during which the Company may request that he cease work prior to the 3 months, 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 executive services agreement by giving 3 months' notice, during which the Company may request that he cease work prior to the 3 months, 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 breaches of certain clauses of the executive services 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 2019.

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	$0.60
Joshua Fegan(Tranche2)	2,550,000	21 Sep 2018	21 Sep 2020	21 Sep 2021	$0.00	$0.60

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

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

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

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

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 2019 are set out below:

	Number of rights granted during the year		Number of rights vested during the year	
NAME	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Joshua Fegan	5,100,000	-	-	-

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 consolidated entity, 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
Ordinary shares					
Andrew Newbold	-	-	1,638,000	-	1,638,000
Joshua Fegan	7,500	-	56,268,815	-	56,276,315
Alan Boyd	-	-	100,000	-	100,000
Penelope Dobson	-	-	-	-	-
	7,500	-	**58,006,815**	-	**58,014,315**

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
Performance rights over ordinary shares					
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 2022	$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 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 the 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 Consultant 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 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 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 2019 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 20 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 20 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

Andrew Newbold

Chairman

22 August 2019

RSM

RSM Australia Partners

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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 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 audit; and

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

RSM AUSTRALIA PARTNERS

B Y CHAN
Partner

Dated: 22 August 2019
Melbourne, Victoria

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Consolidated	
REVENUE	**Note**	**30 June 2019 $'000**	**30 June 2018 $'000**
Revenue	4	767	11
Cost of goods sold	5	(312)	(10)
Gross profit		455	1
Interest income		206	5
		661	**6**
EXPENSES			
Employee benefits expense	5	(2,206)	(192)
Depreciation and amortisation expense	5	(48)	-
Other expenses		(325)	(76)
Distribution expenses		(136)	(14)
Marketing expenses		(2,901)	(1,079)
Occupancy expenses		(266)	(45)
Professional services	5	(2,217)	(232)
Foreign exchange loss	5	(79)	(1)
Administration expenses		(1,152)	(237)
Finance costs	5	(6)	(1)
Total expenses		**(9,336)**	**(1,877)**
Loss before income tax expense		(8,675)	(1,871)
Income tax expense	6	-	-
Loss after income tax expense for the year		**(8,675)**	**(1,871)**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		25	-
Other comprehensive income for the year, net of tax		25	-
Total comprehensive income for the year		**(8,650)**	**(1,871)**
EARNINGS PER SHARE		**Cents**	**Cents**
Basic loss per share	29	(5.11)	(35,764.06)
Diluted loss per share	29	(5.11)	(35,764.06)

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	
ASSETS	**Note**	**30 June 2019 $'000**	**30 June 2018 $'000**
Current assets			
Cash and cash equivalents	7	14,918	2,300
Trade and other receivables	8	505	66
Inventories	9	630	85
Financial asset	10	-	200
Other	11	167	648
Total current assets		**16,220**	**3,299**
Non-current assets			
Property, plant and equipment	12	1,058	-
Intangible assets	13	765	-
Financial asset	10	237	-
Total non-current assets		**2,060**	-
Total assets		**18,280**	**3,299**
LIABILITIES			
Current liabilities			
Trade and other payables	14	1,160	151
Provisions	15	68	12
Total current liabilities		1,228	163
Total liabilities		1,228	163
Net assets		**17,052**	**3,136**
EQUITY			
Issued capital	16	25,732	5,007
Reserves	17	1,866	-
Accumulated losses		(10,546)	(1,871)
Total equity		**17,052**	**3,136**

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	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2017	-	-	-	-	-
Loss after income tax expense for the year	-	-	-	(1,871)	(1,871)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	-	**(1,871)**	**(1,871)**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 16)	5,007	-	-	-	5,007
Share based compensation related to:					
• Share options	-	-	-	-	-
• Performance rights	-	-	-	-	-
Balance at 30 June 2018	**5,007**	-	-	**(1,871)**	**3,136**

CONSOLIDATED	Issued capital $'000	Share based payment reserve $'000	Foreign currency translation 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
Total comprehensive income for the year	-	-	**25**	**(10,546)**	**(10,521)**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 16)	20,725	-	-	-	20,725
Share based compensation related to:					
• Share options	-	1,348	-	-	-
• Performance rights	-	493	-	-	-
Balance at 30 June 2019	**25,732**	**1,841**	**25**	**(10,546)**	**17,052**

The above consolidated 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**	**30 June 2019 $'000**	**30 June 2018 $'000**
Receipts from customers (inclusive of GST)		520	1
Payments to suppliers and employees (inclusive of GST)		(6,882)	(2,005)
Interest received		206	5
Interest paid		-	**(1)**
Net cash used in operating activities	27	**(6,156)**	**(2,000)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment	12	(1,061)	-
Payments for intangibles	13	(810)	-
Transfer from term deposit		200	-
Net cash used in investing activities		**(1,671)**	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares, net of transaction costs	16	20,725	4,300
Loans to related parties		(18)	-
Payment of bank guarantee		(218)	-
Net cash from financing activities		**20,489**	**4,300**
Net increase in cash and cash equivalents		12,662	2,300
Cash and cash equivalents at the beginning of the financial year		2,300	-
Effects of exchange rate changes on cash and cash equivalents		(44)	-
Cash and cash equivalents at the end of the financial year	7	**14,918**	**2,300**

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.

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.

BASIS OF PREPARATION

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the 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.

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 24.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Althea Group Holdings Limited ("Company", "Althea" or "parent entity") as at 30 June 2019 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 are on the same basis as the internal reports provided to the Chief Operating Decision Maker(s) ("CODM"). The CODM, who is 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") and British pound ("GBP") 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 the fair value of the consideration received or receivable and is shown net of sales taxes (GST and VAT) 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.

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.

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 45 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.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 of completion and 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 fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

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. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the investment have been impacted.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in 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:

Production facility (in progress)	**not depreciated in the financial year**
Plant and equipment	**2-7 years**

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

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.

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.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 4 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.

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.

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.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The costs of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using a Binomial 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 costs 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 a Binomial 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.

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 for the acquisition of a subsidiary comprises 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 related costs are expensed as incurred to profit or loss.

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

Therefore, these consolidated entity full year financial statements combine those of Althea Group Holdings Limited and the commonly controlled entity, Althea Company Pty Ltd, as at 30 June 2019.

The Pooling of Interests method has been adopted to account for the combination as a business combination carried out under common control. This means the assets and liabilities of the entity coming under common control have been transferred to the financial statements of Althea Group Holdings Limited at book value without revaluation. There has been no consideration paid by Althea Group Holdings Limited to acquire the entity therefore the value of the combined assets is represented as an entry directly to equity with no impact on the Statement of Profit or Loss and Other Comprehensive Income, and no goodwill is recognised.

The financial statements are therefore presented as if the combination of the two entities had occurred at the beginning of the comparative period (i.e. as if the two entities had always been combined).

Intercompany transactions, balances and realised 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.

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 VALUE ADDED TAX ("VAT")

Revenues, expenses and assets are recognised net of the amount of associated GST and VAT, unless the GST and VAT 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 and VAT receivable or payable. The net amount of GST and VAT 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 and VAT 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 and VAT recoverable from, or payable to, the tax authority.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ROUNDING OF AMOUNTS

The consolidated entity 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 AND AMENDED ACCOUNTING STANDARDS ADOPTED BY THE CONSOLIDATED ENTITY

This note describes the nature and effect of the adoption of AASB 9: Financial Instruments and AASB 15: Revenue from Contracts with Customers on the consolidated entity's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

AASB 9 Financial Instruments

The consolidated entity has adopted AASB 9 from 1 January 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ("OCI"). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ("ECL") model to recognise an allowance. Impairment is measured using a 12 month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

AASB 15 Revenue from Contracts with Customers

The consolidated entity has adopted AASB 15 from 1 January 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

The impact on the financial performance and position of the consolidated entity from the adoption of these Accounting Standards has been assessed and no restatement of comparative disclosure is required.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2019. 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.

AASB 16 Leases

The standard replaces AASB 117 Leases and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (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 will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. The consolidated entity will adopt this standard from 1 July 2019 and its impact on adoption is expected to result in total assets and total liabilities increasing by $2,905,000.

AASB 16 will affect primarily the accounting for the consolidated entity’s operating leases which are mainly property leases. The operating lease rental associated with these leases will be recognised as depreciation of the lease asset and interest expense on the lease liability instead of rent expense in the statement profit or loss. As at the reporting date, the consolidated entity has non-cancellable operating lease commitments of $2,877,000 excluding short-term and low-value leases.

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.

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.

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

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.

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.

NOTE 3. OPERATING SEGMENTS

IDENTIFICATION OF REPORTABLE OPERATING SEGMENTS

The consolidated entity is organised into 2 operating segments: Australia and United Kingdom. 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.

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 2019, approximately 10% (2018: 27%) of the consolidated entity's external revenue was derived from sales to one customer.

NOTE 3. OPERATING SEGMENTS (CONTINUED)

OPERATING SEGMENT INFORMATION

CONSOLIDATED - 30 June 2019	Australia $'000	United Kingdom $'000	Intersegment eliminations/unallocated $'000	Total $'000
Revenue				
Sales to external customers	767	-	-	767
Interest revenue	206	-	-	206
Total revenue	**973**	-	-	**973**
EBITDA	(7,125)	(1,702)	-	(8,827)
Depreciation and amortisation expense	(48)	-	-	(48)
Interest revenue	206	-	-	206
Finance costs	(6)	-	-	(6)
Loss before income tax expense	**(6,973)**	**(1,702)**	-	**(8,675)**
Income tax expense				-
Loss after income tax expense				**(8,675)**
ASSETS				
Segment assets	30,573	282	(12,575)	18,280
LIABILITIES				
Segment liabilities	6,836	1,959	(7,567)	1,228

CONSOLIDATED - 30 June 2018	Australia $'000	United Kingdom $'000	Intersegment eliminations/unallocated $'000	Total $'000
Revenue				
Sales to external customers	11	-	-	11
Interest revenue	5	-	-	5
Total revenue	**16**	-	-	**16**
EBITDA	(1,875)	-	-	(1,875)
Interest revenue	5	-	-	5
Finance costs	(1)	-	-	(1)
Loss before income tax expense	**(1,871)**	-	-	**(1,871)**
Income tax expense				-
Loss after income tax expense				**(1,871)**
ASSETS				
Segment assets	3,299	-	-	3,299
LIABILITIES				
Segment liabilities	163	-	-	163

NOTE 4. REVENUE

DISAGGREGATION OF REVENUE

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

	Consolidated	
CONSOLIDATED - 30 June 2019	**30 June 2019 $'000**	**30 June 2018 $'000**
Sales Channels		
Goods sold directly to registered pharmacies	702	11
Goods sold through intermediaries	65	-
	767	**11**

The timing of revenue recognition for the sale of goods is at a point in time.

NOTE 5. EXPENSES

	Consolidated	
LOSS BEFORE INCOME TAX INCLUDES THE FOLLOWING SPECIFIC EXPENSES:	**30 June 2019 $'000**	**30 June 2018 $'000**
Cost of sales		
Cost of sales	312	10
Finance costs		
Interest and finance charges paid/payable	6	1
Net foreign exchange loss		
Net foreign exchange loss	79	1
Employee benefits expense		
Employee benefits expense	1,713	192
Share based employee expense	493	-
	2,206	**192**
Depreciation and amortisation expense		
Depreciation and amortisation expense	48	-
Professional services		
Professional services	869	232
Share based professional services	1,348	-
	2,217	**232**

NOTE 6. INCOME TAX

	Consolidated	
	30 June 2019 $'000	30 June 2018 $'000
Reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense	(8,675)	(1,871)
Tax at the statutory tax rate of 27.5%	(2,386)	(515)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share based payments	506	-
Entertainment	2	-
Current year tax losses not recognised	1,878	515
Income tax expense	-	-
Unrecognised deferred tax asset balance	**2,393**	**515**

NOTE 7. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Consolidated	
	30 June 2019 $'000	30 June 2018 $'000
Cash at bank	4,918	2,300
Cash on deposit	10,000	-
	14,918	**2,300**

NOTE 8. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	Consolidated	
	30 June 2019 $'000	30 June 2018 $'000
Trade receivables	257	9
Other receivables	230	57
Receivable from related parties	18	-
	505	**66**

NOTE 8. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES (CONTINUED)

ALLOWANCE FOR EXPECTED CREDIT LOSSES

The ageing of the receivables and allowance for expected credit losses as at 30 June 2019 are as follows:

CONSOLIDATED	Expected credit loss rate %	Carrying amount $'000	Allowance for expected credit losses $'000
Not overdue	-	455	-
0 to 1 months overdue	-	44	-
1 to 3 months overdue	-	4	-
Over 3 months overdue	-	2	-
	-	**505**	-

Based on historical experience and the current ageing receivables amount, the consolidated entity has assessed that it does not have a material receivable amount for which there is an expected credit loss and therefore no allowance for expected credit losses was made.

NOTE 9. CURRENT ASSETS - INVENTORIES

	Consolidated	
	30 June 2019 $'000	30 June 2018 $'000
Raw materials - at cost	127	-
Finished goods - at cost	496	85
Packaging and supplies	7	-
	630	**85**

NOTE 10. OTHER FINANCIAL ASSETS

	Consolidated	
	30 June 2019 $'000	30 June 2018 $'000
Current		
Contractual receivable	-	200

The contractual receivable for 2018 was related to an agreement between the Company and its major supplier Aphria Inc., which was settled in inventory during the year to the value of $200,000.

Non-current		
Security deposits	237	-

NOTE 11. CURRENT ASSETS - OTHER

	Consolidated	
	30 June 2019 $'000	30 June 2018 $'000
Prepayments	167	648

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

	Consolidated	
	30 June 2019 $'000	30 June 2018 $'000
Asset under construction - at cost	1,011	-
Computer equipment - at cost	50	-
Less: Accumulated depreciation	(3)	-
	47	-
	1,058	**-**

RECONCILIATIONS

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

CONSOLIDATED	Asset under construction $'000	Computer equipment $'000	Total $'000
Balance at 1 July 2017	-	-	-
Balance at 30 June 2018	-	-	-
Additions	1,011	50	1,061
Depreciation expense	-	(3)	(3)
Balance at 30 June 2019	**1,011**	**47**	**1,058**

NOTE 13. NON-CURRENT ASSETS - INTANGIBLE ASSETS

	Consolidated	
	30 June 2019 $'000	30 June 2018 $'000
Software - at cost	751	-
Less: Accumulated amortisation	(45)	-
	706	-
Website - at cost	59	-
	765	**-**

RECONCILIATIONS

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

CONSOLIDATED	Software $'000	Website $'000	Total $'000
Balance at 1 July 2017	-	-	-
Balance at 30 June 2018	-	-	-
Additions	751	59	810
Amortisation expense	(45)	-	(45)
Balance at 30 June 2019	**706**	**59**	**765**

NOTE 14. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated	
	30 June 2019 $'000	30 June 2018 $'000
Trade payables	806	36
Other payables	354	115
	1,160	**151**

Refer to note 18 for further information on financial risk management.

NOTE 15. CURRENT LIABILITIES - PROVISIONS

	Consolidated	
	30 June 2019 $'000	30 June 2018 $'000
Annual leave	68	12

NOTE 16. EQUITY - ISSUED CAPITAL

	Consolidated			
	30 June 2019 Shares	30 June 2018 Shares	30 June 2019 $'000	30 June 2018 $'000
Ordinary shares - fully paid	203,310,000	12,000	25,732	5,007

MOVEMENTS IN ORDINARY SHARE CAPITAL

DETAILS	DATE	SHARES	ISSUE PRICE	$'000
Balance	1 July 2017	-	-	-
Shares issued to Joshua Fegan	9 Jan 2018	1	$0.000	-
Shares issued to Joshua Fegan	10 Jan 2018	7,499	$0.000	3,129
Shares issued to Aphria Inc.	11 Jan 2018	2,500	$0.000	1,043
Shares issued to Aphria Inc.	21 Mar 2018	2,000	$0.000	835
Balance	30 June 2018	12,000	-	5,007
Shares issued to Joshua Fegan on share split	9 Aug 2018	56,242,500	$0.000	-
Shares issued to Aphria Inc. on share split	9 Aug 2018	33,745,500	$0.000	-
Shares issued to institutional investors under the Pre-Prospectus Capital Raising	10 Aug 2018	12,000,000	$0.167	2,000
Shares issued under the IPO offer	21 Sep 2018	98,250,000	$0.200	19,650
Shares issued to PAC Partners (lead manager for IPO)	21 Sep 2018	3,060,000	$0.000	-
IPO costs		-	$0.000	(925)
Balance	**30 June 2019**	**203,310,000**		**25,732**

NOTE 16. EQUITY - ISSUED CAPITAL (CONTINUED)

7,500 shares initially held by Joshua Fegan were split into 56,250,000 shares and 4,500 shares initially held by Aphria Inc. were split into 33,750,000 shares.

56,250,000 shares held by Joshua Fegan, 12,250,000 shares held by Aphria Inc. and 3,060,000 shares held by PAC Partners are to be held in escrow as restricted securities until 21 September 2020.

10,000,000 IPO shares issued to Mancann on 21 September 2018 are to be held in voluntary escrow until 21 March 2020. Mancann is an entity controlled by Daniel Mansfield and a related party of Mansfield, the landlord under the long term lease entered into by Althea Company.

7,500,000 IPO shares issued to Hootch on 21 September 2018 are to be held in voluntary escrow until 21 September 2019. Hootch is an entity controlled by Michael Smith, Peter McLeod and Roger Smith.

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 are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders, 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 consolidated entity's current share price at the time of the investment. Other than the acquisition of Peak Processing Solutions, 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 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 2018 Annual Report.

NOTE 17. EQUITY - RESERVES

	Consolidated	
	30 June 2019 $'000	**30 June 2018 $'000**
Foreign currency reserve	25	-
Share based payment reserve	1,841	-
	1,866	**-**

NOTE 18. FINANCIAL RISK MANAGEMENT

FINANCIAL RISK MANAGEMENT OBJECTIVES

The consolidated entity has exposure 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 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.

Risk management is carried out by the Chief Financial Officer ("Finance") under direction of the Board of Directors ("the Board"). Risk management includes 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 quarterly 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 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 or 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.

Due to inventory being supplied by an overseas entity, fluctuation between the Australian dollar and the Canadian dollar may impact on the consolidated entity's financial results.

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

	Average exchange rates		Reporting date exchange rates	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
Australian dollars				
Pound Sterling	1.8246	-	1.8079	-

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	
CONSOLIDATED	30 June 2019 $'000	30 June 2018 $'000	30 June 2019 $'000	30 June 2018 $'000
Pound Sterling	(339)	-	-	-

The consolidated entity had net liabilities denominated in foreign currencies of $339,000 (assets of $206,000 less liabilities of $545,000) as at 30 June 2019 (2018: $Nil (assets of $Nil less liabilities of $Nil)). Based on this exposure, had the Australian dollars weakened by 5%/strengthened by 5% against these foreign currencies with all other variables held constant, the consolidated entity's loss before tax for the year would have been $85,000 greater/$85,000 less and equity would have been $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 2019 was $79,000 (2018: $1,000).

Price risk

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

NOTE 18. FINANCIAL RISK MANAGEMENT (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 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 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
NON-DERIVATIVES						
Non-interest bearing						
Trade payables	-	806	-	-	-	806
Other payables	-	354	-	-	-	354
Total non-derivatives	-	**1,160**	-	-	-	**1,160**

CONSOLIDATED - 30 June 2018	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
NON-DERIVATIVES						
Non-interest bearing						
Trade payables	-	36	-	-	-	36
Other payables	-	115	-	-	-	115
Total non-derivatives	-	**151**	-	-	-	**151**

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

NOTE 18. FINANCIAL RISK MANAGEMENT (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 2019		30 June 2018	
CONSOLIDATED	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Assets				
Cash at bank	4,918	4,918	2,300	2,300
Cash on deposit	10,000	10,000	-	-
Trade receivables	257	257	9	9
Other receivables	230	230	57	57
Financial assets	-	-	200	200
	15,405	**15,405**	**2,566**	**2,566**
Liabilities				
Trade payables	806	806	36	36
Other payables	354	354	115	115
	1,160	**1,160**	**151**	**151**

NOTE 19. 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 2019 $	30 June 2018 $
Short-term employee benefits	437,594	174,992
Post-employment benefits	40,384	15,438
Share based payments	492,534	-
	970,512	**190,430**

NOTE 20. 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 2019 $	30 June 2018 $
Audit services - RSM Australia Partners		
Audit or review of the financial statements	58,500	11,000
Other services - RSM Australia Partners		
Due diligence	34,763	20,000
Other services	13,000	-
	47,763	20,000
	106,263	**31,000**

NOTE 21. CONTINGENT LIABILITIES

The Company has two bank guarantees totalling $217,539 for the operating and commercial leases of the consolidated entity's two premises. Except for these, the consolidated entity currently has no contingent liabilities at the date of signing this report.

NOTE 22. COMMITMENTS

	Consolidated	
LEASE COMMITMENTS - OPERATING	30 June 2019 $'000	30 June 2018 $'000
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	308	-
One to five years	791	-
More than five years	4,945	-
	6,044	**-**

The consolidated entity has a non-cancellable operating lease of office space which will expire between 2 to 3 years and a non-cancellable operating lease of production facility space which will expire in 30 years.

NOTE 23. RELATED PARTY TRANSACTIONS

PARENT ENTITY

Althea Group Holdings Limited is the parent entity.

SUBSIDIARIES

Interests in subsidiaries are set out in note 25.

KEY MANAGEMENT PERSONNEL

Disclosures relating to key management personnel are set out in note 19 and the remuneration report included in the Directors' Report.

NOTE 23. RELATED PARTY TRANSACTIONS (CONTINUED)

TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties:

	Consolidated	
	30 June 2019 $'000	30 June 2018 $'000
Payment for goods and services:		
Purchase of goods from other related party - Aphria Inc. (significant shareholder)	621	78
Purchase of goods from other related party - Wartorn Productions Pty Ltd (director related entity to Joshua Fegan)	17	10
	638	**88**
Payment for employee benefits:		
Compensation paid to Joshua Fegan's family members	206	37

In addition, a payment of $182 for the acquisition of Althea MMJ UK Ltd was made to Joshua Fegan under a share sale and purchase agreement.

Aphria Inc. is an entity which exercises significant influence over Althea Group Holdings Limited by holding 24.96% (2018: 37.5%) voting power in proportion to ownership of Althea's shares. The two entities are related through this relationship.

RECEIVABLE FROM AND PAYABLE TO RELATED PARTIES

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

	Consolidated	
	30 June 2019 $'000	30 June 2018 $'000
Current assets:		
Prepayments - Aphria Inc. (inventory prepayment)	1	422
Financial asset - Aphria Inc. (contractual receivable)	-	200
	1	**622**

LOANS TO/FROM RELATED PARTIES

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

	Consolidated	
	30 June 2019 $'000	30 June 2018 $'000
Current receivables:		
To be reimbursed by Aphria Inc.	18	-
	18	**-**

TERMS AND CONDITIONS

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

NOTE 24. PARENT ENTITY INFORMATION

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

	Parent	
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	30 June 2019 $'000	30 June 2018 $'000
Loss after income tax	1,643	-
Total comprehensive income	**1,643**	-

	Parent	
STATEMENT OF FINANCIAL POSITION	30 June 2019 $'000	30 June 2018 $'000
Total current assets	14,768	-
Total assets	25,930	-
Total current liabilities	-	-
Total liabilities	-	-
Net assets	**25,930**	-
Equity		
Issued capital	25,732	-
Share based payment reserve	1,841	-
Accumulated losses	(1,643)	-
Total equity	**25,930**	-

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 2018 and 30 June 2019.

CONTINGENT LIABILITIES

The parent entity had no contingent liabilities as at 30 June 2018 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 2018 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 25. 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:

		Ownership interest	
NAME	**Principal place of business / Country of incorporation**	**30 June 2019 %**	**30 June 2018 %**
Althea Company Pty Ltd	Australia	100.00%	100.00%
Althea MMJ UK Ltd	United Kingdom	100.00%	0.00%
MMJ Clinic Group Ltd	United Kingdom	100.00%	0.00%

NOTE 26. EVENTS AFTER THE REPORTING PERIOD

SUBSEQUENT TO THE YEAR END, THE FOLLOWING EVENTS OCCURRED:

At the end of July 2019, Althea executed agreements to acquire Canadian extraction and contract manufacturing company Peak Processing Solutions in order to gain exposure into Canada's emerging recreational cannabis market. Peak Processing Solutions intends to extract, process and contract manufacture edibles, drinks and nutraceutical products for the Canadian and international market. Consideration for the acquisition will comprise C$4.1million cash (less the amount of any third-party debt held by Peak Processing Solutions) and shares in Althea Group Holdings Limited ("Shares"), with a majority of those Shares to be subject to a three-stage performance milestone earn-out. The performance milestones include a combination of consolidated revenue and EBITDA targets. The acquisition is expected to complete by mid-September 2019 subject to shareholder approval.

In order to fund the acquisition of Peak Processing Solutions and future growth initiatives, Althea has issued 30 million new shares under capital raising at $1.00 per new share from new and existing institutional shareholders in August 2019. Total shares on a post-transaction will be approximately 233.3 million.

No other matter or circumstance has arisen since 30 June 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 years.

NOTE 27. RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH USED IN OPERATING ACTIVITIES

	Consolidated	
	30 June 2019 $'000	**30 June 2018 $'000**
Loss after income tax expense for the year	(8,675)	(1,871)
Adjustments for:		
Depreciation and amortisation	48	-
Share-based payments	1,841	7
Unrealised foreign exchange loss	69	-
Change in operating assets and liabilities:		
(Increase) in trade and other receivables	(439)	(66)
(Increase) in inventories	(546)	(85)
Decrease/(increase) in prepayments	481	(148)
Increase in trade and other payables	1,009	151
Increase in other provisions	56	12
Net cash used in operating activities	**(6,156)**	**(2,000)**

NOTE 28. NON-CASH INVESTING AND FINANCING ACTIVITIES

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

	Consolidated	
	30 June 2019 $'000	30 June 2018 $'000
Shares issued in exchange for inventory	-	500
Shares issued for future settlement in cash or inventory	-	200
Shares issued to reimburse founder for company expenses	-	8
	-	**708**

NOTE 29. EARNINGS PER SHARE

	Consolidated	
	30 June 2019 $'000	30 June 2018 $'000
Loss after income tax	(8,675)	(1,871)
	Cents	**Cents**
Basic loss per share	(5.11)	(35,764.06)
Diluted loss per share	(5.11)	(35,764.06)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	169,619,720	5,232
Weighted average number of ordinary shares used in calculating diluted earnings per share	169,619,720	5,232

NOTE 30. SHARE-BASED PAYMENTS

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

30 June 2019

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
			-	**2,675,000**	-	-	**2,675,000**

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

30 June 2019

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
			-	**5,100,000**	-	-	**5,100,000**

NOTE 30. SHARE-BASED PAYMENTS (CONTINUED)

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
21/09/2018	21/09/2022	$0.60	$0.20	100.00%	-	2.14%	$0.50

For the performance rights granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
21/09/2018	21/09/2021	$0.60	$0.00	-	-	-	$0.60

NOTE 31. BUSINESS COMBINATION

On 7 February 2019, Althea Group Holdings Limited acquired 100% of the issued share capital of Althea MMJ UK Ltd, a newly incorporated entity based in United Kingdom.

The acquisition was made through a share sale and purchase agreement with Joshua Fegan in which Althea Group Holdings Limited obtained one hundred fully paid Ordinary shares in exchange of £1 each. The purpose of the acquisition was to gain entry into the UK Medicinal Cannabis market as Althea Group Holdings Limited believed there were significant opportunities in the UK medicinal cannabis market which has a regulatory environment very similar to that of Australia.

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 2019 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

Andrew Newbold

Chairman

22 August 2019

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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 2019, 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 2019 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.

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
Timing of Revenue Recognition Refer to Note 1 in the financial statements	
The Group earns revenue through the sale of medicinal cannabis products. The timing of revenue recognition is considered a key audit matter because it is a significant account balance in the consolidated statement of profit or loss and other comprehensive income, and it was assessed to have an increased risk associated with cut-off. Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery. Complexity arises in respect of the determination of whether revenue has been recognised in the correct financial reporting period in consideration of control of the goods where goods are in transit at the end of the financial year.	Our audit procedures in relation to the cut-off of revenue included: • Assessing whether the Group's revenue recognition policies were in compliance with AASB 15 *Revenue from Contracts with Customers*; • Evaluating the operating effectiveness of management's controls related to revenue recognition; and • Assessing sales transactions before and after year-end, including transactions where goods are in transit, to ensure that revenue is recognised in the correct period.
Capitalisation of Property, Plant & Equipment Refer to Note 12 in the financial statements	
At 30 June 2019 the Group has property, plant and equipment with a carrying value of $1,011,000. This reflects the costs of the manufacturing facility (asset under construction). We focused on this area due to the size of the property, plant and equipment balance.	Our audit procedures in relation to the capitalisation of property, plant and equipment included; • Assessing whether the Group's capitalisation policies were in compliance with AASB 116 *Property, Plant and Equipment*; • Testing a sample of capitalised assets to ensure they met the recognition and measurement criteria of AASB 116; and • Tested the completeness of the capitalised asset by reviewing a sample of expense transactions for costs not capitalised.

Key Audit Matter	How our audit addressed this matter
Capitalisation of Intangible Assets Refer to Note 13 in the financial statements	
At 30 June 2019 the Group has intangible assets with a carrying value of $765,000, being development costs in respect of the Concierge App (software) and website costs. We focused on this area due to the size of the intangible asset balance and the risk that the amounts capitalised do not meet the recognition and measurement criteria under AASB 138 *Intangible Assets*.	Our audit procedures in relation to the capitalisation of intangibles assets included; • Assessing whether the Group's capitalisation policies were in compliance with AASB 138; • Testing a sample of capitalised assets to ensure they met the recognition and measurement criteria of AASB 138; • Reviewing the reasonableness of management's assessment of expected future economic benefits that are attributable to the intangible assets; and • Tested the completeness of the capitalised asset by reviewing expense nominal ledgers for costs not capitalised.

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 2019, 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.

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. 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 2019.

In our opinion, the Remuneration Report of Althea Group Holdings Limited, for the year ended 30 June 2019, 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.

RSM AUSTRALIA PARTNERS

B Y CHAN
Partner

Dated: 22 August 2019
Melbourne, Victoria

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 31 July 2019.

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 - 1,000	1,267	-
1,001 - 5,000	1,949	-
5,001 - 10,000	621	-
10,001 - 100,000	788	-
100,001 Over	108	4
Rounding Total	**4,733**	**4**
Holding less than a marketable parcel	212	-

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	27.67
2	Aphria Inc.	50,750,000	24.96
3	Mancann Pty Ltd	10,000,000	4.92
4	Hootch Pty Ltd	7,500,000	3.69
5	HSBC Custody Nominees (Australia) Limited	7,364,922	3.62
6	PAC Partners Pty Ltd	3,242,347	1.59
7	Citicorp Nominees Pty Limited	2,899,945	1.43
8	Newbold Family Super Fund	1,500,000	0.74
9	Mr Philip John Cawood	1,300,000	0.64
10	Mansfield Can Investments Pty Ltd <Mansfield Super Fund A/C>	1,256,035	0.62
11	Happybugs Pty Ltd <Happybugs Family A/C>	1,167,928	0.57
12	UBS Nominees Pty Ltd	1,144,620	0.56
13	Maelstrom Pty Ltd <Falkiner Super Fund A/C>	1,000,000	0.49
13	Mr Lin Qin	1,000,000	0.49
15	Mr Mark Wickens	814,000	0.40
16	Nicole Capogna	750,000	0.37
16	RMO Holdings Limited	750,000	0.37
18	PAC Partners Securities Pty Ltd	617,505	0.30
19	J P Morgan Nominees Australia Pty Limited	611,059	0.30
20	Mrs Briony Rose Van Loon + Mr Carl Anthony Van Loon <Van Loon Super Fund A/C>	549,950	0.27
Totals: Top 20 holders of Ordinary Fully Paid Shares (Total)		**150,468,311**	**74.01**
Total Remaining Holders Balance		**52,841,689**	**25.99**

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™
FREEDOM
FROM
PAIN
FREEDOM
TO
LIVE