



Althea
Group
Holdings

Half-year Financial Report

2023

For the period ended - 31 December 2022

Althea Group Holdings Limited
and Controlled Entities

ABN 78 626 966 943

Lodged with the ASX under
Listing Rule 4.2A

Appendix 4D

1. COMPANY DETAILS

Name of entity: Althea Group Holdings Limited

ABN: 78 626 966 943

Reporting period: For the half-year ended 31 December 2022

Previous period: For the half-year ended 31 December 2021

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

				\$'000
Revenues from ordinary activities	up	25.9%	to	11,810
Loss from ordinary activities after tax attributable to the owners of Althea Group Holdings Limited	up	32.9%	to	(9,360)
Loss for the half-year attributable to the owners of Althea Group Holdings Limited	up	32.9%	to	(9,360)

Comments

The loss for the consolidated entity after providing for income tax amounted to \$9,360,000 (31 December 2021: \$7,045,000).

3. NET TANGIBLE ASSETS

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	4.77	7.15

Appendix 4D (continued)

4. LOSS OF CONTROL OVER ENTITIES

Not applicable.

5. 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.

6. DIVIDEND REINVESTMENT PLANS

Not applicable.

7. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

Not applicable.

8. FOREIGN ENTITIES

Details of origin of accounting standards used in compiling the report:

International Financial Reporting Standards (IFRS).

9. AUDIT QUALIFICATION OR REVIEW

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

10. ATTACHMENTS

Details of attachments (if any):

The Interim Report of Althea Group Holdings Limited for the half-year ended 31 December 2022 is attached.

11. SIGNED



Signed

Andrew Newbold
Chairman

Date: 27 February 2023



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General information

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

Althea Group Holdings Limited is a listed public company limited by shares, incorporated and domiciled in Australia.

Its registered office and principal place of business is:

**Suite 2, Level 50, 360 Elizabeth Street,
Melbourne, VIC 3000**

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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 27 February 2023.

Corporate Directory

- ▲ **Directors**
 - Andrew Newbold (Chairman and Independent Non-Executive Director)
 - Joshua Fegan (Chief Executive Officer and Managing Director)
 - Alan Boyd (Independent Non-Executive Director)
 - Penelope Dobson (Independent Non-Executive Director)
- ▲ **Company secretary**
 - Robert Meissner
- ▲ **Registered office**
 - Suite 2, Level 50
360 Elizabeth Street,
Melbourne, VIC 3000
- ▲ **Principal place of business**
 - Suite 2, Level 50
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
80 Collins Street,
Melbourne, VIC, 3000
- ▲ **Stock exchange listing**
 - Althea Group Holdings Limited shares are listed on the Australian Securities Exchange (ASX code: AGH)
- ▲ **Website**
 - www.altheagroupholdings.com



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CEO letter

CEO letter

02

Dear Shareholder,

It is my pleasure to present to you the Althea Group Holdings Limited (AGH) interim report for the period ending 31 December 2022.



HALF-YEAR HIGHLIGHTS

ASX ANNOUNCEMENTS	Release date
Althea Launches Next Generation Products	15 September 2022
AGH Announces Capital Raising to Support Ongoing Growth	3 November 2022
Althea Signs MOU with Dr Reddy's Subsidiary	11 November 2022
Results of Share Purchase Plan Offer	15 December 2022

INTRODUCTION

Althea Group Holdings Ltd ('AGH' or 'the Group') continues to drive innovation in the emerging cannabis industry.

We are strategically positioned in the development, manufacturing and distribution of premium quality cannabis-based medicines and recreational cannabis products, operating three separate and distinct strategic business units: Althea, MyAccess Clinics and Peak Processing Solutions.

AGH offers shareholders unique access to international medical cannabis and recreational cannabis markets, with established and strong leadership positions in both.

CONSOLIDATED GROUP RESULTS

The first half of FY23 was another record period for AGH, achieving sequential growth over the previous half, as well as the previous corresponding period.

Further highlights from the half-year include::

- The Group achieved sales revenue of \$11.81 million, an increase of \$2.43 million, or 25.9% from the previous corresponding period.
- Cash receipts from customers totalled \$14.89 million, an increase of \$5.06 million, or 51.5%, from the previous corresponding period.

CEO LETTER (Continued)

- Net cash used in operating activities continued to reduce as revenue increased and the Group maintained tight financial controls, following the implementation of a significant cost cutting program.
 - The Group successfully raised \$2.2 million in capital (before costs) to support ongoing growth.
 - Subsequent to the reporting period, the Group secured a further \$4.32 million of funding during January and February 2023.
 - AGH remains fully funded and anticipates achieving cashflow breakeven and operating profitability during March 2023.
-

PHARMACEUTICAL CANNABIS – ALTHEA

Althea services over 40,000 patients globally with the prescription of its cannabis-based medicines and the business unit delivered positive EBITDA for the half-year.

Althea's gross profit margin reached an all time high of 61% during the second quarter of the reporting period, a result of falling biomass (cannabis flower) prices and the Group's increased purchasing power.

Australia

Revenue from Althea's Australian customers totalled a record \$6.2 million for the half-year, representing an increase of 24.8% from the previous corresponding period. The majority of sales were in the cannabis extracts (cannabis oils) category, where Althea has the dominant market share in Australia.

During the reporting period Althea entered the high-THC cannabis dried flower product category with the launch of Althea THC25. The Group expects sales to continue to grow at a rapid rate, as existing dried flower prescribers migrate customers to Althea products given our outstanding reputation in the medical community and our ethical approach to the sale and distribution of cannabis medicines.

United Kingdom

Revenue from UK customers totalled \$955,000 for the reporting period. Althea experienced some stock outages during the reporting period as a result of the Medicines and Healthcare products Regulatory Agency (MHRA) completing a review of the cannabis-based medicines supplied into the country by all industry participants.

All Althea products were cleared by the governing body, resulting in a temporary supply disruption. As a result of the review, a number of suppliers in the UK had products removed from sale due to a lack of conformity, a situation Althea intends to take full advantage of.

Germany

Sales of Althea products continue to build at a steady rate post the pandemic in Germany and the Group expects 2023 to be a breakout year for the brand as smaller competitors retreat and Althea's medical education program begins to bear fruit.

On 11 November 2022, the Group announced a non-binding memorandum of

CEO LETTER (Continued)

understanding with Nimbus Health GmbH, a wholly-owned medical cannabis focused subsidiary of the global pharmaceutical company Dr Reddy's Laboratories Ltd. Under the proposed transaction, Althea and Nimbus Health would join forces exclusively to promote, market, sell and distribute Althea products in further European and other jurisdictions.

Republic of Ireland

Althea expects to receive reimbursement approval for Althea CBD12:THC10 imminently, a product which has already been approved by the Health Products Regulatory Authority ('HPRA') for sale and distribution in Ireland.

The first shipment of product is scheduled for delivery in March 2023, with further products from the Althea range also expected to be approved by the HPRA in due course.

New Product Development

Althea launched two new products during the half-year, Althea THC25, a high-THC (25%) cannabis dried flower product, and Althea CBD25, 25mg CBD soft gel capsules. Since the launch of Althea THC25 in Australia and the UK, cannabis dried flower unit sales have increased by 178%.

The Group envisions its soft gel capsules will overtake sales of its cannabis oils (tinctures) in the long term, given its superior performance and ease of use. New product development remains critical to sustaining market leadership in a competitive and dynamic industry.

MYACCESS CLINICS

A fully owned subsidiary of AGH, MyAccess Clinics is a UK-based private health clinic specialising in treatments with medical cannabis, which delivers predictable and recurring sales of Althea products. The business contributed meaningfully to UK sales in the first half of FY23, a result of 1,089 patient appointments during the reporting period.

The business model requires minimal working capital and the Group is currently evaluating expanding MyAccess Clinics further into Europe, with Germany and Ireland potential new markets in 2023.

RECREATIONAL CANNABIS – PEAK PROCESSING SOLUTIONS

AGH's Canadian-based recreational cannabis business, Peak Processing Solutions ('Peak'), achieved revenue from customers of \$4.46 million for the interim period, an increase of 25.3% on the previous corresponding period.

Peak partners with consumer packaged goods companies to develop, manufacture and launch recreational cannabis products, which are then purchased by adult consumers in retail stores.

During the interim period, AGH announced the appointment of Barry Katzman as Managing Director of Peak (effective 1 October 2022). Mr Katzman brings a wealth of experience from both the alcohol and cannabis beverage sectors to Peak, and will focus on attracting further high profile customers to Peak's cannabis beverage business, maximising the utilisation of Peak's other production lines, and expanding

CEO LETTER (Continued)

Peak's range of in-house brands, set to launch during the second half of FY23.

Peak is expected to benefit significantly from the recent relaxing of Health Canada regulations, with adults in Canada now being able to purchase and possess up to 48 x 355ml can of cannabis-infused beverages (up from a previous limit equal to 5 x 355ml cans). The announcement also highlights a growing cannabis beverage category in Canada and confirms the increasing demand for cannabis-infused products.

Peak is rapidly emerging as one of the world's leading recreational cannabis contract development and manufacturing organisations and has aspirations to expand operations into emerging adult-use cannabis markets, including Germany, which is slated to legalise the sale of recreational cannabis products in 2023/24

I would like to take this opportunity to thank all AGH employees for their continued dedication and contributions towards our goals and objectives, whilst also thanking shareholders for their continuing support, as we work towards building out one of the world's leading cannabis companies.

Yours sincerely,



Joshua Fegan

Althea Group Holdings Ltd CEO

CONCLUSION

The Group continued to grow revenue during the first half of FY23 despite encountering some transitory headwinds and supply chain issues in the second quarter. A seasonal (winter) dip in sales in the Canadian market along with the cessation of one of Peak's beverage customer supply agreements impacted our recreational sales – a situation to be remedied in Q3 FY23.

AGH is in a very solid position financially, is fast approaching cash flow positivity with improved margins and envisions significant upside for shareholders in the short term and beyond.



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Directors' report

Directors' report

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Althea Group Holdings Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2022.

DIRECTORS

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

- ▲ Andrew Newbold
- ▲ Joshua Fegan
- ▲ Alan Boyd
- ▲ Penelope Dobson

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the period were the manufacturing, sales and distribution of cannabis-based medicines and recreational cannabis products. The parent entity services these sectors via two distinct business units:

- Althea, the company's pharmaceutical business, which offers a comprehensive range of cannabis-based medicines which are made available to patients via prescription.
- Peak Processing Solutions, the parent entity's recreational cannabis business, which produces legal cannabis products purchased by adult consumers in retail stores.

DIVIDENDS

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

REVIEW OF OPERATIONS

During the period, the consolidated entity generated revenue of \$11,810,000 (31 December 2021: \$9,380,000). The consolidated entity's loss for the period amounted to \$9,360,000 (31 December 2021: \$7,045,000).

Key achievements by the consolidated entity during the period are as follows:

- The consolidated entity recorded sales revenue of \$11.81 million, an increase of 25.9% from the previous corresponding period.
- The consolidated entity successfully raised \$2.2 million (before costs) in capital to support ongoing growth.
- The consolidated entity recorded its best financial half-year to date, with \$14.89 million received in receipts from customers.

DIRECTORS' REPORT (Continued)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the consolidated entity during the financial half-year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL HALF-YEAR

Subsequent to 31 December 2022, the company secured AUD \$4.32 million in additional funding in the form of:

- a new loan facility of CAD \$2 million with a 12-month term and 15% interest payable per annum (announced 30 January 2023)
- convertible notes of AUD \$2.2 million with a 12-month maturity (announced 3 February 2023)

No other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

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.

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

On behalf of the Directors



Andrew Newbold
Chairman

27 February 2023



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Auditor's independence declaration

RSM Australia Partners

Level 21, 55 Collins Street Melbourne VIC 3000
PO Box 248 Collins Street West 3007
T +61(0) 3 9286 8000
F +61(0) 3 9286 8199
www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Althea Group Holdings Limited for the half year ended 31 December 2022, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

**RSM AUSTRALIA PARTNERS****B Y CHAN**
Partner

Date: 27 February 2023
Melbourne, Victoria

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RSM Australia Partners ABN 36 965 185 036

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05

Interim financial report

Consolidated statement of profit or loss and other comprehensive income

		Consolidated	
		31 December 2022	31 December 2021
REVENUE	Note	\$'000	\$'000
Revenue	3	11,810	9,380
Cost of goods sold	4	(6,306)	(4,776)
Gross profit		5,504	4,604
Interest income	2	16	4
EXPENSES			
Employee benefits expense	4	(7,263)	(6,334)
Depreciation and amortisation expense	4	(1,430)	(1,318)
General and administrative expenses	4	(1,680)	(1,409)
Distribution expenses		(1,377)	(912)
Marketing expenses		(580)	(673)
Professional services	4	(1,309)	(1,034)
Finance costs	4	(177)	(147)
Foreign exchange (loss)/gain	4	(1,064)	174
Total expenses		(14,880)	(11,653)
Loss before income tax expense		(9,360)	(7,045)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Althea Group Holdings Limited		(9,360)	(7,045)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		618	(121)
Other comprehensive income/(loss) for the half-year, net of tax		618	(121)
Total comprehensive loss for the half-year attributable to the owners of Althea Group Holdings Limited		(8,742)	(7,166)
		Cents	Cents
Basic loss per share	15	(2.80)	(2.40)
Diluted loss per share	15	(2.80)	(2.40)

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	
		31 December 2022	30 June 2022
ASSETS	Note	\$'000	\$'000
Current assets			
Cash and cash equivalents		3,095	6,205
Trade and other receivables	5	7,262	6,305
Inventories	6	4,233	3,819
Other		2,990	1,447
Total current assets		17,580	17,776
Non-current assets			
Other financial assets		361	326
Property, plant and equipment	7	13,426	14,474
Right-of-use assets		4,501	4,676
Intangibles	8	18,962	19,313
Total non-current assets		37,250	38,789
Total assets		54,830	56,565
LIABILITIES			
Current liabilities			
Trade and other payables	9	12,207	8,479
Lease liabilities		153	141
Provisions		461	517
Other		1,146	637
Total current liabilities		13,967	9,774
Non-current liabilities			
Lease liabilities		4,916	4,996
Provisions		115	75
Other		200	270
Total non-current liabilities		5,231	5,341
Total liabilities		19,198	15,115
Net assets		35,632	41,450
EQUITY			
Issued capital	10	84,990	82,044
Reserves	11	3,351	2,883
Accumulated losses		(52,709)	(43,477)
Total equity		35,632	41,450

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

Consolidated statement of changes in equity

CONSOLIDATED	Issued capital \$'000	Share based payment reserve \$'000	Foreign currency translation reserve \$'000	Deferred consideration reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2022	82,044	2,824	59	-	(43,477)	41,450
Loss after income tax expense for the half-year	-	-	-	-	(9,360)	(9,360)
Other comprehensive gain for the half-year, net of tax	-	-	618	-	-	618
Total comprehensive income/ (loss) for the half- year	-	-	618	-	(9,360)	(8,742)
Transactions with owners in their capacity as owners:						
Employee share issue, net of transaction costs (note 10)	945	-	-	-	-	945
Share-based payments reclassified during the period	-	(60)	-	-	128	68
Share-based payments expensed during the period, relating to existing performance rights	-	(90)	-	-	-	(90)
Contributions of equity, net of transaction costs (note 10)	2,001	-	-	-	-	2,001
Balance at 31 December 2022	84,990	2,674	677	-	(52,709)	35,632

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

Consolidated statement of changes in equity (continued)

CONSOLIDATED	Issued capital \$'000	Share based payment reserve \$'000	Foreign currency translation reserve \$'000	Deferred consideration reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2021	68,046	3,630	274	10,866	(40,120)	42,696
Loss after income tax expense for the half-year	-	-	-	-	(7,045)	(7,045)
Other comprehensive loss for the half-year, net of tax	-	-	(121)	-	-	(121)
Total comprehensive loss for the half-year	-	-	(121)	-	(7,045)	(7,166)
Transactions with owners in their capacity as owners:						
Share-based payments expensed during the period (note 4)	-	902	-	-	-	902
Share-based payments reclassified during the period	-	269	-	-	-	269
Performance rights exercised during the period	277	(277)	-	-	-	-
Performance rights forfeited on termination	-	(60)	-	-	60	-
Contributions of equity, net of transaction costs (note 10)	9,592	547	-	-	-	10,139
Exchangeable shares converted to ordinary capital as a result of performance conditions being met	3,652	-	-	(3,652)	-	-
Exchangeable shares issued on acquisition not met and transferred to retained earnings	-	-	-	(3,075)	3,075	-
Balance at 31 December 2021	81,567	5,011	153	4,139	(44,030)	46,840

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

Consolidated statement of cash flows

		Consolidated	
		31 December 2022	31 December 2021
CASH FLOWS FROM OPERATING ACTIVITIES	Note	\$'000	\$'000
Receipts from customers (inclusive of GST)		14,888	9,825
Payments to suppliers and employees (inclusive of GST)		(20,104)	(15,242)
Interest received		16	4
Interest paid		(177)	(136)
Net cash used in operating activities	14	(5,377)	(5,549)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(184)	(443)
Payments for intangibles		(18)	(122)
Net cash used in investing activities		(202)	(565)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares, net of transaction costs	10	1,977	10,034
Repayment of borrowings		(23)	(227)
Repayment of lease liabilities		(68)	(86)
Payment of bank guarantee		(35)	-
Net cash from financing activities		1,851	9,721
Net (decrease)/ increase in cash and cash equivalents		(3,728)	3,607
Cash and cash equivalents at the beginning of the financial half-year		6,205	6,388
Effects of exchange rate changes on cash and cash equivalents		618	(121)
Cash and cash equivalents at the end of the financial half-year		3,095	9,874

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

Notes to the consolidated financial statements

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2022 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2022 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

Comparative balances have been re-classified to conform with the presentation of the Group's 30 June 2022 Annual Report, which is reflective of the business operations for the current period.

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.

GOING CONCERN

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

As disclosed in the interim consolidated financial statements, the consolidated entity incurred a loss of \$9,360,000 and had net cash outflows from operating activities of \$5,377,000 for the half-year ended 31 December 2022.

Note 1. Significant accounting policies (continued)

GOING CONCERN (continued)

The Directors believe that it is reasonably foreseeable that the consolidated entity will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report after consideration of the following factors:

- As disclosed in note 17, the company successfully secured \$4.32 million in funding during January and February 2023 in the form of a 12-month loan facility and convertible notes.
- The consolidated entity recorded its best financial half-year to date for the period ending 31 December 2022 with \$14.89 million in receipts from customers.
- Management have the ability to identify further reductions to overhead and administrative expenditure if required.
- The consolidated entity has demonstrated the ability to raise further capital, if required, pursuant to ASX listing rule 7.1 and 7.1A.

Note 2. Operating segments

Identification of reportable operating segments

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

The CODM reviews 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 half-year ended 31 December 2022 approximately 15% (2021: 5%) of the consolidated entity's external revenue was derived from sales to one customer.

Note 2. Operating segments (continued)

Operating segment information

CONSOLIDATED - 31 DECEMBER 2022	Australia \$'000	United Kingdom \$'000	Canada \$'000	Other* \$'000	Intersegment eliminations \$'000	Total \$'000
Revenue						
Sales to external customers	6,244	955	4,460	40	(28)	11,671
Other revenue	-	-	203	99	(163)	139
Interest revenue	-	-	-	298	(282)	16
Total revenue	6,244	955	4,663	437	(473)	11,826
EBITDA						
EBITDA	1,901	(651)	(2,580)	(6,714)	275	(7,769)
Depreciation and amortisation	(50)	(83)	(843)	(454)	-	(1,430)
Interest revenue	-	-	-	298	(282)	16
Finance costs	(40)	(292)	(2)	(125)	282	(177)
Loss before income tax expense	1,811	(1,026)	(3,425)	(6,995)	275	(9,360)
Income tax expense	-	-	-	-	-	-
Loss after income tax expense						(9,360)
CONSOLIDATED - 31 DECEMBER 2022						
ASSETS						
Segment assets	69,169	3,305	2,270	-	(19,914)	54,830
Total assets						54,830
LIABILITIES						
Segment liabilities	9,760	15,826	8,774	-	(15,162)	19,198
Total liabilities						19,198

* Includes Global Corporate Services responsible for providing support to Strategic Business Units through expansion opportunities and investment in new product development.

Note 2. Operating segments (continued)

Operating segment information

CONSOLIDATED - 31 DECEMBER 2021	Australia \$'000	United Kingdom \$'000	Canada \$'000	Other* \$'000	Intersegment eliminations \$'000	Total \$'000
Revenue						
Sales to external customers	5,000	975	3,559	5	(358)	9,181
Other revenue	2	-	56	141	-	199
Interest revenue	-	-	4	120	(120)	4
Total revenue	5,002	975	3,619	266	(478)	9,384
EBITDA						
EBITDA	1,226	(929)	(715)	(5,756)	590	(5,584)
Depreciation and amortisation	(52)	(87)	(768)	(411)	-	(1,318)
Interest revenue	-	-	4	120	(120)	4
Finance costs	(2)	(9)	(3)	(253)	120	(147)
Loss before income tax expense	1,172	(1,025)	(1,482)	(6,300)	590	(7,045)
Income tax expense						-
Loss after income tax expense						(7,045)
CONSOLIDATED - 30 JUNE 2022						
ASSETS						
Segment assets	68,714	3,193	6,783	-	(22,125)	56,565
Total assets						56,565
LIABILITIES						
Segment liabilities	7,841	13,921	10,639	-	(17,286)	15,115
Total liabilities						15,115

* Includes Global Corporate Services responsible for providing support to Strategic Business Units through expansion opportunities and investment in new product development.

Note 3. Revenue

Disaggregation of revenue

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

	CONSOLIDATED	
	31 December 2022 \$'000	31 December 2021 \$'000
CONSOLIDATED		
Sales Channels		
Goods sold directly to registered pharmacies and consumers	7,385	6,121
Goods sold through intermediaries	4,286	3,060
Other income	139	199
	11,810	9,380
Geographical regions		
Australia	6,343	5,148
United Kingdom	955	975
Canada	4,472	3,257
Germany	40	-
	11,810	9,380
Timing of revenue recognition		
Goods transferred at a point in time	11,403	9,303
Services transferred over time	407	77
	11,810	9,380

Note 4. Expenses

	Consolidated	
	31 December 2022	31 December 2021
LOSS BEFORE INCOME TAX INCLUDES THE FOLLOWING SPECIFIC EXPENSES:	\$'000	\$'000
Cost of goods sold		
Cost of goods sold	6,043	4,555
Stock write-offs recorded during the period	263	221
Total cost of goods sold	6,306	4,776
Employee benefits expense		
Employee benefits expense	6,400	5,432
Shared based employee expense	863	902
Total employee benefits expense	7,263	6,334
Depreciation and amortisation		
Property, plant and equipment depreciation	877	831
Buildings right-of-use assets depreciation	378	171
Intangible assets amortisation	175	316
Total depreciation and amortisation	1,430	1,318
General and administrative expenses		
Insurance	444	280
Licences and permits	118	67
Share registry and ASX compliance costs	103	91
Loss on disposal of property, plant and equipment	-	169
Other expenses	1,015	802
Total general and administrative expenses	1,680	1,409
Professional services expense		
Accounting and taxation services	186	116
Consulting services	1,019	539
Legal fees	79	275
Shared based professional services expense	25	104
Total professional services expense	1,309	1,034
Finance costs		
Interest and finance charges paid/payable on borrowings	41	36
Interest and finance charges paid/payable on lease liabilities	136	111
Total finance costs expensed	177	147
Net foreign exchange loss/(gain)		
Unrealised foreign exchange loss/ (gain)	1,051	(192)
Realised foreign exchange loss	13	18
Total net foreign exchange loss/(gain)	1,064	(174)

Note 5. Current assets - trade and other receivables

	CONSOLIDATED	
	31 December 2022 \$'000	30 June 2022 \$'000
Trade receivables	6,990	6,087
Less: Allowance for expected credit losses	(187)	(187)
	6,803	5,900
Other receivables	459	405
	7,262	6,305

Allowance for expected credit losses

The consolidated entity has recognised a loss of nil (period ended 30 June 2022: \$144,000) in profit or loss in respect of the expected credit losses for the period ended 31 December 2022.

Note 6. Current assets - inventories

	CONSOLIDATED	
	31 December 2022 \$'000	30 June 2022 \$'000
Raw materials - at cost	2,202	2,258
Work in progress - at cost	259	106
Finished goods - at cost	1,160	1,183
Less: Provision for impairment	(202)	(228)
	958	955
Packaging and supplies	814	500
	4,233	3,819

Note 7. Non-current assets - property, plant and equipment

	CONSOLIDATED	
	31 December 2022 \$'000	30 June 2022 \$'000
Land - at cost	613	632
Buildings - at cost	9,108	9,375
Less: Accumulated depreciation	(1,186)	(978)
	7,922	8,397
Asset under construction - at cost	1,677	1,677
Plant and equipment - at cost	4,357	4,342
Less: Accumulated depreciation	(1,750)	(1,344)
	2,607	2,998
Computer equipment - at cost	661	652
Less: Accumulated depreciation	(548)	(445)
	113	207
Office equipment - at cost	799	810
Less: Accumulated depreciation	(305)	(247)
	494	563
	13,426	14,474

Note 8. Non-current assets - intangibles

	CONSOLIDATED	
	31 December 2022 \$'000	30 June 2022 \$'000
Goodwill	17,737	17,737
Website - at cost	360	345
Less: Accumulated amortisation	(196)	(154)
	164	191
Patents and trademarks - at cost	103	101
Less: Accumulated amortisation	(20)	(16)
	83	85
Software - at cost	2,289	2,284
Less: Accumulated amortisation	(1,781)	(1,490)
	508	794
Intellectual Property - at cost	571	571
Less: Accumulated amortisation	(101)	(65)
	470	506
	18,962	19,313

Impairment testing

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

	Consolidated	
	31 December 2022 \$'000	30 June 2022 \$'000
2682130 Ontario Limited ("Peak Processing Solutions")	17,737	17,737

Note 8. Non-current assets - intangibles (continued)

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

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

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

- 23% post-tax discount rate;
- accelerated revenue growth of 35% in year two, representing expected volume growth from contracts executed with customers as at 31 December 2022 and product development revenue;
- projected revenue growth rates of 30% in years three to four, and 20% in year five
- gradual improvement in gross margins and EBITDA percentage of 13% in year two, gradually increasing to 20% per annum by year five; and
- 3% terminal growth rate.

The discount rate of 23% post-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital adjusted for the Peak Processing Solutions division, the risk free rate and the volatility of the share price relative to market movements.

Management believe projected revenue growth rates to be justified based on the

rapid and continued growth driven by the overall size of the recreational cannabis market in Canada. Management expect improvements in gross margins and EBITDA as production volumes increase and efficiencies are gained.

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

Based on the above, the recoverable amount of the Peak Processing Solutions business exceeded the carrying amount by CAD\$3,153,000.

Sensitivity

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

- Forecasted cash flows would need to decrease by more than 12% for the Peak Processing Solutions business before the goodwill would need to be impaired, with all other assumptions remaining constant.
- The discount rate would be required to increase by more than 3.5% post-tax for the Peak Processing Solutions business before goodwill would need to be impaired, with all other assumptions remaining constant.

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

Note 9. Current liabilities - trade and other payables

	Consolidated	
	31 December 2022 \$'000	30 June 2022 \$'000
Trade payables	8,323	5,410
Other payables	3,884	3,069
	12,207	8,479

Note 10. Equity - issued capital

	31 December 2022 Shares	30 June 2022 Shares	31 December 2022 \$'000	30 June 2022 \$'000
CONSOLIDATED				
Ordinary shares - fully paid	361,378,974	316,004,879	84,990	82,044

Movements in ordinary share capital

DETAILS	DATE	SHARES	ISSUE PRICE	\$'000
Balance	1 July 2022	316,004,879		82,044
Employee share issue	4 July 2022	11,589,743	\$0.077	892
Capital raising costs	4 July 2022	-	\$0.000	(3)
Employee share issue	14 October 2022	677,738	\$0.087	59
Capital raising costs	14 October 2022	-	\$0.000	(3)
Placement	10 November 2022	20,074,628	\$0.067	1,345
Capital raising costs	10 November 2022	-	\$0.000	(82)
Share Purchase Plan	19 December 2022	13,031,986	\$0.067	873
Capital raising costs	19 December 2022	-	\$0.000	(135)
Balance	31 December 2022	361,378,974	-	84,990

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.

Note 10. Equity - issued capital (continued)

Share buy-back

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

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other 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 current company's share price at the time of the investment.

The consolidated entity is subject to certain financing arrangement 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 half-year.

The capital risk management policy remains unchanged from the 2022 Annual Report.

Note 11. Equity - reserves

	Consolidated	
	31 December 2022 \$'000	30 June 2022 \$'000
Foreign currency reserve	677	59
Share-based payments reserve	2,674	2,824
	3,351	2,883

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign

operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Note 12. Contingent liabilities

The consolidated entity has given bank guarantees as at 31 December 2022 of \$358,255 (30 June 2022: \$326,050) to various landlords for the operating and commercial leases of the consolidated entity's three premises located in

Melbourne, Australia and one premises in London, United Kingdom. Except for these, the consolidated entity currently has no contingent liabilities at the date of signing this report.

Note 13. Interests in subsidiaries

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

NAME	Principal place of business / Country of incorporation	Ownership interest	
		31 December 2022 %	30 June 2022 %
Althea Company Pty Ltd	Australia	100.00%	100.00%
Althea MMJ UK Ltd	United Kingdom	100.00%	100.00%
MMJ Clinic Group Ltd	United Kingdom	100.00%	100.00%
1214029 B.C. Ltd ¹	Canada	100.00%	100.00%
2613035 Ontario Limited ²	Canada	100.00%	100.00%
2682130 Ontario Limited ²	Canada	100.00%	100.00%
MMJ Clinic Group Ireland Limited	Ireland	100.00%	-

¹1214029 B.C. Ltd is an entity associated with the acquisition of Peak Processing Solutions.

² Collectively known as Peak Processing Solutions.

Note 14. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	31 December 2022 \$'000	31 December 2021 \$'000
Loss after income tax expense for the half-year	(9,360)	(7,045)
Adjustments for:		
Depreciation and amortisation	1,430	1,318
Net loss on disposal of property, plant and equipment	-	170
Share-based payments	888	1,006
Foreign exchange differences	345	(132)
Interest paid on investing activities	23	25
Share-based payment re-classified during the year	60	269
Prepaid insurance classified as financing activities	-	546
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(957)	497
(Increase)/decrease in inventories	(414)	319
Increase in prepayments	(1,543)	(1,009)
Increase/(decrease) in trade and other payables	3,728	(685)
Decrease in employee benefits	(16)	(156)
Increase/(decrease) in other liabilities	439	(672)
Net cash used in operating activities	(5,377)	(5,549)

Note 15. Loss per share

	Consolidated	
	31 December 2022 \$'000	31 December 2021 \$'000
Loss after income tax	(9,360)	(7,045)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	334,103,707	293,478,060
Weighted average number of ordinary shares used in calculating diluted earnings per share	334,103,707	293,478,060
	Cents	Cents
Basic loss per share	(2.80)	(2.40)
Diluted loss per share	(2.80)	(2.40)

9,585,194 (31 December 2021: 12,622,259) performance options, 3,136,354 (31 December 2021: 2,675,000) pre-IPO Consultant & Corporate Advisory options, and nil exchangeable shares (31 December 2021: 13,313,698) have been excluded from the above calculations as their inclusion would be anti-dilutive.

Note 16. Share-based payments

A share option plan has been established by the consolidated entity and approved by shareholders at a general meeting, whereby the consolidated entity may, at the discretion of the Nomination and Remuneration Committee, grant options over ordinary shares in the company to certain key management personnel of the consolidated entity. The options are issued for nil consideration and are granted in

accordance with performance guidelines established by the Nomination and Remuneration Committee.

Options

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

31 December 2022							
Grant date	Expiry date	Exercise price	Balance at the start of the half-year	Granted	Exercised	Expired/forfeited/other	Balance at the end of the half-year
21/09/2018	21/09/2022	\$0.200	2,675,000	-	-	(2,675,000)	-
20/01/2022	20/01/2025	\$0.500	1,568,177	-	-	-	1,568,177
20/01/2022	20/01/2025	\$0.750	1,568,177	-	-	-	1,568,177
			5,811,354	-	-	(2,675,000)	3,136,354

Note 16. Share-based payments (continued)

Performance options

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

Performance option class	Grant date	Vesting condition	Number
Class C ¹	01/07/2019	ATSR (CAGR) over relevant Measurement Period of \$1.296	36,490
Class G ¹	01/07/2020	ATSR (CAGR) over relevant Measurement Period of \$0.548	847,742
Class H ¹	26/11/2020	ATSR (CAGR) over relevant Measurement Period of \$0.548	390,625
Class J ¹	16/12/2021	ATSR (CAGR) over relevant Measurement Period of \$0.3355	300,571
Class K ²	01/07/2022	Minimum of AUD \$100,000,000 in revenue in any 12 month rolling period within the performance period	7,500,000
Class L ¹	01/07/2022	ATSR (CAGR) over relevant Measurement Period of \$0.1631	509,766

¹ The performance metric for vesting of these classes of performance rights is absolute total shareholder return (ATSR) on a compound annual growth rate (CAGR) basis tested over the Measurement Period. ATSR takes into account the difference in share price over the Measurement Period, as well as any dividends (assumed to be reinvested) and other capital adjustments.

² The performance metric for vesting of the above Class K performance rights is the achievement of a minimum \$100,000,000 in consolidated group revenue in any 12 month rolling period within the performance period.

Set out below are summaries of performance rights granted under the Company's long term incentive performance rights plan:

31 December 2022							
Grant date	Expiry date	Exercise price	Balance at the start of the half-year	Granted	Exercised ¹	Expired/ forfeited/ other ²	Balance at the end of the half-year
01/07/2019	01/07/2034	\$0.000	36,490	-	-	-	36,490
01/07/2020	01/07/2035	\$0.000	1,434,770	-	-	(587,028)	847,742
26/11/2020	26/11/2035	\$0.000	390,625	-	-	-	390,625
01/12/2020	30/11/2022	\$0.000	5,100,000	-	-	(5,100,000)	-
16/12/2021	15/12/2036	\$0.000	300,571	-	-	-	300,571
01/07/2022	30/06/2037	\$0.000	-	7,500,000	-	-	7,500,000
01/07/2022	30/06/2037	\$0.000	-	509,766	-	-	509,766
			7,262,456	8,009,766	-	(5,687,028)	9,585,194

¹ 5,687,028 performance rights did not meet the required performance measurement hurdles for the rights to vest and/or be exercised.

Note 16. Share-based payments (continued)

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

31 December 2022

Grant date	Vesting date	Share price at grant date	Share price hurdle for vesting	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
01/07/2019	30/06/2022	\$1.000	\$1.113	80.00%	-	0.99%	\$0.675
27/11/2019	30/06/2022	\$0.410	\$1.296	80.00%	-	0.65%	\$0.143
06/05/2020	30/06/2022	\$0.380	\$0.443	80.00%	-	0.23%	\$0.262
01/07/2020	30/06/2023	\$0.330	\$0.548	80.00%	-	0.26%	\$0.225
26/11/2020	30/06/2023	\$0.480	\$0.548	80.00%	-	0.07%	\$0.345
16/12/2021	30/06/2024	\$0.225	\$0.335	70.00%	-	1.00%	\$0.092
01/07/2022	30/06/2025	\$0.066	\$0.163	75.00%	-	3.24%	\$0.035

Note 17. Events after the reporting period

Subsequent to 31 December 2022, the company secured AUD \$4.32 million in additional funding in the form of:

- a new loan facility of CAD \$2 million with a 12-month term and 15% interest payable per annum (announced 30 January 2023)
- convertible notes of AUD \$2.2 million with a 12-month maturity (announced 3 February 2023)

No other matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Directors' Declaration

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2022 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors



Andrew Newbold

Chairman

27 February 2023



06

Independent Auditor's Review Report

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

Conclusion

We have reviewed the accompanying half-year financial report of Althea Group Holdings Limited which comprises the statement of financial position as at 31 December 2022, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2022 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company 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 (including Independence Standards) (the Code) that are relevant to our audit of the annual 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 Althea Group Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

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Directors' Responsibility for the Financial Report

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

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2022 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

A handwritten signature in blue ink, appearing to be 'RSM'.

RSM AUSTRALIA PARTNERS

A handwritten signature in blue ink, appearing to be 'BY CHAN'.

B Y CHAN
Partner

Date: 27 February 2023
Melbourne, Victoria



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