WattleHealth®

2019

ANNUAL REPORT

Building Australia's leading organic dairy product supplier

ABOUT US

At Wattle Health our ultimate aim is to make the sustainable goodness of Australian health and wellness products affordable and widely available to families around the globe.

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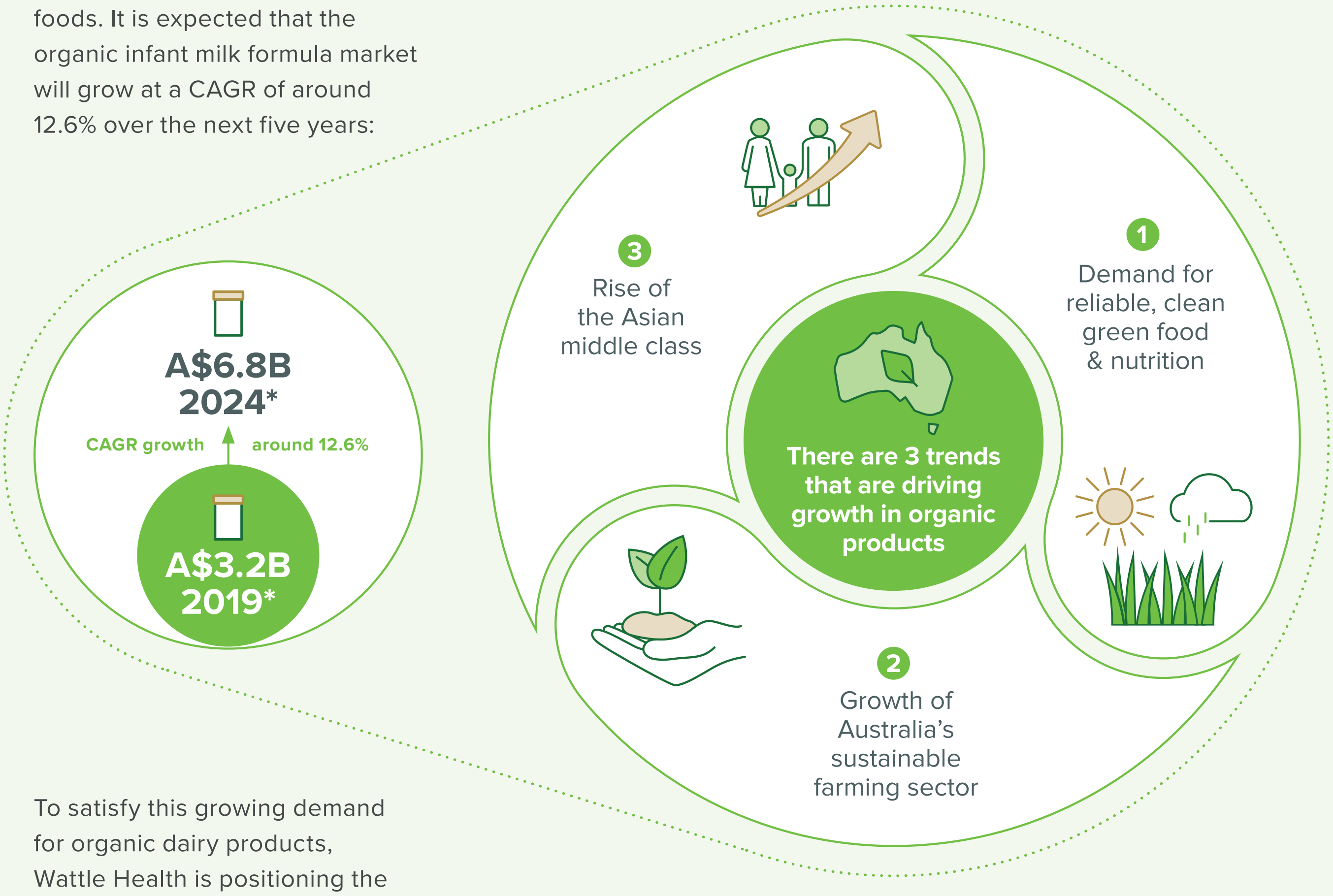
The rise of organic dairy products

Global demand for organic products has almost doubled since 2012 with dairy forming the largest organic category in packaged foods. It is expected that the organic infant milk formula market will grow at a CAGR of around 12.6% over the next five years:



To satisfy this growing demand for organic dairy products, Wattle Health is positioning the business as Australia's leading organic dairy product supplier. This report explains how we plan to build and achieve this.

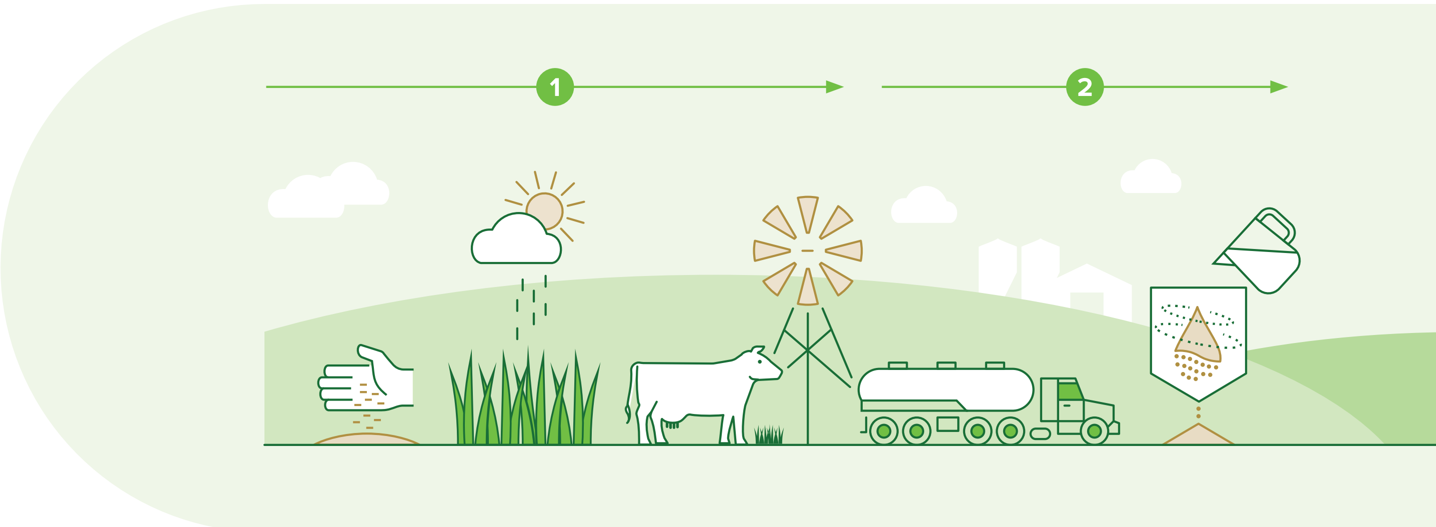
*new GIR (Global Info Research) study

Building a business model to become Australia's leading organic dairy product supplier

Meeting consumers' desire for organic purity means taking total responsibility for the quality of the products Wattle Health offers. To achieve this Wattle Health has created Australia's first vertically integrated, Australian certified organic milk product supply chain. Beginning with raw milk sourced wholly from Organic Dairy Farmers of Australia (ODFA) certified farms, this milk is then transformed with our dedicated spray drying and packaging facilities to feed into a tightly controlled distribution network. Our traceability system tracks our products through this network all the way to the end consumer.

From cows to cup

Our vertically integrated organic milk supply chain



1 Sustainable certified organic source

Joint Venture

- Supply agreement with ODFA.
- WHA secures Australia's leading source of organically certified milk from grass-fed cows.
- High quality milk from sustainable farm practices.

True Organic
ORGANIC DAIRY FARMERS OF AUSTRALIA

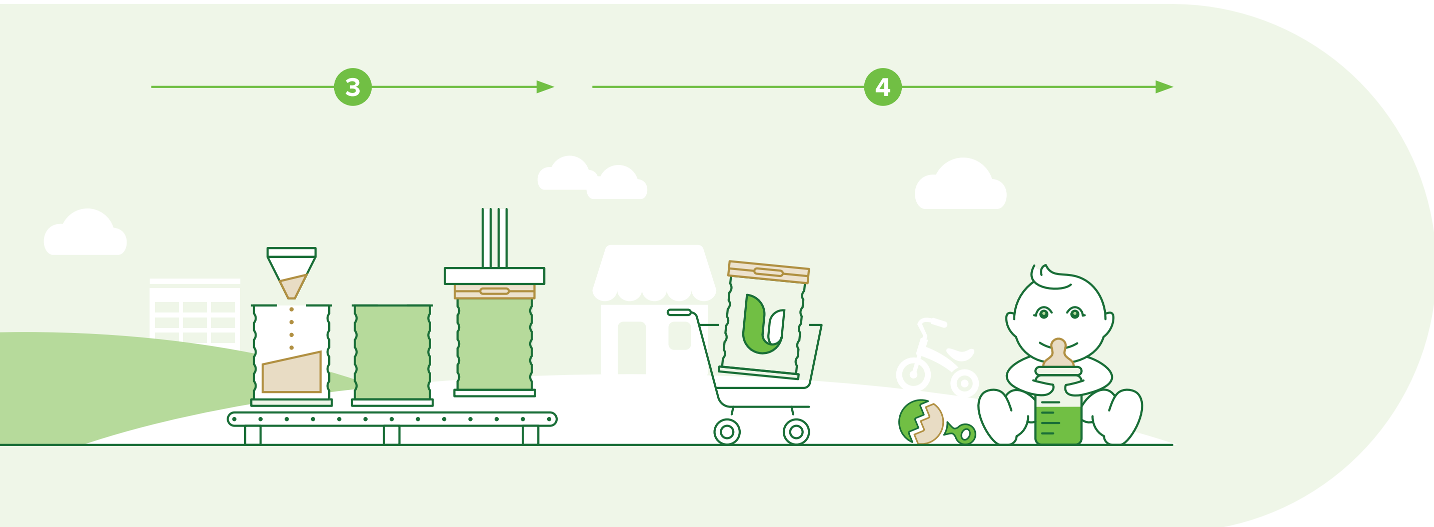
2 Transforming certified organic milk into powder

Equity Ownership

- Australia's only dedicated certified organic nutritional milk spray dryer.
- Ensures absolute confidence in organic purity of provenance and freshness of powdered ingredients.

CORIO BAY
DAIRY GROUP

Our aim is to grow this supply chain as fast as possible to meet the rapidly growing demand for nutritionally packed, certified Australian organic milk and milk powder-based products.



3 Quality assured manufacturing processes

Equity Ownership

- Blend and Pack is our quality assured and certified production facility.
- Guaranteed safety and authentic origin of packaged ingredients that can be tracked throughout the production process.

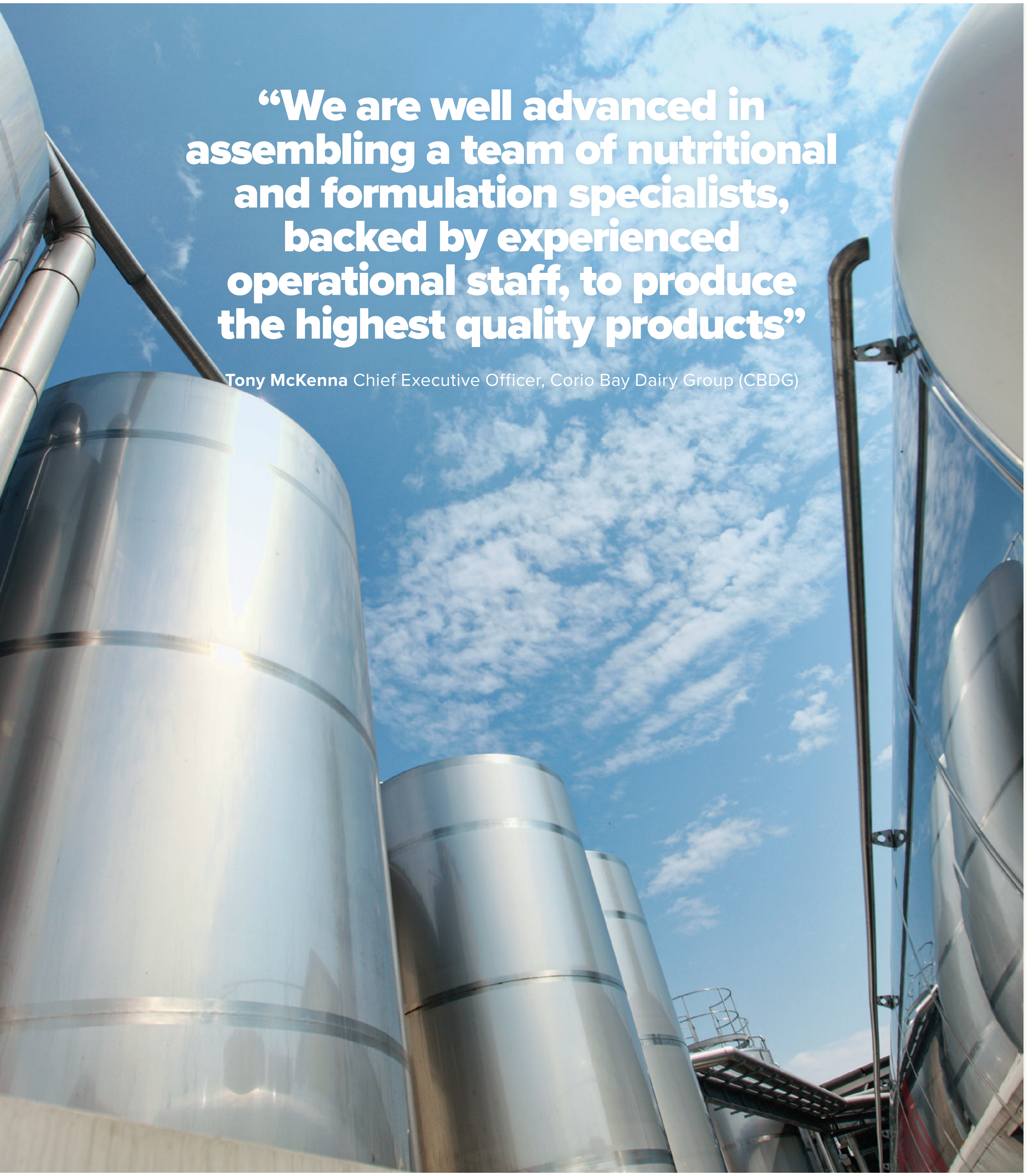
BLEND PACK

4 Marketing sustainable consumer products

Brand Owner

- Clarity of promise and consistency across range.
- Sole responsibility for consumer satisfaction and support.
- Consumer has access to scarce, nutritional high-quality products.

WattleHealth®



"We are well advanced in assembling a team of nutritional and formulation specialists, backed by experienced operational staff, to produce the highest quality products"

Tony McKenna Chief Executive Officer, Corio Bay Dairy Group (CBDG)

State-of-the-Art, Dedicated Spray Dryer Facility will come onstream in 2020

CORIO BAY
DAIRY GROUP

Honestly Good Nutrition

In April 2018 Wattle Health Australia Limited became partners in the Corio Bay Dairy Group (CBDG) venture with two complementary groups, the Organic Dairy Farmers of Australia (ODFA) (fifty percent) and Niche Dairy (five percent), owned by Andrew Grant. Like Wattle Health they bring their own strengths to CBDG as embedded industry participants. ODFA is Australia's largest supplier of certified organic fresh milk and Andrew Grant, one of the founders of Blend and Pack, brings extensive dairy industry engineering and manufacturing experience.

CBDG will become a value-adding component of Wattle Health's vertical integration strategy. The spray dryer will provide options to improve production planning, efficiency and also has the capacity to allow scale-up as market demand increases for our range of organic products.

Though Wattle Health has first rights to CBDG products, it is likely that the Facility will provide a new source of revenue as CBDG has already received numerous enquiries for domestic and international brands looking to secure potential off takes of Australian produced and certified organic nutritional powder and ingredients.

After some planning and logistical delays, construction of the facility is progressing and is now expected to commence production and trials in the second quarter of 2020, moving into full production in time for the spring season.

Initially the CBDG facility has been designed to process up to 60 million litres of milk annually and will have the ability to double processing capacity to 120 million litres with the addition of a new spray drying tower. We plan to construct this once initial production is underway and supplies of certified organic milk can be reliably increased.

The CDBG facility is expected to exclusively produce from certified organic milk once the organic milk supply matches the capacity of the plant.

In March the joint venture took a step forward with the appointment of industry veteran Dr Tony McKenna as CEO of CBDG. Tony brings three decades experience of working in the dairy industry in Australia, New Zealand and Asia.

"I am excited to be part of Corio Bay Dairy Group. The construction of our nutritional dairy plant is creating an ideal value-adding conduit between our key shareholders Organic Dairy Farmers of Australia, Niche Dairy and Wattle Health."

"Many dairy leaders and commentators have noted that the industry needs to focus on products, processes and markets that drive better returns for Australian milk. Our new facility achieves this and will allow us to draw on one of the largest pools of organic milk in Australia to manufacture products that are in high demand in target markets throughout Asia."

Tony McKenna
Chief Executive Officer
Corio Bay Dairy Group

BLEND AND PACK

Australia's premier OEM Nutritional Blending and Canning facility

- Wattle Health holds 5% equity in Blend and Pack and aims to grow and strengthen its relationship in the company over the coming year.
- Capacity of 14,000 metric tonnes per annum (15 million cans), Blend and Pack can service the needs of customer's all over the world.
- One of the fastest canning lines in Australia.
- 4 Blenders with the ability to handle 20kg to 650kg bags.
- Fully temperature and humidity controlled clean room.
- Traceability and full IT reporting systems – laser printing and block chain technology to offer customers full traceability to every can by date, time and identification.

uganic

True Australian Organic Goodness

We combine the very best Australian certified organic milk with an essential combination of vitamins, minerals and probiotics to support your child in their first stages of life.

From start to finish, from cow to bottle, the Uganic infant formula range has goodness flowing the whole way through. And because it does, so does your baby, toddler or child.

Chairman's Report

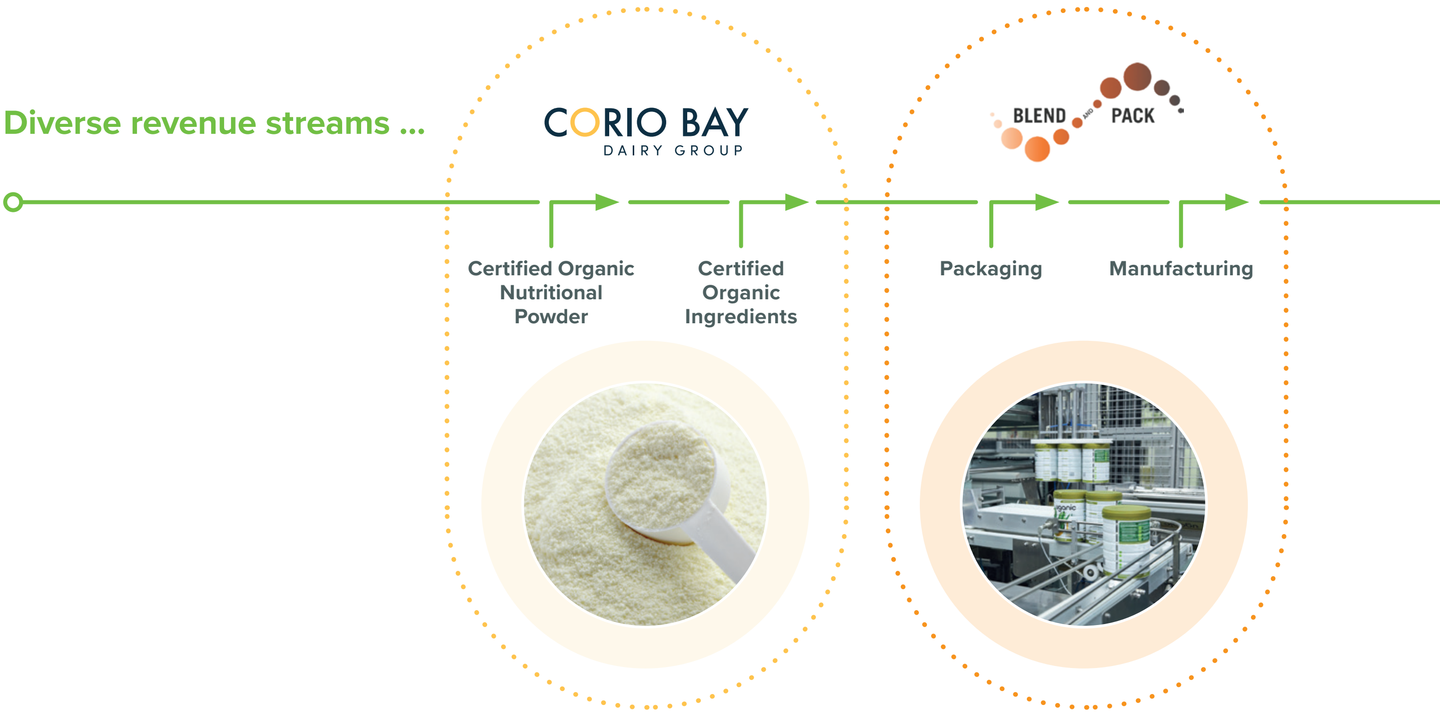
My Fellow Wattle Health Australia Limited (WHA) Shareholders.

The past 12 months have seen a challenging environment for WHA, both at the micro and macro level. I want to set out to you the strategy and actions the management and board have taken to respond and set WHA for a strong, sustainable and valuable future. I acknowledge and am keenly aware that the headline revenue and profit figures in the last year show a negative trend, and that has been reflected in the share price. Be assured your board and management are taking long term steps to invest in, diversify and improve our operations and market presence. Through this I believe a new, better positioned WHA is emerging and will deliver substantial value for Wattle Health's owners in the long term.

We have a clear goal ... to be a vertically integrated leader in the sourcing, production, packaging and marketing of certified, organic nutritional milk products. At the moment truly organic and truly certifiable organic milk products make up less than one percent of Australian production. There is strong and increasing global demand for organic milk products, and we believe certified organic milk products will attract premium pricing over the long term. Efficiently producing and marketing these certified organic milk products to meet this demand is our overriding focus.

During the year we took substantial steps to develop a fully integrated cow-to-consumer certified organic milk products process.

- We have secured high quality and increasing supplies of certified organic milk through our agreement with the Organic Dairy Farmers of Australia (ODFA), one of Australia's largest producer of certified organic milk. This pool of high



value organic certified milk, already Australia's largest, will increase over the years as more farmers complete the comprehensive three-year process of converting to exclusively organic production.

- With ODFA and Niche Dairy we formed the Corio Bay Dairy Company (CBDG) to construct Australia's first dedicated organic nutritional spray drier facility. Construction of the Corio Bay facility is now progressing well with a schedule to be ready for production in the second half of 2020. WHA has first right over all certified organic powder from CBDG to be used across its nutritional dairy range, which will be processed at Blend and Pack.
- We continue working closely with Blend & Pack, Australia's largest independent blending and packing facility of dairy based products in Australia. Blend & Pack is one of a small number of Australian CNCA registered production sites for the processing of dried dairy products.
- This quarter (Q3 2019) we are launching a new infant formula brand, Uganic, in the Australian and Asian markets. The milk products sector, particularly infant milk formula, is competitive so we are building what we believe will be a premium brand. Our goal is to make Uganic into the leading organic milk formula brand in Australia and a global leader.

These initiatives and investments combine in a long-term strategic approach to deliver a stronger, more diverse and more profitable WHA. We will have a wholly controlled integrated supply chain … increasing supplies and a state-of-the-art production facility to produce premium quality certified organic milk products, Australia's leading independent blending and canning facility, and are taking to consumers around the world strong brands and an exciting product range.

I would like to thank our hard-working staff and our associate companies for their dedication and support.

I look forward to continuing to build Wattle Health Australia Limited in the coming years.

Lazarus Karasavvidis
Executive Chairman
Wattle Health Australia Limited

- Guaranteed supply chain.
- Essential traceability needed for export certification.
- Underpins superior provenance assurance.
- Increased product and services offering.

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 Wattle Health Australia Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors
The following persons were directors of Wattle Health Australia Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Lazarus Karasavvidis (Executive Chairman and Chief Executive Officer)
Eric Jiang (Non-Executive Director)
Peter Biantes (Non-Executive Director)
Georgia Sotiropoulos (Executive Director) (appointed 12 July 2018)
Zheng (Kobe) Li (Non-Executive Director) (appointed 16 January 2019)

Principal activities
During the financial year the principal continuing activities of the consolidated entity consisted of:
- Constructing Australia's first dedicated organic nutritional spray dryer.
- Finalising of the proposed acquisition of CNCA accredited manufacturing facility, Blend and Pack.
- Becoming Australia' premier organic nutritional supplier.

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 and non-controlling interest amounted to $9,911,000 (30 June 2018: $19,833,000).

Financial performance and position

Financial Performance

Sales revenue for the period was $795,000 (30 June 2018: $1,441,000), with the decrease being as a result of the discontinuation of the conventional nutritional dairy product range, to be replaced by the Company's organic product offering, which will be due in market in the first quarter of financial year 2020. Administrative, marketing and employment-related expenses increased, mainly in connection with the preparation and construction of the consolidated entity's organic spray drying plant, which commenced construction during the year.

Financial Position

The net assets of the entity decreased by $10,101,000 to $51,438,000 as at 30 June 2019 (2018: increase of $54,559,000), mainly reflecting the consolidated entity's operating loss for the year. The entity's current assets less current liabilities decreased by $26,324,000 to $29,029,000 (2018: increase of $48,409,000). This decrease was due mainly to the expenditure of funds raised during the previous financial year on construction of the consolidated entity's organic dairy spray plant, cash payments for non-current assets, and operating costs.

Building Australia's Best Organic Milk Products Range
The year has seen substantial progress in our goal to completely integrate and own the production and marketing process to produce Wattle Health's range of high quality certified organic nutritional dairy range.

Sourcing the best Organic Milk
Certified organic milk from Australian farms remains a scarce resource. We are extremely well positioned to secure high quality supplies from the farm with our exclusive supply agreement with Australia's largest producer of certifiable organic milk, the Organic Dairy Farmers of Australia (ODFA).

ODFA farms across Victoria, NSW and Tasmania are certified organic. Each farm complies with a strict set of organic standards, in addition to ODFA's sustainability guidelines. These standards do not allow use of synthetic or artificially produced pesticides, herbicides, fertilisers or genetically modified transgenic organisms (GMOs). Cows enjoy roaming and feeding on pasture that is completely GMO free.

Our agreement with ODFA is set to provide increasing supplies of organic milk in the coming years as more farmers complete the comprehensive three-year process to become certified fully organic milk producers.

A State of the Art, Dedicated Spray Dryer Facility will come onstream in 2020
Significant progress is being made in constructing a dedicated-to-organic spray drying facility at Corio Bay near Geelong. After some planning and logistics delays, construction of the facility is progressing and is now expected to commence production and trials in the second quarter of 2020, moving into full production in time for the spring season.

Our partners in the Corio Bay Dairy Group (CBDG) are ODFA (50%) and Niche Dairy (5%) owned by Andrew Grant, one of the founders of Blend and Pack. Our partners bring significant strengths to CBDG. ODFA is one of the Australia's largest supplier of certified organic fresh milk. Andrew Grant brings engineering and manufacturing experience in the dairy industry to support CBDG.

Wattle Health has first right over all certified organic powder from CBDG to be used across its nutritional dairy range.

Initially the CBDG facility will be processing up to 60 million litres of milk annually with capabilities to increase processing for 120 million litres per annum.

Majority Ownership of Independent Manufacturing Facility Blend and Pack – Synergistic, Scalable and will Diversify Revenues
We are moving to complete the acquisition of a majority stake in Victorian based manufacturing and packing facility Blend and Pack. This is Australia's largest independent plant (by volume) with very high standards of production and traceability. Importantly, the Blend and Pack facility has an excellent record of renewing its Certification and Accreditation of the Peoples Republic of China (CNCA) for the manufacture of infant formula, allowing products from Blend and Pack to be marketed and sold in the world's largest nutritional dairy market, the People's Republic of China.

With a long history of profitability, Blend and Pack manufacture for leading nutritional products and brands which are sold both domestically and internationally. We intend to maintain the existing structure, management and operations of Blend and Pack.

During the year Wattle Health signed a debt facility term sheet to fund the acquisition of Blend and Pack from Gramercy Funds Management LLC (Gramercy) for US$85 million (subject to final due diligence). The proposed acquisition of Blend and Pack and the conditions of the proposed debt facility were approved by shareholders at an EGM on 31 July 2019.

Management changes
Kobe Li was appointed Company Secretary replacing George Karafotias who remains Chief Financial Officer. Kobe joined the Board as non-executive director in January 2019.

Tony McKenna was appointed CEO of Corio Bay Dairy Group in March 2019.

Significant changes in the state of affairs
On 12 July 2018, the Company appointed Georgia Sotiropoulos as an executive director to the board of the Company.

On 16 January 2019, the Company appointed Kobe Li as a non-executive director to the board of the Company. With this appointment the majority of the Board comprises independent directors, strengthening the corporate governance of the company.

Directors' report continued

On 11 February 2019 and 9 May 2019 the Company made announcements regarding its agreement to acquire a controlling interest in leading nutritional manufacturer Blend and Pack Pty Ltd (Blend and Pack). The agreement provided for the Company's acquisition of 75% of the issued shares in Blend and Pack, taking the Company's total ownership in Blend and Pack to 80%. The acquisition was subject to various conditions, including approval by the Company's shareholders. Shareholder approval for this acquisition was obtained on 31 July 2019 (refer "Matters subsequent to the end of the financial year" below). As the date of this report, the Company is negotiating for the acquisition of a further 13.5% of the issued shares which, if completed, would take the Company's ownership of Blend and Pack to 93.5%.

This transaction would complete the Company's most important vertical integration strategy which is essential for the long term success of the business. This transaction is planned to be financed via a proposed debt facility.

On 7 March 2019 international dairy leader, Dr. Tony McKenna, was appointed to the position of Chief Executive Officer (CEO) of Corio Bay Dairy Group (CBDG). CBDG has been established by the Company, Organic Dairy Farms Australia Ltd and Niche Dairy Pty Ltd. The Company controls the subsidiary CBDG.

On 9 May 2019 the Company announced it has signed a US$75 million debt facility term sheet with Gramercy Funds Management LLC (together with its managed vehicles and funds, Gramercy), a dedicated emerging markets investment manager based in Greenwich, Connecticut in the USA. The facility is planned to be used to finance the proposed acquisition by the Company of 75% of the issued capital in Blend and Pack Pty Ltd.

The finalisation of this debt facility (Gramercy facility) would be subject to due diligence by Gramercy and completion of final documentation.

The Company also announced that, following the completion of the proposed Gramercy facility, an existing $20 million loan facility, established during the 2018 financial year and provided by Prospere Advisor Limited (Prospere facility), would be terminated. As at the date of this report the Prospere facility remains in place, pending the finalisation of the Gramercy facility.

After the end of the financial year, the amount of the proposed Gramercy facility was increased to $85 million (refer "Matters subsequent to the end of the financial year" below).

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

Matters subsequent to the end of the financial year

On 2 July 2019, the Company announced that it had signed a revised debt facility term sheet to increase proposed net cash funding up to US$85 million with Gramercy Funds Management LLC (Gramercy), and that it was negotiating to increase its shareholding interest in Blend and Pack Pty Ltd to 93.5%.

On 17 July 2019, the Company announced that it had initiated legal action in India against India-based Vasudevan and Sons Exim Private Limited (VSEP) following VSEP's failure to provide a bank guarantee in connection with an agreement for it to purchase baby food products from the Company. The legal action was initiated by the Company to protect its commercial interest and with a view to recover losses.

On 31 July 2019, the Company's shareholders approved the Company's acquisition of 75% of the shares of Blend and Pack Pty Ltd, subject to the completion of contractual conditions.

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 financial years.

Likely developments and expected results of operations
The Company will continue to pursue opportunities for sales of its newly manufactured organic nutritional dairy products in domestic and overseas markets, particularly China.

A member company of the consolidated entity, Corio Bay Dairy Group Pty Ltd (CBDG), purchased land to construct Australia's first dedicated organic nutritional milk spray dryer. CBDG will complete the construction in the second half of financial year 2020, with commissioning and first product available ahead of Spring 2020. The Company will have the first right to all products produced by CBDG for use in the Company nutritional dairy range. Further CBDG will provide organic ingredients and products to the other customers both domestically and internationally as demand for organic products continues to grow.

The Company will pursue to finalise the proposed acquisition of the Australia's largest (by volume) and CNCA accredited manufacturing facility. Blend and Pack (B&P). The finalisation of this transaction will diversify the revenue stream of the Company and result in the Company being one of the first vertically integrated organic nutritional dairy companies in Australia.

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

Information on directors

Name:	Lazarus Karasavvidis
Title:	Co-founder, Executive Chairman and Chief Executive Officer
Experience and expertise:	Lazarus Karasavvidis has over 15 years business experience in Australia and Asia. Lazarus co-founded the business Skillup Australia which was a successful Australian training and recruitment organisation for a ten plus year tenure in a high level management position. This business was involved in Lean Manufacturing & Six Sigma workplace improvement training programs across a number of industries including Food, Health, Logistics, Business Services and Manufacturing. Lazarus has also co-founded a consulting services business in Laos, which has two divisions concentrating on unexploded ordnance and Biomass. Since 2011, Lazarus has co-founded Wattle Health focusing on regulatory compliance within Australia and China, developing the Company's product range and increasing brand awareness.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	None
Interests in shares:	34,014,734 fully paid ordinary shares held jointly with Mr Martin Glenister through jointly controlled related entities. 4,000,000 shares held pursuant to the Company's employee loan share plan.

Name:	Eric Jiang
Title:	Non-Executive Director
Qualifications:	Bachelor of Commerce (Honours) & Bachelor of Arts
Experience and expertise:	With over 15 years' experience, Eric Jiang is an adviser to companies involved in trade between Australia and China. Eric brings a distinctive understanding of the cultural, economic and strategic context in which Australian businesses engage with China.
Other current directorships:	None
Former directorships (last 3 years):	Connexion Media Limited (ASX:CXZ) (resigned 5 May 2017), Perpetual Resources Limited (ASX:PEC) (resigned 7 June 2018), Wingara AG Limited (ASX:WNR) (resigned 8 June 2018)
Special responsibilities:	Chair of Remuneration and Nomination Committee, member of Audit and Risk Committee
Interests in shares:	1,882,371 fully paid ordinary shares. 1,000,000 shares held pursuant to the Company's employee loan share plan.

Directors' report continued

Name:	Peter Biantes
Title:	Non-Executive Director
Qualifications:	Bachelor of Business; CPA
Experience and expertise:	Peter Biantes has over 40 years' experience. He was also a former owner, director, finance director and company secretary of Lemnos Foods Pty Ltd. Lemnos Foods Pty Ltd started as a small business and developed into a major dairy goods supplier.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Chair of Audit and Risk Committee, member of Remuneration and Nomination Committee
Interests in shares:	50,000 fully paid ordinary shares. 1,000,000 shares held pursuant to the Company's employee loan share plan.

Name:	Georgia Sotiropoulos (appointed 12 July 2018)
Title:	Executive Director
Experience and expertise:	Ms Sotiropoulos has over 10 years of extensive senior retail executive leadership experience to WHA. Most recently, Ms Sotiropoulos held the role of Group General Manager with the Speciality Fashion Group and prior to this worked with the Woolworths group (ASX:WOW) for over 20 years in various senior roles including General Manager Hardgoods for the Big W chain.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	79,827 fully paid ordinary shares.

Name:	Zheng (Kobe) Li
Title:	Non-Executive Director
Qualifications:	AGIA
Experience and expertise:	Prior to his appointment as director, Mr Li spent the previous 8 years with the Australian Securities Exchange (ASX) Listing Compliance team, as a Senior Advisor overseeing a portfolio of listed entities ensuring compliance with the ASX listing rules. During his tenure at the ASX he worked on many Initial Public Offerings (IPO's) and numerous complex corporate transactions. Kobe is a member of the Governance Institute of Australia.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of Audit and Risk Committee, Member of Remuneration and Nomination Committee
Interests in shares:	Nil

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

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

Company secretary
Kobe Li (appointed as Company secretary 11 April 2019)

Mr Li's qualifications and experience are set out above.

George Karafotias resigned as Company secretary on 11 April 2019.

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

	Full Board		Audit and Risk Committee		Remuneration and Nomination Committee	
	Attended	Held	Attended	Held	Attended	Held
Lazarus Karasavvidis	7	7	1	1	-	-
Peter Biantes	7	7	1	1	-	-
Eric Jiang	5	7	1	1	-	-
Georgia Sotiropoulos*	6	6	-	-	-	-
Kobe Li**	2	2	-	-	-	-

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

* Appointed director 12 July 2018
** Appointed director 16 January 2019

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 information
- 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 Board 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 reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:
- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Directors' report continued

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 Board. The Board 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.

Non-Executive Directors may be issued with equity instruments as LTIs (long term incentives) in a manner that aligns this element of remuneration with the creation of shareholder wealth, as Directors are able to influence the generation of shareholder wealth. During the year the Non-Executive Directors were issued Loan Funded Shares (LFS) under the Company's Loan Share Plan, pursuant to which the LFS are financed by a limited recourse loan, secured over the LFS, made by the Company to the Shareholder. This acts as an incentive to the Non-Executive Directors, as, if the Company's share price fails exceed the loan repayment amount by the end of the loan term, the Non-Executive Directors would be unlikely to repay the loan and the LFS would be cancelled. Therefore, the Non-Executive Directors are motivated to maximise the share price during the loan term, thereby aligning their interests and objectives with those of other shareholders. Details of Loan Funded Shares issued to Non-Executive Directors during the previous year are contained in Note 32 Share based payments.

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 the following components:
- base pay and non-monetary benefits
- share-based payments

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

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

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

The long-term incentives ('LTI') include long service leave and share-based payments. During the previous year executives, and other employees, were issued Loan Funded Shares (LFS) under the Company's Loan Share Plan, pursuant to which the LFS are financed by a limited recourse loan, secured over the LFS, made by the Company to the Shareholder. This acts as an incentive to the recipients of LFS, as, if the Company's share price fails exceed the loan repayment amount by the end of the loan term, the recipients of LFS would be unlikely to repay the loan and the LFS would be cancelled. Therefore, the recipients of LFS are motivated to maximise the share price during the loan term, thereby aligning their interests and objectives with those of other shareholders. Details of Loan Funded Shares issued during the previous year are contained in Note 32 Share based payments.

Consolidated entity performance and link to remuneration
The Board is of the opinion that improved results can be attributed in part to the adoption of performance based compensation and is satisfied that such an improvement can be expected to increase shareholder wealth if generated and maintained over the coming years.

The consolidated entity did not use a remuneration consultant during the year.

Voting and comments made at the Company's 29 November 2018 Annual General Meeting ('AGM')
At the 29 November 2018 AGM, 96.82% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2018. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

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

The key management personnel of the consolidated entity consisted of the following directors of Wattle Health Australia Limited:
- Lazarus Karasavvidis (Executive Chairman and Chief Executive Officer)
- Peter Biantes (Non-Executive Director)
- Eric Jiang (Non-Executive Director)
- Georgia Sotiropoulos (Executive Director) (appointed 12 July 2018)
- Zheng (Kobe) Li (Non-Executive Director) (appointed 16 January 2019)

And the following persons:
- Martin Glenister (Head of Sales)
- George Karafotias (Chief Financial Officer)

	Short-term benefits		Post-employment benefits		Share-based payments	
2019	Cash salary and fees $	Expense allowance $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:						
Peter Biantes	51,758	-	-	-	-	51,758
Eric Jiang	52,000	-	4,940	-	-	56,940
Kobe Li*	21,944	-	-	-	-	21,944
Executive Directors:						
Lazarus Karasavvidis	586,604	20,000	19,616	3,164	-	629,384
Georgia Sotiropoulos**	395,726	-	-	-	-	395,726
Other Key Management Personnel:						
Martin Glenister	324,724	20,000	19,616	1,933	-	366,273
George Karafotias	313,935	-	28,500	1,944	-	344,379
	1,746,691	40,000	72,672	7,041	-	1,866,404

* Appointed 16 January 2019. Kobe Li was appointed at the Company Secretary on 11th April 2019.
** Appointed 12 July 2018

Directors' report continued

	Short-term benefits		Post-employment benefits		Share-based payments	
2018	Cash salary and fees $	Expense allowance $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:						
Peter Biantes	52,000	-	-	-	961,000	1,013,000
Eric Jiang	52,000	-	4,940	-	961,000	1,017,940
Executive Directors:						
Lazarus Karasavvidis	605,422	20,000	19,616	9,692	3,844,000	4,498,730
Other Key Management Personnel:						
Martin Glenister	371,011	20,000	19,616	5,923	1,623,000	2,039,550
George Karafotias	298,901	-	26,125	3,405	1,082,000	1,410,431
	1,379,334	40,000	70,297	19,020	8,471,000	9,979,651

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:	Lazarus Karasavvidis
Title:	Executive Chairman and Chief Executive Officer
Term of agreement:	No fixed term
Details:	Annual remuneration of $602,250. No specific notice period nor specific termination payment provided for.
Name:	Martin Glenister
Title:	Head of Sales
Term of agreement:	No fixed term
Details:	Annual remuneration of $383,250. No specific notice period nor specific termination payment provided for.
Name:	George Karafotias
Title:	Chief Financial Officer
Term of agreement:	No fixed term.
Details:	Annual remuneration of $300,000 plus statutory superannuation. No specific notice period nor specific termination payment provided for.
Name:	Peter Biantes
Title:	Non-Executive Director
Term of agreement:	No fixed term
Details:	Annual remuneration of $52,000
Name:	Eric Jiang
Title:	Non-Executive Director
Term of agreement:	No fixed term
Details:	Annual remuneration of $52,000
Name:	Georgia Sotiropoulos
Title:	Executive director
Term of agreement:	No fixed term
Details:	Annual remuneration of $60,000. In addition, fees are charged to the Company for consultancy work at a rate of $1,500 per day.

Name:	Kobe Li
Title:	Non-Executive Director and Company Secretary
Term of agreement:	No fixed term
Details:	Annual remuneration of $40,000 (excluding GST) for director fees and annual remuneration of $50,000 (excluding GST) for company secretarial service fees.

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.

Options
There were no options over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2019.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2019.

Additional information
The earnings of the consolidated entity for the five years to 30 June 2019 are summarised below:

	2019 $'000	2018 $'000	2017 $'000	2016 $'000	2015 $'000
Revenue	1,095	1,524	928	10	2
Net loss	(10,341)	(19,839)	(4,151)	(536)	(316)

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2019	2018
Share price at financial year end ($)	0.50	1.17

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					
Lazarus Karasavvidis & Martin Glenister (1)	34,014,734	-	-	-	34,014,734
Lazarus Karasavvidis	4,000,000	-	-	-	4,000,000
Peter Biantes	1,050,000	-	-	-	1,050,000
Eric Jiang	2,882,371	-	-	-	2,882,371
Georgia Sotiropoulos (2)	-	-	-	79,827	79,827
Martin Glenister	3,000,000	-	-	-	3,000,000
George Karafotias	2,653,354	-	-	(39,900)	2,613,454
	47,600,459	-	-	39,927	47,640,386

Directors' report continued

(1) Shares held by KMP-related entities that are jointly controlled by Mr Karasavvidis and Mr Glenister
(2) Commenced as member of Key Management Personnel effective 12 July 2018. "Other" represents shares held as at that date.

This concludes the remuneration report, which has been audited.

Shares under option
Unissued ordinary shares of Wattle Health Australia Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
18 June 2018	18 June 2020	$1.60	4,687,500

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.

Options are held by Prospere Advisor Limited.

Shares issued on the exercise of options
There were no ordinary shares of Wattle Health Australia 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 23 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 23 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.

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 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Lazarus Karasavvidis
Executive Chairman

20 September 2019
Melbourne

Auditor's independence declaration

William Buck

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF WATTLE HEALTH AUSTRALIA LIMITED

I declare that, to the best of my knowledge and belief during the year ended 30 June 2019 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

William Buck

William Buck Audit (Vic) Pty Ltd
ABN 59 116 151 136

A. A. Finnis
Director

Melbourne 20th September 2019

ACCOUNTANTS & ADVISORS
Level 20, 181 William Street
Melbourne VIC 3000
Telephone: +61 3 9824 8555
williambuck.com

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Statement of profit or loss and other comprehensive income

	Note	Consolidated 2019 $'000	2018 $'000
Revenue	5	887	1,524
Interest revenue calculated using the effective interest method		208	51
Expenses			
Raw materials and consumables used		(518)	(718)
Administrative and corporate expenses		(2,995)	(1,790)
Share based payments expense		(240)	(12,149)
Employee benefits expense		(3,378)	(2,509)
Selling, marketing and distribution expenses		(2,366)	(3,751)
Write off of inventory		(1,550)	(201)
Occupancy costs		(264)	(248)
Amortisation expense		(100)	(8)
Finance costs		(25)	(40)
Loss before income tax expense		(10,341)	(19,839)
Income tax expense	7	-	-
Loss after income tax expense for the year		(10,341)	(19,839)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(10,341)	(19,839)
Loss for the year is attributable to:			
Non-controlling interest		(430)	(6)
Owners of Wattle Health Australia Limited		(9,911)	(19,833)
		(10,341)	(19,839)
Total comprehensive loss for the year is attributable to:			
Non-controlling interest		(430)	(6)
Owners of Wattle Health Australia Limited		(9,911)	(19,833)
		(10,341)	(19,839)
		Cents	**Cents**
Basic loss per share	31	(5.10)	(13.32)
Diluted loss per share	31	(5.10)	(13.32)

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

Statement of financial position

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
Assets			
Current assets			
Cash and cash equivalents		18,317	55,843
Trade and other receivables	8	2,039	311
Finished goods inventory		612	860
Investments	9	9,765	-
Prepayments and other	10	3,517	538
Total current assets		34,250	57,552
Non-current assets			
Other financial assets	11	6,148	5,139
Property, plant and equipment	12	12,389	769
Intangibles	13	897	904
Other	14	4,695	-
Total non-current assets		24,129	6,812
Total assets		58,379	64,364
Liabilities			
Current liabilities			
Trade and other payables	15	4,687	1,674
Borrowings	16	375	375
Employee benefit provisions		159	150
Total current liabilities		5,221	2,199
Non-current liabilities			
Borrowings	17	1,686	600
Employee benefit provisions		34	26
Total non-current liabilities		1,720	626
Total liabilities		6,941	2,825
Net assets		51,438	61,539
Equity			
Issued capital	18	74,900	74,900
Reserves	19	12,233	11,993
Accumulated losses		(35,489)	(25,578)
Equity attributable to the owners of Wattle Health Australia Limited		51,644	61,315
Non-controlling interest		(206)	224
Total equity		51,438	61,539

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

Statement of changes in equity

Consolidated	Issued capital $'000	Share-based payment reserve $'000	Accumulated losses attributable to owners of the Parent entity $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2017	12,667	58	(5,745)	-	6,980
Loss after income tax expense for the year	-	-	(19,833)	(6)	(19,839)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive loss for the year	-	-	(19,833)	(6)	(19,839)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 18)	62,019	-	-	-	62,019
Share-based payments (note 32)	-	12,149	-	-	12,149
Exercise of options	214	(214)	-	-	-
Non-controlling interest equity contribution	-	-	-	230	230
Balance at 30 June 2018	74,900	11,993	(25,578)	224	61,539

Consolidated	Issued capital $'000	Share-based payment reserve $'000	Accumulated losses attributable to owners of the Parent entity $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2018	74,900	11,993	(25,578)	224	61,539
Loss after income tax expense for the year	-	-	(9,911)	(430)	(10,341)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive loss for the year	-	-	(9,911)	(430)	(10,341)
Share based payments	-	240	-	-	240
Balance at 30 June 2019	74,900	12,233	(35,489)	(206)	51,438

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

Statement of cash flows

	Note	Consolidated 2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		742	1,580
Payments to suppliers and employees (inclusive of GST)		(13,538)	(7,650)
Interest received		147	51
Interest and other finance costs paid		(25)	(40)
Net cash used in operating activities	30	(12,674)	(6,059)
Cash flows from investing activities			
Payments for investments		(1,008)	(5,064)
Payments for business acquisition		-	(592)
Payments for security deposits - long term		-	(20)
Payments for land		(2,100)	-
Payments for plant construction		(7,594)	(770)
Payments for project establishment costs		(445)	-
Payments for term deposits - current		(9,705)	-
Payments for long term stock supply		(4,000)	-
Net cash used in investing activities		(24,852)	(6,446)
Cash flows from financing activities			
Proceeds from issue of shares		-	61,620
Proceeds from borrowings		200	975
Payments for long term borrowing costs		(200)	-
Net cash from financing activities		-	62,595
Net increase/(decrease) in cash and cash equivalents		(37,526)	50,090
Cash and cash equivalents at the beginning of the financial year		55,843	5,753
Cash and cash equivalents at the end of the financial year		18,317	55,843

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

Notes to the financial statements

Note 1. General information

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

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

Registered office	**Principal place of business**
17/71 Victoria Crescent Abbotsford VIC 3067	17/71 Victoria Crescent Abbotsford VIC 3067

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 20 September 2019. The directors have the power to amend and reissue the financial statements.

Note 2. 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. This did not have a material impact on the financial statements.

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

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

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

AASB 9 Financial Instruments
The consolidated entity has adopted AASB 9 from 1 July 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.

In applying AASB 9, the consolidated entity has elected to use the modified retrospective approach, with any adjustment required being recognised on 1 July 2018 in retained earnings.

On applying this standard, there were no material adjustments required or impacting on the financial statements.

Notes to the financial statements continued

Note 2. Significant accounting policies (continued)

AASB 15 Revenue from Contracts with Customers
The consolidated entity has adopted AASB 15 from 1 July 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. 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.

In applying AASB 15, the consolidated entity has elected to use the modified retrospective approach, with any adjustment required being recognised on 1 July 2018 in retained earnings.

On applying this standard, there were no material adjustments required or impact on the financial statements.

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

Historical cost convention
The financial statements have been prepared under the historical cost convention, unless otherwise noted.

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 3.

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 27.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Wattle Health Australia Limited ('Company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries for the year then ended. Wattle Health Australia 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.

Note 2. Significant accounting policies (continued)

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Revenue recognition
The consolidated entity recognises revenue as follows:

Revenue from contracts with customers
The consolidated entity predominantly derives revenue from the sale of goods to commercial customers on normal credit terms and to retail customers via on-line sales. Contracts with customers have one performance obligation, that being the delivery of the product, at which point revenue from the sale of goods is recognised. Sales contracts do not contain provisions for sales returns, rebates, discounts or any ongoing service and the total transaction price does not contain any variable consideration in relation to such items.

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.

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.

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

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

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

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

Inventories
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.

Notes to the financial statements continued

Note 2. Significant accounting policies (continued)

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, it's carrying value is written off.

Financial assets

Unless otherwise noted, financial assets are measured at amortised cost if 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. Debt investments are measured at fair value through other comprehensive income if 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, including investments in other companies are classified and measured at fair value through profit or loss unless the consolidated 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').

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Investment in Blend and Pack Pty Ltd
On 28 September 2017 the consolidated entity completed an acquisition of 5% of the issued capital of Australian infant formula and nutritional products manufacturer, Blend and Pack Pty Ltd (B&P) for a total consideration of $5,118,742, paid in cash.

The directors have evaluated the investment and have concluded that the consolidated entity does not have a significant influence over the managerial decision-making or operational performance of B&P, and accordingly, this investment is accounted for at fair value, with changes in fair value of the investment taken to the profit or loss. The directors consider this investment to meet the criteria of a Level 3 hierarchy investment.

As at 30 June 2019, based upon all available information from B&P, the directors have assessed that the original purchase price at 28 September 2017 for the 5% stake is still the most appropriate and reliable valuation of this investment. Refer to Note 3 and Note 11 for additional information regarding this investment.

Investment in The Remarkable Milk Company Pty Ltd
On 1 April 2019 the consolidated entity completed an acquisition of 5% of the issued capital of Australian organic and conventional dairy and nutritional products manufacturer and exporter, The Remarkable Milk Company Pty Ltd (RMC) for a total consideration of $1,000,000, paid in cash.

The directors have evaluated the investment and have concluded that the consolidated entity does not have a significant influence over the managerial decision-making or operational performance of RMC and, accordingly, this investment is accounted for at fair value, with changes in fair value of the investment taken to the profit or loss. The directors consider this investment to meet the criteria of a Level 3 hierarchy investment.

As at 30 June 2019, based upon all available information from RMC the directors have assessed that the original purchase price at 1 April 2019 for the 5% stake is still the most appropriate and reliable valuation of this investment, given that the original purchase price was carried out relatively recently at arm's length, and that there is no ready market for this investment. Refer to Note 11 for additional information regarding this investment.

Note 2. Significant accounting policies (continued)

Impairment of financial assets
Allowances for impairment are recognised using an 'expected credit loss' ('ECL') model. In assessing ECL the consolidated entity considers both quantitative and qualitative information, including historical experience and forward-looking information. Forward-looking information considered includes the future prospects of the industries in which the consolidated entity's debtors operate, as well as consideration of various external sources of actual and forecast economic information that relate to the consolidated entity's operations. 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 trade receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is used.

Investments
Investments includes non-derivative financial assets with fixed or determinable payments and fixed maturities where the consolidated entity has the positive intention and ability to hold the financial asset to maturity. This category excludes financial assets that are held for an undefined period. Investments are carried at amortised cost using the effective interest rate method adjusted for any principal repayments. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

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.

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

For financial assets 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
Land and buildings are to be shown at fair value, based on periodic, at least every 3 years, valuations by external independent valuers, less subsequent depreciation and impairment for buildings. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited in other comprehensive income through to the revaluation surplus reserve in equity. Any revaluation decrements are initially taken in other comprehensive income through to the revaluation surplus reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss.

Property, 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 over their expected useful lives as follows:

Buildings	25-40 years
Leasehold improvements	3-10 years
Plant and equipment	3-7 years
Plant and equipment under lease	2-5 years

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

Notes to the financial statements continued

Note 2. Significant accounting policies (continued)

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

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

Borrowing costs
Costs in relation to borrowings are capitalised as an asset and amortised on a straight-line basis over the period of the finance arrangement.

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.

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.

Borrowings
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

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.

Other long-term employee benefits
The liability for annual leave and long service leave not expected to be wholly settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Note 2. Significant accounting policies (continued)

Share-based payments
Equity-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.

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

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

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.

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.

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

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

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

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

Notes to the financial statements continued

Note 2. Significant accounting policies (continued)

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

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

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

Earnings per share

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

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

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

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

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

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

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

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 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.

Note 2. Significant accounting policies (continued)

AASB 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. 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. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

The consolidated entity will adopt this standard from 1 July 2019. The directors expect that AASB 16 will be adopted by the consolidated entity by applying the modified retrospective method, measuring the right-of-use asset at an amount equal to the lease liability. Accordingly, the adoption of AASB 16 will result in lease assets and liabilities being recognised on balance sheet and a change in how related expenses are incurred. It is expected that:
- total property leases of approximately $175,000 will be recognised on the balance sheet as right-of-use assets and lease liabilities;
- during the year commencing 1 July 2019, annual rental payments of approximately $85,000 will be reclassified from occupancy costs to interest expense (approximately $8,000) and liability payments (approximately $77,000); and
- during the year commencing 1 July 2019, right-of-use asset depreciation expense of approximately $81,000 will be recorded.

AASB Interpretation 23 - Uncertainty over Income Tax Treatments
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. This Interpretation clarifies how to apply the recognition and measurement requirements in AASB 112 'Income taxes' when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in AASB 112 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

The consolidated entity will adopt Interpretation 23 from 1 July 2019. The directors expect that the consolidated entity will apply the interpretation retrospectively with the cumulative effect of initially applying the Interpretation recognised at the date of initial application and, if required, recognising the cumulative effect of initially applying the Interpretation as an adjustment to the opening balance of retained earnings. The adoption of the interpretation from 1 July 2019 will not have a material impact on the consolidated entity.

Note 3. 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.

Notes to the financial statements continued

Note 3. Critical accounting judgements, estimates and assumptions (continued)

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 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, as well as the terms and conditions upon which the instruments were granted. For valuations of relevant transactions during the financial year ended 30 June 2018, volatility was based upon volatilities of comparable listed entities. This was because the Company did not yet have a sufficient history of market prices for its own shares to use as the basis for calculation of an applicable volatility. 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.

Impairment of financial assets
The consolidated entity assesses impairment of financial assets, including its investment in Blend and Pack Pty Ltd, at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or, if applicable, value-in-use calculations, which incorporate a number of key estimates and assumptions.

Impairment of property, plant and equipment
The consolidated entity assesses impairment of property, plant and equipment at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Assessment of Fair Valuation of the Blend and Pack Investment
On 28 September 2017 the consolidated entity completed an acquisition of 5% of the issued capital of Australian infant formula and nutritional products manufacturer, Blend and Pack Pty Ltd (B&P) for a total consideration of $5,118,742, paid in cash.

The directors have evaluated the investment and have concluded that the consolidated entity does not have a significant influence over the managerial decision-making or operational performance of B&P and, accordingly, this investment is accounted for at fair value, with changes in fair value of the investment taken to the profit or loss. The directors consider this investment to meet the criteria of a Level 3 hierarchy investment.

As at 30 June 2019, based upon all available information from B&P, the directors have assessed that the original purchase price at 28 September 2017 for the 5% stake is still the most appropriate and reliable valuation of this investment, given that the original purchase price was carried out relatively recently at arm's length, and that there is no ready market for this investment. The directors note that, as at the date of this report, the Company has in place an agreement to acquire at least 75% of the issued capital of B&P and is negotiating to acquire a further 13.5% of the issued shares of B&P. The agreed purchase price for the additional 88.5% of B&L is consistent with the value of the Company's existing investment, therefore the Board has concluded that there has been no material change in the fair value of the existing investment as at reporting date.

As the consolidated entity holds only 5% of the issued capital of B&P, the directors have concluded that the consolidated entity does not have a controlling interest in B&P.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Assessment of Fair Valuation of the Remarkable Milk Company Investment
On 1 April 2019 the consolidated entity completed an acquisition of 5% of the issued capital of Australian organic and conventional dairy and nutritional products manufacturer and exporter, The Remarkable Milk Company Pty Ltd (RMC) for a total consideration of $1,000,000, paid in cash.

The directors have evaluated the investment and have concluded that the consolidated entity does not have a significant influence over the managerial decision-making or operational performance of RMC and, accordingly, this investment is accounted for at fair value, with changes in fair value of the investment taken to the profit or loss. The directors consider this investment to meet the criteria of a Level 3 hierarchy investment.

As at 30 June 2019, based upon all available information from RMC the directors have assessed that the original purchase price at 1 April 2019 for the 5% stake is still the most appropriate and reliable valuation of this investment, given that the original purchase price was carried out relatively recently at arm's length, and that there is no ready market for this investment.

As the consolidated entity holds only 5% of the issued capital of RMC the directors have concluded that the consolidated entity does not have a controlling interest in RMC.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences and/or tax losses only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. No deferred tax assets were recognised as at 30 June 2019.

Control of entities where less than half of voting rights held
Management have determined that the consolidated entity controls the subsidiary Corio Bay Dairy Group Pty Ltd (CBDG), even though it holds less than half of the voting rights of this entity. This is because the consolidated entity has the ability to exercise effective control over CBDG as it has a casting vote on the Board of directors until such time as both of the following conditions are met:
- CBDG commences production by way of its organic nutritional milk spray dryer; and
- the balance of loans advanced to CBDG by the Company is reduced to $30 million or less.

As these conditions have not been met as at 30 June 2019 the consolidated entity controls CBDG.

The acquisition was not accounted for as a business combination as, at the time the consolidated acquired its investment, CBDG was newly-incorporated and was not yet carrying on any business activities.

Note 4. Operating segments

Identification of reportable operating segments
During the year ended 30 June 2019 the consolidated entity operated in one business and geographical segment, being a provider of high quality Australian made health and wellness products throughout Australia.

Major customers
During the year ended 30 June 2019 approximately 13% (2018: 51%) of the consolidated entity's external revenue was derived from sales to one customer and approximately 12% (2018: 18%) of the consolidated entity's external revenue was derived from sales to another customer.

Notes to the financial statements continued

Note 5. Revenue

	Consolidated 2019 $'000	2018 $'000
Revenue from contracts with customers		
Goods transferred at a point in time	795	1,441
Other revenue		
Other revenue	92	83
Revenue	887	1,524

Note 6. Expenses

	Consolidated 2019 $'000	2018 $'000
Loss before income tax includes the following specific expenses:		
Amortisation		
Patents and trademarks	9	8
Borrowing costs	89	-
Other	2	-
Total amortisation	100	8
Employee benefits expense excluding superannuation		
Employee benefits expense excluding superannuation	3,026	2,274

Note 7. Income tax benefit

	Consolidated 2019 $'000	2018 $'000
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	22,212	11,997
Potential tax benefit @ 27.5%	6,108	3,299

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

Note 8. Current assets - trade and other receivables

	Consolidated 2019 $'000	Consolidated 2018 $'000
Trade receivables	428	175
Other receivables	824	-
BAS receivable	787	136
	2,039	311

The balance of Other receivables includes an amount of $800,000 payable to the Company by Niche Dairy Pty Ltd (Niche). This receivable arises as the Company agreed to advance $800,000 of loan funds to Corio Bay Dairy Group Pty Ltd (CBDG) on behalf of Niche, on the condition that Niche reimburse the Company for this amount. As CBDG, and the consolidated entity, have accounted for these loan funds on the basis that they have effectively been advanced by Niche, this $800,000 is included in the $1,686,000 loan payable in Note 17 of the annual report.

Note 9. Current assets - investments

	Consolidated 2019 $'000	Consolidated 2018 $'000
Term deposits	9,765	-

Term deposits are deposits with banks made to secure bank guarantees or letters of credit in favour of third parties. These are expected to remain in place for at least 90 days, but no more than 12 months, from reporting date.

Note 10. Current assets - Prepayments and other

	Consolidated 2019 $'000	Consolidated 2018 $'000
Prepayments	3,369	474
Other current assets	148	64
	3,517	538

Prepayments comprise amounts for prepaid marketing fees and deposits for future raw materials purchases. These amounts can vary significantly between different financial year ends, depending upon the timing of relevant purchase contracts and delivery/usage of the respective goods and services.

Prepayments at 30 June 2019 include advance payments of $3,354,000 (30 June 2018: Nil) made by the consolidated entity to Blend & Pack Pty Ltd for supply of raw materials.

Notes to the financial statements continued

Note 11. Non-current assets - other financial assets

	Consolidated	
	2019 $'000	2018 $'000
Investment - Blend and Pack	5,127	5,119
Investment - Remarkable Milk Company	1,000	-
Long-term bank deposits	21	20
	6,148	5,139

The consolidated entity acquired 5% of the issued shares of Blend and Pack Pty Ltd (Blend & Pack) in September 2017. Blend and Pack is one of the largest manufacturers of nutritional dairy products in Australia and a holder of a Certification and Accreditation Administration of People's Republic of China (CNCA licence). The Consolidated Entity's investment in Blend & Pack is recorded at fair value.

Under the terms of the acquisition agreement for the Company's acquisition of the Blend & Pack shares (Acquisition Terms), Blend & Pack nominated the Company as Blend & Pack's first brand to obtain China Inspection Quarantine accreditation with the China Food and Drug Administration (CFDA), enabling the Company to sell infant formula in China in traditional retail (bricks and mortar) stores, as well as modern retail markets (online), as from 1 January 2018.

The Board has assessed the carrying value of its investment in Blend and Pack. This included a review by the Board of an independent valuation, which was performed on the business of Blend & Pack and the value of the Company's access to Blend and Pack's CNCA licence and nomination of the Company's infant formula with the CFDA, pursuant to the Acquisition Terms. On the basis of its review of this valuation, the Board concluded that the Company's investment in Blend & Pack is not impaired as at 30 June 2019.

Since the Blend and Pack acquisition, the CFDA's role has been subsumed into the China State Drug Administration (SDA) which is supervised by the China State Market Regulatory Administration (SMRA).

On 1 April 2019 the consolidated entity acquired 5% of the issued shares of The Remarkable Milk Company Pty Ltd (RMC) for a total consideration of $1,000,000, paid in cash. RMC is an Australian seller and developer of brands providing organic and conventional dairy and nutritional products to the Asia Pacific retail markets. It has exclusive supply agreements with a number of parties, including the Company and Organic Dairy Farmers Australia Pty Ltd.

The directors have evaluated the investments in Blend and Pack and RMC and have concluded that the consolidated entity does not have a significant influence over the managerial decision-making or operational performance of either entity and, accordingly, each of these investments is accounted for at fair value, with changes in fair value of the investment taken to the profit or loss. The directors consider that each of these investments meet the criteria of a Level 3 hierarchy investment, in accordance with AASB 13 *Fair Value Measurement*, as both investments are shares in unlisted specialist proprietary limited companies, for which there is no active market nor readily observable valuation inputs. Accordingly, the directors have determined that it is reasonable to assess these assets' fair values based on the most recent, or expected future, arms'-length transactions in these shares. Based on these criteria, the directors have determined that the assets' carrying values are not materially different to their fair values at reporting date.

Note 12. Non-current assets - property, plant and equipment

	Consolidated 2019 $'000	Consolidated 2018 $'000
Land - at cost	2,100	-
Office equipment - at cost	9	-
Property, plant & equipment under construction	10,280	769
	12,389	769

Consolidated	Land at cost $'000	Property, plant & equipment under construction $'000	Office equipment $'000	Total $'000
Balance at 1 July 2017	-	-	-	-
Additions	-	769	-	769
Balance at 30 June 2018	-	769	-	769
Additions	2,100	9,511	9	11,620
Balance at 30 June 2019	2,100	10,280	9	12,389

Land at cost
Land at cost comprises land, acquired by the consolidated entity during the year ended 30 June 2019, upon which its organic nutritional milk spray drying plant is currently being constructed. Given that the land was acquired during the current financial year, the directors do not believe that there has been a material movement in its value since the acquisition date and, therefore, it is reasonable to use cost as carrying value at reporting date.

Property, plant & equipment under construction
Property, plant and equipment under construction comprise the accumulated costs of land acquisition, preparation and construction work on the consolidated entity's organic nutritional milk spray drying plant, being constructed for Corio Bay Dairy Group Pty Ltd.

Note 13. Non-current assets - intangibles

	Consolidated 2019 $'000	Consolidated 2018 $'000
Goodwill - at cost	875	875
Patents and trademarks - at cost	67	67
Less: Accumulated amortisation	(45)	(38)
	22	29
	897	904

Notes to the financial statements continued

Note 13. Non-current assets - intangibles (continued)

Goodwill
During the previous financial year, the consolidated entity acquired the Little Innoscents business.

The goodwill of $875,000 represents the expected benefits expected to accrue to the consolidated entity from the Little Innoscents acquisition.

For the purpose of ongoing annual impairment testing goodwill is allocated to the Little Innoscents cash-generating unit (CGU), which is the unit expected to benefit from the synergies of the business combination from which the goodwill arises.

Methodology

An impairment loss expense in the profit or loss is recognised when the carrying amount of an asset exceeds its recoverable amount. The consolidated entity determined the recoverable amounts of the Little Innoscents CGU using a value in use approach.

The recoverable amounts of the CGU has been determined by valuation models that estimated the future cash flows relying on historical performance and growth, discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

The discounted cash flow model used in the assessment of value in use is sensitive to a number of key assumptions, including revenue growth rates, discount rates, operating costs and foreign exchange rates. These assumptions can change over short periods of time and can have a significant impact on the carrying value of the assets.

Impairment testing for CGUs containing goodwill

Goodwill arose in the business combinations for the acquisition of Little Innoscents. It represented the excess of the cost of the acquisition over the fair value of the consolidated entity's share of the identifiable net assets acquired and contingent liabilities assumed at the date of acquisition. Goodwill is allocated to the consolidated entity's cash generating units (CGUs) identified according to the consolidated entity's operating segments for impairment testing purposes.

In assessing whether an impairment adjustment is required for the carrying value of an asset, its carrying value is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value-in-use.

Value in use and key assumptions

The consolidated entity estimates the value-in-use of the Little Innoscents CGU using discounted cash flows. For the 2019 reporting period, the recoverable amount of the CGUs was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a one-year period. Cash flows beyond the one-year period are extrapolated using the estimated growth rates and assumptions used in the value in use calculations are stated below:

- Discount rate - 12.98%
- Management has made numerous assumptions about the budgeted revenue to be achieved in 2020, and this has resulted in a three-fold budgetted revenue increase compared to the actual revenues in 2019, this contemplates successful launch of new products from existing assets which would increase the company's revenues and cash flows.
- Growth projections - revenue increase at average rates of approximately 7% per annum, based on past and expected trends
- Expenses increase at average rates of 7% per annum, based on past based on past and expected trends
- Long term growth rate used to extrapolate cash flow projections beyond forecast period - 2% per annum

Apart from the considerations described in determining the value-in-use of the cash-generating units described above, management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

Note 14. Non-current assets - other

	Consolidated 2019 $'000	Consolidated 2018 $'000
Prepayments	4,200	-
Borrowing costs	584	-
Less: Accumulated amortisation - borrowing costs	(89)	-
	495	-
	4,695	-

Prepayments includes payments of $4,000,000, made by the consolidated entity during the year ended 30 June 2019, in order to secure cost reductions in the future supply of milk to the consolidated entity's future organic nutritional milk spray drying operation. As this operation is expected to commence more than 12 months after the end of the reporting period, this item is recognised as a non-current asset at the end of the reporting period.

Borrowing costs relate to capitalised borrowing costs incurred in relation to loan facilities established to fund the consolidated entity's plant construction. These costs are being amortised over the expected three year life of the loan facility.

Note 15. Current liabilities - trade and other payables

	Consolidated 2019 $'000	Consolidated 2018 $'000
Trade Payables	3,854	933
Accruals	314	356
Other payables	519	385
	4,687	1,674

Refer to note 21 for further information on financial instruments.

Note 16. Current liabilities - borrowings

	Consolidated 2019 $'000	Consolidated 2018 $'000
Loans - other	375	375

Refer to note 21 for further information on financial instruments.

This loan has been made by a non-related entity to the consolidated entity as part of establishment funding for Corio Bay Dairy Group Pty Ltd. The loan is unsecured, is interest-free and is repayable at call.

Note 17. Non-current liabilities - borrowings

	Consolidated 2019 $'000	Consolidated 2018 $'000
Loan - Niche Dairy Pty Ltd	1,686	600

Notes to the financial statements continued

Note 17. Non-current liabilities - borrowings (continued)

Refer to note 21 for further information on financial instruments.

This loan has been made to Corio Bay Dairy Group Pty Ltd (CBDG) by Niche Dairy Pty Ltd (Niche), which has a 5% shareholding in CBDG. The loan has been made in accordance with the agreed CBDG project funding facility. The loan facility, in conjunction with funds to be advanced by CBDG by the Company, is to be used to fund the working capital requirements of CBDG and its development of an organic nutritional milk spray dryer. The loan has a term of ten years and interest is payable at a combination of the RBA 90 day swap rate, on 54% of the loan, and 15% per annum on the remainder. The loan is secured by a charge over all assets of CBDG.

Financing arrangements
Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	2019 $'000	2018 $'000
Total facilities		
Loan facility from private equity fund	20,000	20,000
Used at the reporting date		
Loan facility from private equity fund	-	-
Unused at the reporting date		
Loan facility from private equity fund	20,000	20,000

The loan facility is a $20 million 3-year loan at an interest rate of 8.0% p.a. with Prospere Advisor Limited (Prospere). Prospere is a private equity fund specialising in healthcare and wellness and was seeded by Mason Group Holdings Limited. The loan was intended to be used to fund the Consolidated Entity's working capital requirements and the design and construction, by controlled entity Corio Bay Dairy Group Pty Ltd, of a major organic milk spray drying facility in Geelong, Victoria.

The Company has announced that, following the completion of a new proposed $75m debt facility, the existing $20 million loan facility provided by Prospere would be terminated.

Note 18. Equity - issued capital

	Consolidated			
	2019 Shares	2018 Shares	2019 $'000	2018 $'000
Ordinary shares - fully paid	194,503,140	194,503,140	74,900	74,900

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

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

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

Note 18. Equity - issued capital (continued)

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 any 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 capital risk management policy remains unchanged from the 30 June 2018 Annual Report.

Note 19. Equity - Reserves

	Consolidated	
	2019 $'000	**2018 $'000**
Share-based payments reserve	12,233	11,993

Share-based payments reserve
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

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

Consolidated	Share based payments reserve $'000
Balance at 1 July 2017	58
Issue of options to financiers	2,214
Issue of options to service providers	214
Exercise of options	(214)
Vesting of employee Loan Share Plan shares	9,721
Balance at 30 June 2018	11,993
Vesting of employee Loan Share Plan shares	240
Balance at 30 June 2019	12,233

Note 20. Equity - dividends

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

Notes to the financial statements continued

Note 21. Financial instruments

Financial risk management objectives
The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits.

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, however these are not currently at a level that creates a material risk for the consolidated entity.

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.

The consolidated entity will monitor the level of its business activities and transactions denominated in foreign currency and will implement appropriate risk management policies procedures as required.

Price risk
The investment in Blend and Pack Pty Ltd is subject to price risk. Blend and Pack Pty Ltd is an unquoted private company incorporated in Australia. A 10% movement in the share price in Blend and Pack Pty Ltd would increase or decrease the carrying value of the investment by approximately $0.5 million.

The investment in The Remarkable Milk Company Pty Ltd is subject to price risk. The Remarkable Milk Company Pty Ltd is an unquoted private company incorporated in Australia. A 10% movement in the share price in Blend and Pack Pty Ltd would increase or decrease the carrying value of the investment by approximately $0.1 million.

Interest rate risk
As at reporting date the Consolidated Entity did not have a material interest rate risk arising from borrowings. The cash holding of the Consolidated Entity is highly liquid and short-term in nature and has no material fair value risk to changes in interest rates.

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

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

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

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

Note 21. Financial instruments (continued)

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.

Financing arrangements
Unused borrowing facilities at the reporting date:

	Consolidated	
	2019 $'000	2018 $'000
Loan facility from private equity fund	20,000	20,000

Amounts drawn down under the loan facility will need to be repaid within 3 years. Interest will be charged on borrowed funds at 8% per annum.

Funds drawn under the facility will be secured by a security deed entered into by the Company with the Lender under which the Company grants a security interest over all its rights and interests under the Loan Agreements under which the Company loans funds to Corio Bay Dairy Group Pty Ltd.

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, or expected, 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 - 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	-	3,854	-	-	-	3,854
Accruals	-	314	-	-	-	314
Other payables	-	520	-	-	-	520
Other loans	-	375	-	-	-	375
Interest-bearing - variable						
Loan - Niche Dairy Pty Ltd	1.20%	-	-	-	772	772
Interest-bearing - fixed rate						
Loan - Niche Dairy Pty Ltd	15.00%	-	-	-	914	914
Total non-derivatives		5,063	-	-	1,686	6,749

Notes to the financial statements continued

Note 21. Financial instruments (continued)

Consolidated - 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	-	933	-	-	-	933
Accruals	-	356	-	-	-	356
Other payables	-	385	-	-	-	385
Other loans	-	375	-	-	-	375
Interest-bearing - variable						
Loan - Niche Dairy Pty Ltd	2.11%	-	341	-	-	341
Interest-bearing - fixed rate						
Loan - Niche Dairy Pty Ltd	15.00%	-	366	-	-	366
Total non-derivatives		2,049	707	-	-	2,756

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

Fair value of financial instruments
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 22. 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 2019 $	Consolidated 2018 $
Short-term employee benefits	1,786,691	1,419,334
Post-employment benefits	72,672	70,297
Long-term benefits	7,041	19,020
Share-based payments	-	8,471,000
	1,866,404	9,979,651

Note 23. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by William Buck Audit (Vic) Pty Ltd, the auditor of the Company:

	Consolidated	
	2019	2018
	$	$
Audit services - William Buck		
Audit or review of the financial statements	74,000	64,000
Other services - William Buck		
Tax consulting	-	6,000
Due diligence on business acquisition	-	9,820
Other assurance services	2,250	9,000
	2,250	24,820
	76,250	88,820

Note 24. Contingent liabilities and contingent assets

There were no contingent liabilities or contingent assets as at 30 June 2019 (2018: Nil).

Note 25. Commitments

	Consolidated	
	2019	2018
	$'000	$'000
Capital commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	32,043	-
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	111	43
One to five years	144	25
	255	68

Capital commitments relate to asset acquisitions and construction work relating to the consolidated entity's organic nutritional milk spray drying plant, being constructed for Corio Bay Dairy Group Pty Ltd.

Operating lease commitments includes contracted amounts for various warehouses and offices under non-cancellable operating leases expiring within 2 months to 2 years with, in some cases, options to extend. On renewal, the terms of the leases are renegotiated.

Note 26. Related party transactions

Parent entity
Wattle Health Australia Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 28.

Notes to the financial statements continued

Note 26. Related party transactions (continued)

Key management personnel
Disclosures relating to key management personnel are set out in note 22 and the remuneration report included in the directors' report.

Transactions with related parties
There were no transactions with related parties during the current and previous financial year.

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

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

Note 27. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2019 $'000	**2018 $'000**
Loss after income tax	(8,296)	(19,815)
Total comprehensive loss	(8,296)	(19,815)

Statement of financial position

	Parent	
	2019 $'000	**2018 $'000**
Total current assets	32,175	51,529
Total assets	55,376	63,134
Total current liabilities	2,063	1,775
Total liabilities	2,097	1,801
Equity		
Issued capital	74,900	74,900
Share-based payments reserve	12,233	11,993
Accumulated losses	(33,854)	(25,560)
Total equity	53,279	61,333

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 2019 and 30 June 2018.

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

Note 27. Parent entity information (continued)

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:
- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates 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 28. Interests in controlled entities

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

			Parent		Non-controlling interest	
Name	**Principal place of business / Country of incorporation**	**Principal activities**	**Ownership interest 2019 %**	**Ownership interest 2018 %**	**Ownership interest 2019 %**	**Ownership interest 2018 %**
Little Innoscents Pty Ltd	Australia	Provision of organic baby skincare, aromatherapy essential oils and domestic cleaning products	80.00%	80.00%	20.00%	20.00%
Corio Bay Dairy Group Pty Ltd	Australia	Design, construction and operation of a dedicated organic milk spray drying facility	45.00%	45.00%	55.00%	55.00%
Wattle Health Australia (Vietnam) Co. Ltd	Vietnam	Facilitate marketing and selling of Consolidated Entity's products into Vietnam	100.00%	100.00%	-	-
Shanghai Wattle Health Trading Company Limited	China	Facilitate marketing and selling of Consolidated Entity's products into China	100.00%	-	-	-
Wattle Health Australia Investments Pty Ltd	Australia	Investment	100.00%	-	-	-

In addition to the above entities, the Company has non-controlling interests in the following companies:

- Blend and Pack Pty Ltd (5% holding)
- The Remarkable Milk Company Pty Ltd (5% holding)

Notes to the financial statements continued

Note 28. Interests in controlled entities (continued)

Summarised financial information
Summarised financial information of subsidiaries with non-controlling interests that are material to the consolidated entity are set out below:

	Corio Bay Dairy Group Pty Ltd	
	2019 $'000	**2018 $'000**
Summarised statement of financial position		
Current assets	1,239	5,340
Non-current assets	17,314	767
Total assets	18,553	6,107
Current liabilities	2,477	7
Non-current liabilities	16,860	6,000
Total liabilities	19,337	6,007
Net assets/(liabilities)	(784)	100
Summarised statement of profit or loss and other comprehensive income		
Expenses	(884)	-
Loss before income tax expense	(884)	-
Income tax expense	-	-
Loss after income tax expense	(884)	-
Other comprehensive income	-	-
Total comprehensive loss	(884)	-
Statement of cash flows		
Net cash used in operating activities	(712)	(196)
Net cash used in investing activities	(14,164)	(767)
Net cash from financing activities	10,000	6,100
Net increase/(decrease) in cash and cash equivalents	(4,876)	5,137
Other financial information		
Loss attributable to non-controlling interests	(366)	-
Accumulated non-controlling interests at the end of reporting period	(311)	55

The non-controlling interest in relation to Little Innoscents Pty Ltd is not material to the consolidated entity.

Note 29. Events after the reporting period

On 2 July 2019, the Company announced that it had signed a revised debt facility term sheet to increase proposed net cash funding up to US$85 million with Gramercy Funds Management LLC (Gramercy), and that it was negotiating to increase its shareholding interest in Blend and Pack Pty Ltd to 93.5%.

On 17 July 2019, the Company announced that it had initiated legal action in India against India-based Vasudevan and Sons Exim Private Limited (VSEP) following VSEP's failure to provide a bank guarantee in connection with an agreement for it to purchase baby food products from the Company. The legal action was initiated by the Company to protect its commercial interest and with a view to recover losses.

On 31 July 2019, the Company's shareholders approved the Company's acquisition of 75% of the shares of Blend and Pack Pty Ltd, subject to the completion of contractual conditions.

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 financial years.

Note 30. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2019 **$'000**	**2018** **$'000**
Loss after income tax expense for the year	(10,341)	(19,839)
Adjustments for:		
Share-based payments	240	12,149
Bad debts written off	-	14
Impairment and fair loss value on other financial assets	-	71
Write off of inventories	1,550	-
Amortisation expense	100	8
Change in operating assets and liabilities:		
Increase in trade and other receivables	(337)	(198)
Decrease/(increase) in finished goods inventory	(171)	304
Decrease in prepayments	122	547
(Increase) in deposits	(4,232)	-
Increase in trade and other payables	377	784
Increase in provisions	18	101
Net cash used in operating activities	(12,674)	(6,059)

Note 31. Loss per share

	Consolidated	
	2019 **$'000**	**2018** **$'000**
Loss after income tax	(10,341)	(19,839)
Non-controlling interest	430	6
Loss after income tax attributable to the owners of Wattle Health Australia Limited	(9,911)	(19,833)

Notes to the financial statements continued

Note 31. Loss per share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	194,503,140	148,852,006
Weighted average number of ordinary shares used in calculating diluted earnings per share	194,503,140	148,852,006

	Cents	Cents
Basic loss per share	(5.10)	(13.32)
Diluted loss per share	(5.10)	(13.32)

The dilutive impact of loan funded shares and options has not been included in the weighted average number of ordinary shares for the purposes of calculating diluted EPS as it does not meet the requirements for inclusion in AASB 133 'Earnings Per Share'. The rights to these loan funded shares and options are non-dilutive as the consolidated entity is loss generating.

Note 32. Share-based payments

Options

The consolidated entity may issue options to services providers as consideration for services provided to the consolidated entity.

On 18 June 2018, the consolidated entity issued 4,687,500 unlisted options in accordance with a loan facility agreement entered into with a private financier (Prospere Advisor Limited). These options were fully expensed upon issue, with a share based payments expense of $2,213,672 recognised in the financial year ended 30 June 2018.

Set out below are summaries of options granted:

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
18/06/2018	17/06/2020	$1.60	4,687,500	-	-	-	4,687,500
			4,687,500	-	-	-	4,687,500
Weighted average exercise price			$1.60	$0.00	$0.00	$0.00	$1.60

2018

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
19/07/2017	10/08/2018	$0.56	-	892,857	(892,857)	-	-
18/06/2018	17/06/2020	$1.60	-	4,687,500	-	-	4,687,500
			-	5,580,357	(892,857)	-	4,687,500
Weighted average exercise price			$0.00	$1.43	$0.56	$0.00	$1.60

Note 32. Share-based payments (continued)

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	2019 Number	2018 Number
18/06/2018	18/06/2020	4,687,500	4,687,500
		4,687,500	4,687,500

The weighted average remaining contractual life of options outstanding at the end of the financial year was 0.97 years (2018: 1.97).

Loan Funded Shares

On 20 November 2017, shareholders approved the Company's Employee Share Loan Plan, which provided for the issue of Loan Funded Shares (LFS) to the Company's directors, executives, employees and consultants (Employees).

The terms of the LFS are:
- a loan (Loan) is advanced by the Company to the Employee for the purpose of funding ordinary shares in the Company (Loan Funded Shares), issued by the Company to the Employee at the time the Loan is made;
- Loan is limited recourse loan, secured only by the Loan Funded Shares;
- Loan Funded Shares cannot be disposed of or transferred until the Loan is repaid;
- Loan is interest-free;
- Loan is due and payable 90 days after the Employee ceases employment with the Company or three years from the date the Loan is made, whichever is the earlier (Repayment Date);
- the Employee may repay some or all of the Loan before the Repayment Date;
- if the Employee fails to repay the Loan within 21 days of the Repayment Date, the Employee will forfeit their interest in the Loan Funded Shares and the Company may take such action as it considers appropriate, including undertaking a buy-back and cancellation of the Loan Funded Shares or sale of the Loan Funded Shares;
- after any vesting conditions are met, the Loan Funded Shares carry the same dividend and voting rights as other ordinary shares of the Company.

On 20 November 2017, shareholders approved the Company's proposal to issue up to 6,000,000 Loan Funded Shares (LFS) to Directors of the Company with a repayment date of 3 years from the date of the Company entering into the Loan Agreement. LFS were issued to Directors on 21 November 2017 and the share price on the day was $2.15. The loan repayment amount is $2.15 per LFS.

On 21 December 2017, the Company issued 7,437,500 LFS to employees with each of the relevant tranches having various vesting conditions based on service and performance targets. Unvested LFS are held in escrow until their vesting date. The share price on the day of issue was $1.535. The loan repayment amount is $2.15 per LFS.

For accounting purposes the Loan Funded Share arrangement is treated as an option and is accounted for as a share based payment in accordance with AASB 2 'Share Based Payments'. Accordingly, no loan receivable is required to be recognised in the accounts of the Company.

A share based payment expense amounting to $239,908 was recorded for the year ended 30 June 2019 in relation to the issues of LFS (2018: $9,720,963).

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 2 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

Lazarus Karasavvidis
Executive Chairman

20 September 2019
Melbourne

Independent auditor's report

William Buck

Wattle Health Australia Limited
Independent auditor's report to members

Report on the Audit of the Financial Report

Opinion
We have audited the financial report of Wattle Health Australia 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 other explanatory information, 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 ended on that date; 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* has been provided.

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.

ACCOUNTANTS & ADVISORS
Level 20, 181 William Street
Melbourne VIC 3000
Telephone: +61 3 9824 8555
williambuck.com

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Independent auditor's report continued

William Buck

<table>
<tr><th colspan="2">CAPITAL WORK IN PROGRESS</th></tr>
<tr><th>Area of focus
Refer also to notes 2 and 12</th><th>How our audit addressed it</th></tr>
<tr><td>During the financial year the Group significantly invested in the design and contruction, of a major organic milk spray drying facility at a site in Geelong, through the acquisition of plant and equipment by controlled entity Corio Bay Dairy Group Pty Ltd.

The works have been classified as capital-work-in progress until such time as the facility is completed.

The Group's accounting policy for depreciating such property, plant and equipment is over the term of the useful life of the asset, from when it is held ready for use. As the milk spray drying facility has not yet entered service no depreciaition has been expensed in the current financial year.</td><td>Our audit procedures included:

- Vouching material acquisition of land, buildings and equipment to supporting contracts;

- Examining the underlying material plant and equipment costs which have been capitalised in the year to determine whether that plant and equipment is held and ready for use and therefore subject to depreciation; and

We have assessed the adequacy of disclosures in relation to property, plant and equipment in the Notes to the financial report.</td></tr>
<tr><th colspan="2">CLASSIFICATION AND VALUATION OF INVESTMENT IN BLEND AND PACK PTY LTD</th></tr>
<tr><th>Area of focus
Refer also to notes 2 , 3, 11 and 29</th><th>How our audit addressed it</th></tr>
<tr><td>As at 30 June 2019 based upon all available information from Blend & Pack, the assessed original purchase price stake is still the most apprioriate and reliable valuation for the investment.

Subsequent to year end the Group announced that it had signed a debt facility term sheet to increased proposed net cash funding up to US$85 million and that it was negotiating to increase its shareholding interest in Blend & Pack to 93.5%.

On 31 July 2019, the Group's shareholders approve d the acquisition of 75% of the shares of Blend &Pack, subject to the completion of contractual conditions.</td><td>Our audit procedures included:

- Determined that the investment was valued appropriately and in line with AASB 13 – Fair Value Measurement. As part of this assessment we reviewed the following information;

o independent valuation commissioned by management in the prior year;
o the proposed acquisition agreement to acquire a controlling stake, which was approved by the Groups shareholders; and
o assessed the assumptions used in concluding that carrying value was appropriate at 30 June 2019.

We have also assessed the adequacy of disclosures in relation to the investment and subsequent events in the Notes to the financial report.</td></tr>
</table>

William Buck

Other Information
The directors are responsible for the other information. The other information comprises the information 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 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 Company 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 has 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 these financial statements is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our independent auditor's report.

Independent auditor's report continued

William Buck

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 Wattle Health Australia 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.

William Buck

William Buck Audit (Vic) Pty Ltd
ABN: 59 116 151 136

A. A. Finnis
Director

Melbourne, 20th September 2019

Shareholder information

The shareholder information set out below was applicable as at 19 August 2018.

Corporate Governance Statement

Refer to the Company's Corporate Governance statement at: www.wattlehealth.com.au.

Distribution of equity securities
Analysis of number of equity security holders by size of holding:

	Number of holders of shares - Voluntary-escrowed until 15 December 2019	Number of holders of shares - Voluntary-escrowed - other	Number of holders of shares - Fully paid ordinary shares
1 to 1,000	-	-	1,434
1,001 to 5,000	2	-	2,013
5,001 to 10,000	1	-	890
10,001 to 100,000	1	2	1,252
100,001 and over	-	2	219
	4	4	5,808
Holding less than a marketable parcel	-	-	1,519

In addition to the above shareholdings, the Company has following unquoted equity security holders by size of holding:

	Number of holders - Unquoted options
100,001 - and over	1

Shareholder information continued

Equity security holders

Twenty largest quoted equity security holders
The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
WATTLE TRADING PTY LTD	22,027,890	11.33
JAMATA PTY LTD + LLEA LK PTY LTD (LMB WATTLE TRADING UNIT A/C)	11,986,844	6.16
GGP INVESTMENTS PTY LTD (GGP SUPERANNUATION FUND A/C)	11,950,130	6.14
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	8,358,232	4.30
BRILLIANT RIVER LIMITED	7,480,801	3.85
GREGORY RASMAS (OLLIFENT INVESTMENT A/C)	7,342,630	3.78
TNL GROUP PTY LTD (LKAK INVESTMENT A/C)	4,000,000	2.06
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	3,930,756	2.02
JAMATA PTY LTD WILLIAMS FAMILY TRUST (WILLIAMS FAMILY A/C)	3,000,000	1.54
CITICORP NOMINEES PTY LIMITED	2,154,216	1.11
MR GEORGE KARAFOTIAS	2,103,630	1.08
ACEE GROUP PTY LTD	1,872,371	0.96
ELZED HOLDINGS PTY LTD	1,812,500	0.93
JB ADVISORY PTY LIMITED	1,306,578	0.67
JB ADVISORY PTY LIMITED (CALLANAN FAMILY A/C)	1,159,437	0.60
INVIA CUSTODIAN PTY LIMITED (B & D FAMILY A/C)	1,020,800	0.52
SKANDALELLIS PTY LTD (SKANDA SUPER FUND A/C)	1,010,000	0.52
MR ANDREW GRANT	1,000,100	0.51
ACEE GROUP PTY LTD (CEJ FAMILY A/C)	1,000,000	0.51
B & GU PTY LTD (THE YAJUNE FAMILY A/C)	1,000,000	0.51
	95,516,915	49.10

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	4,687,500	1

The following persons hold 20% or more of unquoted equity securities in an unquoted class:

Name	Class	Number held
Prospere Advisor Limited	Options over ordinary shares issued	4,687,500

Substantial holders
Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Lazarus Karasavvidis*	38,014,734	19.54
Martin Glenister*	37,014,734	19.03
Ian Ollifent	18,577,689	9.55
Industry Super Holdings Pty Ltd	11,718,424	6.02

* 34,014,734 of these shares are held by entities that are jointly controlled by Mr Karasavvidis and Mr Glenister. Accordingly:
- Mr Karasavvidis and Mr Glenister jointly control 34,014,734 shares;
- Mr Karasavvidis holds 4,000,000 shares in his own right; and
- Mr Glenister holds 3,000,000 shares in his own right.

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.

Securities subject to voluntary escrow

Class	Expiry date	Number of shares
Voluntary escrowed - ES1 & ES2	20 December 2020	230,000
Voluntary escrowed - ESC	20 December 2020	632,500
		862,500

Corporate Directory

Directors

Lazarus Karasavvidis
(Executive Chairman and Chief Executive Officer)

Eric Jiang
(Non-Executive Director)

Peter Biantes
(Non-Executive Director)

Georgia Sotiropoulos
(Executive Director)

Kobe Li
(Non-Executive Director)

Company secretary

Kobe Li

Registered office

17/71 Victoria Crescent
Abbotsford VIC 3067
Ph: 03 8399 9419

Principal place of business

17/71 Victoria Crescent
Abbotsford VIC 3067
Ph: 03 8399 9419

Share register

Computershare Investor Registry Services
Yarra Falls
452 Johnston Street
Abbotsford, Victoria, 3067
Ph: 1300 787 272

Auditor

William Buck
Level 20, 181 William Street
Melbourne VIC 3000

Stock exchange listing

Wattle Health Australia Limited shares are listed on the Australian Securities Exchange (ASX code: WHA)

Website

www.wattlehealth.com.au

wattlehealth.com.au