



Quarterly Activities Report – Transformational Quarter for Future Growth

- *Appointment of 30-year dairy industry veteran as Group CEO and Managing Director – Dr. Tony Mckenna*
- *Joint Venture with leading China Dairy Products Company – Nouriz*
- *Long term supply agreement with Australia’s leading retailer – Chemist Warehouse*
- *Market Activation of Australian certified organic infant formula made with 100% of Organic Dairy Farmers fresh milk*
- *Progress on the proposed acquisition of Australia largest independent CNCA accredited manufacturing facility, Blend and Pack - US\$1 million deposit paid*
- *Corio Bay Dairy Group continues construction of its organic nutritional spray dryer within budget for completion in June 2020*
- *Strategic review commenced to drive efficiencies across the business with savings of circa AU\$3 million per annum identified and implemented*

Friday 31 January 2020: Wattle Health Australia Limited (**WHA** or **Company**) producer of certified organic premium products made in Australia, releases the following Activities Report and Appendix 4C Cashflow Statement for the quarter ending 31 December 2019.

Wattle Health Australia Group CEO and Managing Director, Dr. Tony Mckenna said: “My key focus is to execute our strategy to become Australia’s pre-eminent certified organic dairy company and build value for all stakeholders.”

“Wattle Health Australia is now well positioned to deliver financial returns on substantial investments made to date through our strategic partnerships with Organic Dairy Farmers of Australia (forming Corio Bay Dairy Group), Nouriz, Chemist Warehouse and the proposed acquisition of Blend and Pack”

“We are building a team that, in my belief, is highly qualified to ensure Wattle Health Australia can deliver on its objectives. I am confident of the future of Wattle Health Australia with its significant and unique value proposition on offer.”

Appointment of Group CEO and Managing Director

Highly experienced dairy industry expert, Dr. Tony Mckenna during the last quarter of 2019 was nominated to take the position of Group CEO and Managing Director of Wattle Health Australia, effective 13 January 2020.

Tony brings over 30 years' experience in the dairy industry in Australia, New Zealand and internationally.

Tony has a PhD in Food Technology from Massey University and a Diploma in Management from the New Zealand Institute of Management.

Tony previously held senior positions at Saputo and Saputo Dairy Australia as Director of Global Business Development – Whey and Ingredients, and more recently as Senior Vice President – Ingredients, Nutritionals and China.

Previous to Saputo, Tony had roles including CEO of Bodco Limited in New Zealand, General Manager of Nutritionals at Synlait Milk (ASX:SM1), General Manager of Tatura Milk Industries in Australia, and Global Health and Nutrition Portfolio Manager for Fonterra.

During his tenure as CEO for Bodco Limited, his team successfully secured 2 CFDA (now known as SAMR) brand approvals and made significant contributions to the successful turnaround of the Bodco business.

Tony, appointed CEO of CBDG March 2019, has driven the construction of the nutritional spray dryer and has built an experienced team in preparation for the commencement of operations.

Nouriz

WHA and Nouriz (Shanghai) Fine Food Co Ltd (**Nouriz**) in November signed a collaboration agreement which was formalised with the signing of a legally binding shareholders agreement post quarter end.

WHA and Nouriz have formed a 50/50 Australian joint venture (JV) “Australife Co. Pty Ltd”, for the sale of a range of products into the world's largest infant formula and nutritional powder market, China.

The first of these products will be sold after the commencement of the Corio Bay Dairy Group spray drying facility in the second half of CY2020.

Nouriz (http://www.nouriz.com/#/brand_en) was founded in 2006 in Shanghai and commenced sale of imported nutritional products into the China market. In 2016, the China Animal Husbandry Group (CAHG) became the largest shareholder in Nouriz.

Nouriz has an extensive distribution network throughout the China market via online and offline channels for its range of nutritional powders including 2 infant formula brands imported from New Zealand. They have a sales force of over 500 with distribution into over 8000 Mum and Baby stores throughout China.

Chemist Warehouse

WHA signed a 10-year supply agreement with one of Australia's largest retailers, Chemist Warehouse (CW), to range WHA's Australian certified organic infant formula range, Uganic and expand the range of Little Innoscents organic skincare products from the current 6 SKU's to the full range of 11 SKU's.

Under the supply agreement Chemist Warehouse have agreed to range all products produced by WHA, including the launch of certified organic A2 infant formula planned for release in the last quarter of CY2020.

CW is the largest pharmacy chain in Australia by total sales with over \$5 billion annually from over 450 stores spread across Australia, New Zealand and China. Infant formula sales represent alone over \$200 million. Uganic and Little Innoscents product ranges will be sold across CW retail stores including its domestic and Tmall online stores reaching global consumers.

WHA as part of the supply agreement with CW will issue the following equity on specific milestones:

- 3,000,000 fully paid ordinary shares (FPO) on the signing of the long-term supply agreement.
- 5,000,000 FPO on CW providing equivalent value in marketing support and the ranging of the Uganic infant formula range in circa 350 stores across the CW retail network.
- 10,869,792 FPO on CW providing equivalent value in marketing support and the ranging of Australia's first organic A2 infant formula range in circa 350 stores across the CW retail network.
- 1,130,208 FPO for professional services.

As announced on 23 January 2020, the first tranche of shares under the supply agreement were issued to formalise and commence the arrangements under the supply agreement.

NEW

uganic

True Australian Organic Goodness

- ✓ 16 essential vitamins and mineral for healthy development
- ✓ Contains prebiotics and probiotics
- ✓ Made with 100% Australian certified organic milk
- ✓ Convenient scoop and holder in lid

Rated & recommended
9 of 10 mums recommended

3 PREMIUM TODDLER MILK DRINK 1 YEAR+

Woolworths **uganic** 500g NET

CHEMIST WAREHOUSE DISCOUNT CHEMIST

Uganic brand ambassador
Rebecca Maddern and daughter Ruby

ACO Certified Organic
AUSTRALIAN ORGANIC MILK
True Organic
AUSTRALIAN DAIRY FARMERS OF AUSTRALIA
AUSTRALIAN MILK

Always read the label, use only as directed

Uganic

WHA's certified organic infant formula using 100% Australian organic milk from the Organic Dairy Farmers of Australia.

The initial feedback on the product from consumers and retailers has been positive, and with the ranging of Uganic in CW which will boost brand exposure and sales which will further increase distribution within the Australian market.

Substantial investment in the production of one-off marketing assets occurred during the quarter in preparation for the roll out of Uganic into the Australian market and the CW retail network.



Blend and Pack

WHA continues to progress the proposed acquisition of Blend and Pack (B&P).

The company negotiated more favourable terms with Mason Financial Holdings (Mason) to acquire an additional 75% of B&P to take its interest in B&P to 80%, more than the original deal structure announced on 15 November 2019.

WHA is acquiring 75% of B&P for US\$55 million, with an upfront payment of US\$10 million (US\$1 million already paid as a deposit) and the issue of US\$15 million in scrip at AU\$0.40 per share (circa 54,250,000 shares and a deferred payment of US\$30 million).

The scrip issue will incur a voluntary escrow provision as follows:

- 1/3 of Scrip (circa 18,083,333 shares) escrowed for 12 months
- 2/2 of Scrip (circa 36,166,667 shares) escrowed for 24 months

The new arrangement with Mason as announced 13 January 2020 reduces the minimum capital raise to complete the acquisition from AU\$55 million to AU\$25 million and the maximum reduced from AU\$62 million to AU\$39.7 million. The Company on 23 January 2020 announced a 1 for 2 Non – Renounceable Pro-Rata Rights Issue offer at AU\$0.40 per share (Rights Issue) to fund the acquisition of Blend and Pack.

B&P is a CNCA accredited manufacturing facility and was established in Hallam, Victoria in 2007. B&P is a highly automated facility with a production capacity of up to 18 million cans per annum and currently manufactures for many leading Australian and international brands.

B&P was one of the first facilities to receive its CNCA accreditation for infant formula and on 1 January 2019 had its CNCA status renewed for a further 4 years.

B&P has a long history of profitability and will provide WHA with an immediate revenue and profit stream on completion of the proposed acquisition.



Corio Bay Dairy Group

Corio Bay Dairy Group

Corio Bay Dairy Group (CBDG) continued the construction of its nutritional spray dryer. The major pieces of stainless-steel equipment for the facility have arrived into Geelong and are in the process of being installed.

The overall project construction (building and all equipment) is approximately 65% complete and on budget. The project is scheduled for completion in June 2020.



Financials

WHA during the quarter incurred one off expenses in relation to the proposed acquisition of Blend and Pack and the payment of US\$1 million deposit to Mason. The final payment of US\$9 million to Mason for the acquisition of B&P is due on the successful completion of the minimum raise under the Rights Issue.

During the quarter the company has built its inventory level to ensure continuous supply to CW of both the Uganic and Little Innoscents product ranges for the next 12 months and investments in marketing assets in preparation for the roll out of Uganic domestically with a prime focus on CW.

WHA continued its arrangement with Corio Bay Dairy Group (CBDG) under the debt funding package to provide financing to construct the nutritional spray dryer and working capital.

CBDG financials are consolidated with those of WHA and there was an increase in operating expenses of CBDG in preparation for the commencement of production at CBDG anticipated by June 2020.

Outlook

During the quarter, WHA commenced a strategic review of all business operations. To date, circa AU\$3 million per annum in savings have been implemented with further efficiencies to be found .

Growth in sales through the CW supply agreement, coupled with significant savings in operating costs provides the Company a clear pathway to profitability.

Under the CBDG funding package provided by WHA, CBDG from the commissioning of the spray dryer will be obligated to pay WHA circa 9% interest on the principal amount of up to AU\$70 million providing an additional revenue stream for the Company.

CBDG anticipates the commissioning of the spray dryer to commence in June 2020, enabling it to commercially produce certified Australian organic nutritional powders for its customers which will provide an additional revenue stream.

The completion of the proposed acquisition of B&P will change the financial profile of WHA upon finalisation with B&P's long history of profitability and significant revenue. The acquisition of B&P will also complete WHA's vertical integration and allow better control of its end to end costs.

WHA has laid the foundations for a pathway to profitability with diverse revenue streams, without being dependant on any one specific part of the business for future financial success.

The release of this announcement was authorised by the Company Secretary and Non-Executive Director, Mr Kobe Li on behalf of the Board.

ENDS-

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About Wattle Health Australia

Founded in 2011 and ASX listed since 2017, Wattle Health Australia aspires to become a company globally recognised as a producer of sustainable certified organic premium products made in Australia that promote health and wellness at all stages of life.

Wattle Health's commitment to traceable and sustainable production has been the motivating factor in delivering Australia's first vertically integrated organic dairy supply chain. Wattle Health are proud of their premium product range developed through their vertical integration process. By embracing local farmers with sustainable organic practices, milk from Australia's oldest and largest Organic Dairy Co-op organic farms is spray dried at a state of the art dedicated organic facility and manufactured in Australia's leading and largest blending and packing facility (by volume) to deliver the ultimate standard for natural nutrition for the whole family.

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

WATTLE HEALTH AUSTRALIA LIMITED

ABN

77 150 759 363

Quarter ended ("current quarter")

December 2019

Consolidated statement of cash flows	Current quarter (1 October 2019 – 31 December 2019) \$A	Year to date (6 months) \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	239,378	409,059
1.2 Payments for		
(a) research and development	(19,868)	(46,942)
(b) product manufacturing and operating costs	(611,480)	(1,468,022)
(c) advertising and marketing	(1,335,984)	(1,800,738)
(d) leased assets	0	0
(e) staff costs	(832,149)	(1,647,850)
(f) administration and corporate costs	(2,228,122)	(2,934,742)
1.3 Dividends received (see note 3)	0	0
1.4 Interest received	38,468	54,202
1.5 Interest and other costs of finance paid	(2,132)	(4,775)
1.6 Income taxes paid	0	0
1.7 Government grants and tax incentives	0	0
1.8 Other – GST Refund/(paid)	132,303	335,277
1.9 Net cash from / (used in) operating activities	(4,619,586)	(7,104,531)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(7,632,268)	(13,719,986)
(b) businesses (see item 10)		
(c) investments	(1,480,823)	(1,480,823)

Consolidated statement of cash flows	Current quarter (1 October 2019 – 31 December 2019) \$A	Year to date (6 months) \$A
(d) intellectual property		
(e) other non-current assets		
2.2 Proceeds from disposal of:		
(a) property, plant and equipment		
(b) businesses (see item 10)		
(c) investments		
(d) intellectual property		
(e) other non-current assets		
2.3 Cash flows from loans to other entities		
2.4 Dividends received (see note 3)		
2.5 Other (provide details if material)		
2.6 Net cash from / (used in) investing activities	(9,113,091)	(15,200,809)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares		
3.2 Proceeds from issue of convertible notes		
3.3 Proceeds from exercise of share options		
3.4 Transaction costs related to issues of shares, convertible notes or options		
3.5 Proceeds from borrowings	1,600,000	1,600,000
3.6 Repayment of borrowings		
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (repayment of lease liabilities)	(19,743)	(38,261)
3.10 Net cash from / (used in) financing activities	(1,580,257)	(1,561,739)

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	19,456,665	28,061,975
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(4,619,586)	(7,104,531)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(9,113,091)	(15,200,809)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	1,580,257	1,561,739

Consolidated statement of cash flows		Current quarter (1 October 2019 – 31 December 2019) \$A	Year to date (6 months) \$A
4.5	Effect of movement in exchange rates on cash held	24,179	10,050
4.6	Cash and cash equivalents at end of quarter	7,328,424	7,328,424

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A	Previous quarter \$A
5.1 Bank balances	7,328,424	19,456,665
5.2 Call deposits		
5.3 Bank overdrafts		
5.4 Other (provide details)		
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	7,328,424	19,456,665

6. Payments to directors of the entity and their associates

6.1 Aggregate amount of payments to these parties included in item 1.2

6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A
298,796

7. Payments to related entities of the entity and their associates

7.1 Aggregate amount of payments to these parties included in item 1.2

7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A

8. Financing facilities available

Add notes as necessary for an understanding of the position

8.1 Loan facilities

8.2 Credit standby arrangements

8.3 Other (please specify)

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
20,000,000	0

Prosperre Advisor Limited at an Annual Rate of 8%.
The loan is secured against the Company's interest in CBDG.

9. Estimated cash outflows for next quarter	\$A
9.1 Research and development	0
9.2 Product manufacturing and operating costs	20,000
9.3 Advertising and marketing	300,000
9.4 Leased assets	0
9.5 Staff costs	800,000
9.6 Administration and corporate costs	800,000
9.7 Other – CBDG Loan	10,000,000
9.8 Total estimated cash outflows	11,920,000

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity		
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:



Company secretary

Date: 31 January 2020

Print name: Kobe Li

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.