

Wattle Health Australia Limited

ABN 77 150 759 363

Annual Report - 30 June 2020

Wattle Health Australia Limited

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Wattle Health Australia Limited
Corporate directory
30 June 2020

Directors	Eric Jiang (Non-Executive Director) Kobe Li (Non-Executive Director) George Karafotias (Executive Director)
Company secretary	Kobe Li
Registered office	17/71 Victoria Crescent Abbotsford VIC 3607 Ph: 03 8399 9419
Principal place of business	17/71 Victoria Crescent Abbotsford VIC 3607 Ph: 03 8399 9419
Share register	Computershare Investor Registry Services Yarra Falls 452 Johnston Street Abbotsford, Victoria, 3067 Phone No.: 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

Wattle Health Australia Limited
Directors' report
30 June 2020

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 2020.

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:

Eric Jiang (Non-Executive Director)
Zheng (Kobe) Li (Non-Executive Director)
George Karafotias (appointed Executive Director (appointed 9th November 2020)
Lazarus Karasavvidis (Executive Chairman and Chief Executive Officer) (resigned 7 January 2020)
Peter Biantes (Non-Executive Director) (appointed Chairman 7 January 2020; resigned as Chairman and Director on 16 June 2020)
Georgia Sotiropoulos (Executive Director) (resigned 7 January 2020)
Dr Tony McKenna (Managing Director and Chief Executive Officer) (appointed director 13 January 2020) (resigned 9 November 2020)

Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of:

- Constructing a nutritional spray drying facility at Corio Bay.
- Launching a portfolio of Australian-made premium organic brands.

Dividends

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

Review of operations

Financial performance and position

Financial Performance

Sales revenue for the period was \$0.934 million (30 June 2019: \$0.88 million), an increase of 6% with a particularly strong sales performance in the second half of FY20 with distribution of Uganic products within the Chemist Warehouse retail chain starting to gain traction. Cash loss from operations for the period was down to \$7.57 million (30 June 2019: 12.67 million) an improvement of 40.2% primarily due to effective costs containment and increase in sales following a restructuring of operations in the second half of FY20.

The consolidated entity's loss for the period was \$65.44 million (30 June 2019: \$10.34 million) (parent entity loss of \$59.9 million (30 June 2019: \$8.3m) primarily driven by one off non cash reductions including valuations for Corio Bay Dairy Group (CBDG) triggered by the CBDG being placed into Voluntary Administration on 21 August 2020, a material adjusting event after the reporting period. WHA as first ranking secured creditor of CBDG has consented to the partial release of its security for the sale of the assets of CBDG for \$13.5 million, with settlement to occur in January 2021.

The expense related to securities issued to settle the termination fee for the terminated Blend and Pack transaction and write off of prepayments made to Organic Dairy Farmers of Australia Limited (ODFA) by CBDG also contributed one-off adjustments to the loss.

Financial Position

The net assets of the entity at the of the period were \$2.82 million (30 June 2019: \$51.4 million), mainly reflecting non cash write downs of circa \$57.4 million and current liabilities of CBDG of circa \$8.8 million. Borrowings of the consolidated entity are in relation to funds being advanced to CBDG and the Company having agreed to convert borrowings to equity subject to shareholder approval.

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Building Australia's Best Organic Milk Products Range

The year has seen substantial progress in our goal to launch Wattle Health's premium certified organic nutritional brand, Uganic as well as expanding sales channels and sales volumes for the Little Innoscents skin care range.

Brand development

Uganic launched in September 2019. The Uganic brand proposition sets the standard in premium dairy made in Australia from 100% Australian certified organic milk.

In March 2020, our premium infant formula brand, Uganic, was ranged nationally in Australia's premier pharmacy retailer Chemist Warehouse, in circa 450 stores nationally as well as other leading pharmacies.

In October 2020, Wattle Health will launch Australia's first certified organic Milk Powder range, an additional two skus, Full Cream Milk Powder and Skim Milk Powder, to our Uganic product suite.

Little Innoscents (new packaging) continues to grow via its extended ranging in Chemist Warehouse, and its introduction into other leading pharmacies, Amazon US and other online platforms.

In December 2020, Wattle Health announced a licensing agreement with Verdure Trading Supplements LLC for the Supply of Uganic infant formula for the Middle Eastern market.

In December 2020, Wattle Health announced it had a secured ranging with Australian Pharmaceuticals Industries for both Uganic and Little Innoscents product range.

Sales continue to grow steadily, despite the challenging economic environment with the impact of the global pandemic. Driving sales revenue and product development continues to be our primary focus in both the domestic market, cross border e-commerce channels and new export markets.

Chemist Warehouse update – Uganic and Little Innoscents

On 6 December 2019, Wattle Health Australia announced it had signed a 10-year long term supply agreement with Chemist Warehouse for its full certified organic nutritional dairy range, including its premium range of Uganic Infant formula and the Little Innoscents organic skin care range. The consideration for the Company was to issue a total of up to 18,869,792 fully paid ordinary shares to the Chemist Warehouse. In addition, as from April 2020, the Company is required to spend approximately \$1.2 million annually, for a period of five years, in marketing support to build brand awareness, sales and brand loyalty.

Joint marketing plans were formulated to aggressively drive brand awareness and sales.

Marketing campaign

In August 2020, Wattle Health officially launched a national media campaign for its Uganic brand featuring Brand Ambassador Rebecca Maddern and her daughter Ruby. Rebecca Maddern is a renowned journalist, Australian TV & media personality and most importantly mum to little Ruby. These aspects along with her farming origins, her passion for the environment and desire to make healthy choices for her family make Rebecca an ideal Brand Ambassador for Wattle Health Australia.

Other matters

On 15 May 2020 Organic Dairy Farmers of Australia Limited (ODFA) was placed into voluntary administration. As a result, the milk supply agreement between ODFA and Corio Bay Dairy Group Pty Ltd (CBDG), a member of the consolidated entity, was terminated by CBDG. As a result of the ODFA position, the consolidated entity has written off a number of assets previously recorded in relation to the milk supply agreement with ODFA.

On 21 August 2020 the directors of CBDG placed CBDG into voluntary administration, with a subsequent sale of the assets of CBDG for \$13.5 million, with Wattle Health under its first ranking security to receive the proceeds minus fees in January 2021.

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Board and management changes

Tony McKenna was appointed Chief Executive Officer and Managing Director of Wattle Health Group in January 2020 and resigned in November 2020.

Lazarus Karasavvidis resigned as Executive Chairman and Chief Executive Officer on 7 January 2020. He was replaced as Chairman by Peter Biantes.

Georgia Sotiropoulos resigned as Director on 7 January 2020.

Peter Biantes resigned as Chairman and Director on 16 June 2020.

George Karafotias was appointed as an Executive Director in November 2020.

Significant changes in the state of affairs

On 2 July 2019, Wattle Health Australia signed new debt term sheet with Gramercy Funds Management LLC (Gramercy) for net cash funding (before expenses) of up to US\$85 million to fund the proposed acquisition of the majority stake in Blend and Pack. The Company subsequently obtained shareholder approval at an Extraordinary General Meeting held on 31 July 2019 to make a significant change in nature and scale of its activities by entering into and completing the proposed acquisition of Blend and Pack. However, the funding facility from Gramercy was ultimately not required and was not finalised.

On 4 November 2019, Wattle Health Australia announced the signing of a collaboration agreement with Nouriz (Shanghai) Fine Food Co. Ltd to set up a 50/50 joint venture for the manufacture and sale of a range of certificated Australian organic nutritional dairy products, sourced from the Corio Bay Dairy Group, into the China market.

On 15 November 2019, Wattle Health Australia announced the signing of a revised agreement to acquire 75% of Blend and Pack for an upfront of US\$30 million and a deferred payment of US\$25 million. Concurrently, Wattle Health Australia launched a 4 for 5 non-renounceable rights issue offer at \$0.40 per share to raise a minimum of \$55 million and up to \$62 million to fund the initial payment of the proposed acquisition. This particular rights issue was unsuccessful and new revised terms were agreed, subsequent to 31 December 2019.

On 18 November 2019, Wattle Health Australia made a payment of \$US1 million/\$A1.481 million to Mason Dairy Holdings Ltd (Mason) as an advance payment for the proposed acquisition of Blend and Pack Pty Ltd.

On 6 December 2019, Wattle Health Australia announced it had signed a 10-year long term supply agreement with the Chemist Warehouse for its full certified organic nutritional dairy range, including its premium range of Uganic Infant formula and the Little Innoscents organic skin care range. The agreement was subject to the Company raising \$62 million under the Rights Issue offer announced on 15 November 2019. The consideration for the Company was to issue a total of up to 18,869,792 fully paid ordinary shares to the Chemist Warehouse. In addition, as from April 2020, the Company is required to spend approximately \$1.2 million annually, for a period of five years, in marketing support to build brand awareness, sales and brand loyalty.

Wattle Health Australia held an Extraordinary General Meeting on 16 December 2019 and obtained shareholder approval for the revised proposed Blend and Pack acquisition transaction, as announced on 15 November 2019, and other associated approvals in connection with the proposed transaction.

On 13 January 2020, Wattle Health Australia announced further revised terms of the proposed acquisition of Blend and Pack for a reduced cash upfront payment of US\$10 million and US\$15 million worth of fully paid ordinary shares in the Company at an issue price of A\$0.40. In addition, there was to be a deferred payment of US\$30 million over a five-year period with an interest rate of 3.33% with the first principal payment of 20% of the deferred payment due in 3 years, 30% in the fourth year and the balance at the end of the fifth year via a Loan Promissory Note.

On 13 January 2020, Dr Tony McKenna was appointed as the Chief Executive Officer and Managing Director of Wattle Health Australia. On 7 January 2020, Mr Lazarus Karasavvidis resigned from the Board of Wattle Health Australia as Chief Executive Officer and Executive Director and Ms Georgia Sotiropoulos resigned from the Board as Executive Director.

On 13 January 2020, Wattle Health Australia announced the signing of a shareholder's agreement with Nouriz (Shanghai) Fine Food Co. Ltd to form a 50/50 Australian joint venture company which follows on from the Collaboration Agreement announced on 4 November 2019. The proposed joint venture company has not commenced any commercial activities.

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On 13 January 2020, Wattle Health Australia announced the agreement between the Company and Chemist Warehouse to remove the minimum capital raising condition under the original agreement. Subsequently, on 23 January 2020, the Company issued a total of 4,103,208 fully paid ordinary shares at an issue price of \$0.40 (40 cents) per share to Chemist Warehouse and advisers in accordance with the agreement as initial tranche of share consideration.

On 23 January 2020, Wattle Health Australia launched a new 1 for 2 non-renounceable rights issue offer at \$0.40 per share to raise a minimum of \$25 million and up to \$39.7 million to fund the initial payment of the proposed acquisition of 75% interest in Blend and Pack under the revised terms of the transaction as announced on 13 January 2020.

On 24 February 2020, Wattle Health Australia held an Extraordinary General Meeting and obtained shareholder approval for the revised proposed Blend and Pack acquisition transaction, as announced on 13 January 2020, and other associated approvals in connection with the proposed transaction.

On 11 March 2020: Wattle Health Australia announced that it received a notice of termination from Mason Dairy Holdings Limited (Mason) in relation to the revised Share Purchase Agreement entered into between WHA and Mason that was announced to the ASX on 13 January 2020 (Revised SPA). The Revised SPA related to the proposed partial acquisition of the Blend & Pack packaging and canning facility. The reason for the termination was due to the Company not being able to settle with Mason under the Revised SPA before the sunset date of 29 February 2020. A termination fee payable due to the termination was settled by an issue of shares by the Company on 7 April 2020 (see below).

On 3 April 2020: Wattle Health Australia announced that, following the announcement released to the ASX on 11 March 2020 in relation to the termination by Mason of the Share Purchase Agreement for the acquisition of 75% interest in Blend and Pack (B&P Transaction), the Company had tendered a new proposal (New Tender) to Mason to complete the B&P Transaction, but the New Tender had not been accepted by Mason and, therefore, the Company was unable to complete the B&P Transaction. As a result, the Company immediately cancelled the rights issue offer made pursuant to the prospectus dated 23 January 2020 (Rights Issue) and arranged the refund of application monies that had been subscribed for the Rights Issue.

On 7 April 2020 the Company issued 17,750,302 fully paid ordinary shares at a deemed issue price of \$0.64 (64 cents) per share to Mason as settlement of a Transaction termination fee payable upon the termination of the proposed acquisition by the Company of Blend & Pack Pty Ltd (Blend & Pack), as announced on 11 March 2020 (refer above).

On 5 May 2020 the Company undertook a share placement and issued 27,730,286 fully paid ordinary shares at an issue price of \$0.15 (15 cents) per share to sophisticated and professional investors, raising \$4.16 million.

On 15 May 2020 Organic Dairy Farmers of Australia Limited (ODFA) was placed into voluntary administration. As a result, the milk supply agreement between ODFA and Corio Bay Dairy Group Pty Ltd (CBDG), a member of the consolidated entity, was terminated by CBDG. As a result of the ODFA position, the consolidated entity has written off a number of assets previously recorded in relation to the milk supply agreement with ODFA.

During the year ended 30 June 2020, Wattle Health Australia agreed with Niche Dairy Pty Ltd (Niche Dairy) to take over part of the loan made by Niche Dairy to Corio Bay Dairy Group Pty Ltd (CBDG). Therefore, the relevant part of that loan is now payable by CBDG to Wattle Health Australia, rather than Niche Dairy. Therefore, as CBDG is part of the consolidated entity, the net loan payable by the consolidated entity to Niche Dairy was reduced from \$1,686,000 at 30 June 2019 to \$906,000 at 30 June 2020.

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

Post 30 June 2020, the Company issued a default notice under its secured loan to Corio Bay Dairy Group Pty Ltd (CBDG) following receiving a termination notice from Shepparton Collectives Partner (SPC), with the directors of CBDG subsequently placing CBDG into Voluntary Administration on 21 August 2020. WHA, under its secured loan to CBDG of circa \$44 million as at 30 June 2020 worked closely with the Administrator to obtain a sale offer for CBDG's assets, which was achieved in December 2020 (refer below).

On 21 October 2020, the Company announced that it had entered into a secured convertible note financing arrangement, with the key features of the convertible note as follows:

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- total value of financing facility: \$3,000,000
- amount drawn down as at 21 October 2020: \$1,000,000 (before costs)
- subsequent drawdowns can be requested by the Company, subject to agreement by the noteholder (not to be unreasonably withheld)
- the issue (and therefore convertibility) of the convertible note is subject to shareholder approval pursuant to ASX listing rules. Until shareholder approval is obtained, any drawdowns including the initial \$1,000,000 is issued as a secured debt and, until shareholder approval is obtained for the issue of convertible note, the entire \$3,000,00 funding arrangement is a secured debt facility
- the secured note has a term of 12 months
- the secured note has a coupon rate of 12% per annum
- conversion price: \$0.15 (15 cents) per share
- the Company can at any time choose to repay the convertible note financing, with the note holders having the right on the issue of a redemption notice by the Company to convert the convertible note into fully paid ordinary shares
- the convertible note financing is secured by general and specific security deeds over all of the Company's assets
- the Company will seek shareholder approval for the issue of the convertible note by no later than 31 March 2021

On 9 November 2020 the Company announced that Dr Tony McKenna had resigned as Chief Executive Officer and Director of the Company, and that Mr George Karafotias had been appointed as Executive Director.

On 18 December 2020 the Company announced that:

- a binding offer from Korean Dairy Company Maeil Dairies Co. Ltd for the purchase of the assets of Corio Bay Dairy Group Limited (**CBDG**) for \$13.5 million had been received by CBDG's Administrator; and
- the Company had consented to partially release its first ranking security over the assets of CBDG at settlement anticipated January 2021.

No other matter or circumstance has arisen since 30 June 2020 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 organic brands Uganic and Little Innoscents into domestic and overseas markets.

At the time of the preparation of this report we have launched the Uganic brand of organic infant formula into 400 Chemist Warehouse stores and have ranged Uganic skim and wholemilk powder through this same channel. The Company also secured ranging with Australian Pharmaceutical Industries (API) and a Licensing Agreement with Verdure Nutrition Trading for the Uganic brand.

Little Innoscents continues to grow its sales predominately through the long term supply agreement with Chemist Warehouse and with the securing of ranging with API we anticipate sales to continue to increase moving forward.

It was these restrictions and a depressed financial investment market that resulted in firstly Organic Dairy Farmers and then Corio Bay Dairy Group Pty Ltd (CBDG), being put into voluntary administration. The Company has consented to partially release its first ranking secured charge over the assets of CBDG for the sale of those assets for \$13.5 million. This transaction will ensure Wattle Health is fully funded and able to execute its business objectives.

Environmental regulation

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

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Information on directors

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): 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.

Name: Zheng (Kobe) Li
Title: Non-Executive Director
Qualifications: AGIA
Experience and expertise: Prior to his appointment as director in January 2019, 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

Name: George Karafotias
Title: Executive Director
Qualifications: B. Comm
Experience and expertise: Mr Karafotias is an accountant holding a Bachelor of Commerce degree from the University of Adelaide. He has held various roles in numerous public companies over the last 9 years and has previously provided corporate advisory services to listed and unlisted companies, focusing on restructuring and refinancing.
Other current directorships: Perpetual Resources Limited (ASX:PEC).
Former directorships (last 3 years): None
Interests in shares: 2,613,453 fully paid ordinary shares

Name: Peter Biantes (appointed Chairman 7 January 2020; resigned as Chairman and Director on 16 June 2020)
Title: Non-Executive Director

Name: Georgia Sotiropoulos (resigned 7 January 2020)
Title: Executive Director

Name: Lazarus Karasavvidis (resigned 7 January 2020)
Title: Co-founder, Executive Chairman and Chief Executive Officer

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Name: Dr Tony McKenna resigned as Managing Director and Chief Executive Officer (resigned on 9 November 2020)
Title: Managing Director and Chief Executive Officer
Qualifications: PhD in Food Technology; Bachelor of Food Technology (Hons); Diploma in Management
Experience and expertise: Dr. Tony McKenna brings over 30 years of experience in the dairy industry in Australia, New Zealand and internationally. He 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. He also 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.
Other current directorships: None
Former directorships (last 3 years): None
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

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

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 2020, 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*	10	10	-	-	-	-
Peter Biantes**	13	15	2	2	-	-
Tony McKenna***	4	4	-	-	-	-
Eric Jiang	15	15	2	2	-	-
Georgia Sotiropoulos*	9	10	-	-	-	-
Kobe Li	15	15	2	2	-	-

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

* Resigned 7 January 2020

** Resigned 16 June 2020

*** Appointed 13 January 2020

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.

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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

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 ended 30 June 2018 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 previously issued to Non-Executive Directors 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.

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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 27 November 2019 Annual General Meeting ('AGM')

At the 27 November 2019 AGM, 82.48% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2019. 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)(Ceased to be Director and CEO 7 January 2020)
- Peter Biantes (Non-Executive Director)(Ceased to be Non-Executive Director 16 June 2020)
- Eric Jiang (Non-Executive Director)
- Georgia Sotiropoulos (Executive Director) (Ceased to be Director and member of key management personnel 7 January 2020)
- Zheng (Kobe) Li (Non-Executive Director)
- Tony McKenna (appointed Chief Executive Officer and Managing Director 13 January 2020 and resigned 9 November 2020)

And the following persons:

- Martin Glenister (Head of Sales) (resigned 7 January 2020)
- George Karafotias (Chief Financial Officer)

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	Short-term benefits			Post-employment benefits	Share-based payments		Total
	Cash salary and fees	Termination payment amount	Expense allowance	Super-annuation	Long service leave	Equity-settled	
2020	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Peter Biantes (1)	26,665	-	-	-	-	-	26,665
Eric Jiang	52,000	-	-	4,940	-	-	56,940
Kobe Li (6)	155,625	-	-	-	-	-	155,625
<i>Executive Directors:</i>							
Lazarus Karasavvidis (2)	327,625	141,479	11,667	12,020	-	-	492,791
Georgia Sotiropoulos (3)	174,000	-	-	-	-	-	174,000
Tony McKenna (4)	227,516	-	-	21,614	-	-	249,130
<i>Other Key Management Personnel:</i>							
Martin Glenister (5)	200,688	44,249	11,667	12,020	-	-	268,624
George Karafotias	315,000	-	-	21,003	3,151	-	339,154
	<u>1,479,119</u>	<u>185,728</u>	<u>23,334</u>	<u>71,597</u>	<u>3,151</u>	<u>-</u>	<u>1,762,929</u>

- (1) Mr Peter Biantes resigned 16 June 2020.
- (2) Mr Karasavvidis resigned as a director on 7 January 2020. The termination payment amount includes accrued leave and other amounts payable upon cessation.
- (3) Ms Sotiropoulos ceased as a director and member of Key Management Personnel on 7 January 2020.
- (4) Dr Tony McKenna was appointed 13 January 2020.
- (5) Ms Glenister resigned on 7 January 2020. The termination payment amount includes accrued leave and other amounts payable upon cessation.
- (6) Mr Li's remuneration comprised directors fees of \$40,000, fees of \$50,000 for Company secretarial services and fees of \$65,625 for additional secretarial and consulting services outside the scope of normal director and agreed company secretarial work.

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

Wattle Health Australia Limited
Directors' report
30 June 2020

- * Appointed as director 16 January 2019. Kobe Li was appointed as Company Secretary on 11th April 2019.
 ** Appointed 12 July 2018

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: Tony McKenna (resigned 9 November 2020)
 Title: Managing Director and Chief Executive Officer
 Term of agreement: No fixed term
 Details: Annual remuneration of \$500,000 including statutory superannuation. 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: Eric Jiang
 Title: Non-Executive Director
 Term of agreement: No fixed term
 Details: Annual remuneration of \$52,000 plus statutory superannuation

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 2020.

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 2020.

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 2020.

Additional information

The earnings of the consolidated entity for the five years to 30 June 2020 are summarised below:

	2020 \$'000	2019 \$'000	2018 \$'000	2017 \$'000	2016 \$'000
Revenue	1,107	1,095	1,524	928	10
Net loss	(58,943)	(10,341)	(19,839)	(4,151)	(536)

Wattle Health Australia Limited
Directors' report
30 June 2020

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

	2020*	2019	2018
Share price at financial year end (\$)	0.53	0.50	1.17

* The Company's shares were placed into ASX suspension on 2 October 2019 and remained in suspension on 30 June 2020.

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
<i>Ordinary shares</i>					
Lazarus Karasavvidis & Martin Glenister (1) (2) (3)	34,014,734	-	-	(34,014,734)	-
Lazarus Karasavvidis (2)	4,000,000	-	-	(4,000,000)	-
Peter Biantes (4)	1,050,000	-	-	(1,050,000)	-
Eric Jiang	2,882,371	-	-	-	2,882,371
Georgia Sotiropoulos (5)	79,827	-	-	(79,827)	-
Martin Glenister (3)	3,000,000	-	-	(3,000,000)	-
George Karafotias	2,613,454	-	-	-	2,613,454
	<u>47,640,386</u>	<u>-</u>	<u>-</u>	<u>(42,144,561)</u>	<u>5,495,825</u>

- (1) Shares held by KMP-related entities that are jointly controlled by Mr Karasavvidis and Mr Glenister
- (2) Mr Karasavvidis ceased as member of Key Management Personnel effective 7 January 2020. "Other" represents shares held as at that date.
- (3) Mr Glenister ceased as member of Key Management Personnel effective 7 January 2020. "Other" represents shares held as at that date.
- (4) Mr Biantes ceased as member of Key Management Personnel effective 16 June 2020. "Other" represents shares held as at that date.
- (5) Ms Sotiropoulos ceased as member of Key Management Personnel effective 7 January 2020. "Other" represents shares held as at that date.

This concludes the remuneration report, which has been audited.

Shares under option

There were no unissued ordinary shares of Wattle Health Australia Limited under option outstanding at the date of this report.

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 2020 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.

Wattle Health Australia Limited
Directors' report
30 June 2020

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 29 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 29 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 (including Independence Standards) issued by the Accounting Professional & 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



Mr George Karafotias
Executive Director

21 December 2020
Melbourne

**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 2020 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

A. A. Finnis
Director

Melbourne 21 December 2020

ACCOUNTANTS & ADVISORS

Level 20, 181 William Street
Melbourne VIC 3000

Telephone: +61 3 9824 8555

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Wattle Health Australia Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2020

	Note	Consolidated 2020 \$'000	2019 \$'000
Revenue	5	934	887
Other income	6	114	-
Interest revenue calculated using the effective interest method		59	208
Expenses			
Raw materials and consumables used		(487)	(518)
Administrative and corporate expenses		(3,431)	(2,995)
Share based payments issued to third parties		(1,641)	(240)
Employee benefits expense	8	(2,271)	(3,378)
Selling, marketing and distribution expenses		(2,072)	(2,366)
Depreciation and amortisation expense	8	(226)	(100)
Impairment of assets	7(a)	(11,333)	(1,550)
Movement in fair value of investments	7(b)	(5,027)	-
Impairment of plant and equipment	7(c)	(27,842)	-
Transaction termination fee (share based payment)	9	(11,360)	-
Occupancy costs		-	(264)
Finance costs		(860)	(25)
Loss before income tax expense		(65,443)	(10,341)
Income tax expense	10	-	-
Loss after income tax expense for the year		(65,443)	(10,341)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		<u>(65,443)</u>	<u>(10,341)</u>
Loss for the year is attributable to:			
Non-controlling interest		(19,177)	(430)
Owners of Wattle Health Australia Limited		(46,266)	(9,911)
		<u>(65,443)</u>	<u>(10,341)</u>
Total comprehensive loss for the year is attributable to:			
Non-controlling interest		(19,177)	(430)
Owners of Wattle Health Australia Limited		(46,266)	(9,911)
		<u>(65,443)</u>	<u>(10,341)</u>
		Cents	Cents
Basic loss per share	37	(22.61)	(5.10)
Diluted loss per share	37	(22.61)	(5.10)

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

Wattle Health Australia Limited
Statement of financial position
As at 30 June 2020

	Note	Consolidated 2020 \$'000	2019 \$'000
Assets			
Current assets			
Cash and cash equivalents		1,118	18,317
Trade and other receivables	11	831	2,039
Finished goods inventory		951	612
Investments	12	25	9,765
Prepayments and other	13	342	3,517
Total current assets		<u>3,267</u>	<u>34,250</u>
Non-current assets			
Other financial assets	14	1,121	6,148
Property, plant and equipment	15	13,503	12,389
Right-of-use assets	16	742	-
Intangibles	17	487	897
Other	18	107	4,695
Total non-current assets		<u>15,960</u>	<u>24,129</u>
Total assets		<u>19,227</u>	<u>58,379</u>
Liabilities			
Current liabilities			
Trade and other payables	19	10,510	4,687
Borrowings	20	4,121	375
Lease liabilities	21	225	-
Employee benefit provisions		93	159
Total current liabilities		<u>14,949</u>	<u>5,221</u>
Non-current liabilities			
Borrowings	22	906	1,686
Lease liabilities	23	544	-
Employee benefit provisions		7	34
Total non-current liabilities		<u>1,457</u>	<u>1,720</u>
Total liabilities		<u>16,406</u>	<u>6,941</u>
Net assets		<u>2,821</u>	<u>51,438</u>
Equity			
Issued capital	24	91,726	74,900
Reserves	25	12,233	12,233
Accumulated losses		(81,755)	(35,489)
Equity attributable to the owners of Wattle Health Australia Limited		22,204	51,644
Non-controlling interest		(19,383)	(206)
Total equity		<u>2,821</u>	<u>51,438</u>

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

Wattle Health Australia Limited
Statement of changes in equity
For the year ended 30 June 2020

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

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 2019	74,900	12,233	(35,489)	(206)	51,438
Loss after income tax expense for the year	-	-	(46,266)	(19,177)	(65,443)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive loss for the year	-	-	(46,266)	(19,177)	(65,443)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 24)	16,826	-	-	-	16,826
Balance at 30 June 2020	91,726	12,233	(81,755)	(19,383)	2,821

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

Wattle Health Australia Limited
Statement of cash flows
For the year ended 30 June 2020

	Note	Consolidated 2020 \$'000	2019 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,119	742
Payments to suppliers and employees (inclusive of GST)		(8,853)	(13,538)
Interest received		58	147
Interest and other finance costs paid		(8)	(25)
Government grants		114	-
		<u>114</u>	<u>-</u>
Net cash used in operating activities	36	<u>(7,570)</u>	<u>(12,674)</u>
Cash flows from investing activities			
Payments for investments		(2,981)	(1,008)
Payments for land		-	(2,100)
Payments for plant construction		(23,765)	(7,594)
Payments for project establishment costs		-	(445)
Payments for term deposits - current		-	(9,705)
Payments for long term stock supply		-	(4,000)
Proceeds from term deposits - current		9,824	-
		<u>9,824</u>	<u>-</u>
Net cash used in investing activities		<u>(16,922)</u>	<u>(24,852)</u>
Cash flows from financing activities			
Proceeds from issue of shares		4,160	-
Proceeds from borrowings		3,665	200
Payments for long term borrowing costs		-	(200)
Share applications to be refunded		81	-
Share issue transaction costs		(508)	-
Repayment of lease liabilities		(116)	-
		<u>7,282</u>	<u>-</u>
Net cash from financing activities		<u>7,282</u>	<u>-</u>
Net decrease in cash and cash equivalents		(17,210)	(37,526)
Cash and cash equivalents at the beginning of the financial year		18,317	55,843
Effects of exchange rate changes on cash and cash equivalents		11	-
		<u>11</u>	<u>-</u>
Cash and cash equivalents at the end of the financial year		<u><u>1,118</u></u>	<u><u>18,317</u></u>

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

Wattle Health Australia Limited
Notes to the financial statements
30 June 2020

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

17/71 Victoria Crescent Abbotsford VIC 3607

Principal place of business

17/71 Victoria Crescent Abbotsford VIC 3607

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 21 December 2020. 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 16 Leases

The consolidated entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact was as follows:

- right of use assets of \$790,000 were recognised upon adoption;
- there was no amendment to opening accumulated losses upon adoption;
- during the year ended 30 June 2020, lease payments of \$155,000 were allocated to lease liability payments (\$116,000) and interest expense (\$39,000);
- during the year ended 30 June 2020, right of use assets depreciation of \$218,000 was recognised.

Note 2. Significant accounting policies (continued)

	Consolidated 2020 \$'000
Operating lease commitments as at 1 July 2019 (AASB 117)	255
Operating lease commitments discount based on the weighted average incremental borrowing rate of 5.5% (AASB 16)	(10)
Short-term leases not recognised as a right-of-use asset (AASB 16)	(28)
Inclusion of assumed lease extension terms in liability calculation, not included in the operating lease commitment calculation	573
	<u>790</u>
Lease liabilities - current (AASB 16)	(180)
Lease liabilities - non-current (AASB 16)	(610)
	<u>(790)</u>
Impact on opening retained profits as at 1 July 2019	<u>-</u>

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Going concern

The financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and realisation of assets and liabilities in the ordinary course of business. The going concern of the consolidated entity is dependent upon it maintaining sufficient funds for its operations and commitments.

Note 2. Significant accounting policies (continued)

The cash balance as at 30 June 2020 was \$1,118,000 (30 June 2019: \$18,317,000). The excess of current liabilities over current assets as at 30 June 2020 was \$11,682,000 (30 June 2019: surplus of current assets over current liabilities of \$29,029,000).

The consolidated entity made a loss after tax of \$65,443,000 during the year ended 30 June 2020 (2019: loss of \$10,341,000) and the net cash used in operating activities was \$7,570,000 (2019: \$12,674,000 net outflow). The operational costs were reduced significantly in the second half of the year ending 30 June 2020.

Notwithstanding these results, the directors believe that the company will be able to continue as a going concern and as a result the financial statements have been prepared on a going concern basis. The accounts have been prepared on the assumption that the company is a going concern for the following reasons:

- subsequent to the end of the financial year, as noted in Note 35, the Company has secured funding of \$3,000,000 under a convertible note financing arrangement;
- subsequent to the end of the financial year, Corio Bay Dairy Group (CBDG) was placed into Voluntary Administration. The Company as first ranking secured creditor of CBDG will receive \$13.5 million (minus fees) from the sale of the CBDG asset;
- operational costs were reduced significantly in the second half of the year ending 30 June 2020 and will remain in check as the Company continues its strategy to focus on sales;
- the Company aims to continue to grow its distribution network and revenue for its organic brands primarily through Chemist Warehouse. Chemist Warehouse under the distribution agreement are entitled to be issued a further 15,869,792 fully paid ordinary shares subject to conditions;
- the Board is of the opinion that the consolidated entity has, or shall have access to, sufficient funds to meet the planned corporate activities and working capital requirements; and
- as the Company is an ASX-listed entity it has the opportunity to raise additional funds.

In the event that the consolidated entity is unable to achieve the outcomes noted above and not be able to continue as a going concern, it may be required to realise its assets at amounts different to those currently recognised, settle liabilities other than in the ordinary course of business and make provisions for other costs which may arise as a result of cessation or curtailment of normal business operations.

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 33.

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 2020 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.

Note 2. Significant accounting policies (continued)

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.

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.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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.

Government grants

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

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.

Note 2. Significant accounting policies (continued)

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.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Note 2. Significant accounting policies (continued)

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.

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 mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

Property, plant and equipment

Land and buildings are stated at historical cost less any applicable accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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.

Note 2. Significant accounting policies (continued)

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.

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.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

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.

Note 2. Significant accounting policies (continued)

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.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

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.

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.

Note 2. Significant accounting policies (continued)

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.

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.

Note 2. Significant accounting policies (continued)

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 2020. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

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 current or next financial year are discussed below.

Share-based payment transactions

Unless noted otherwise, 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 of option-based transactions 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.

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

For the valuation of the share based payment relating to the transaction termination fee to Mason Dairy Holdings Limited (Mason) referred to in Note 9, the Board exercised judgement in measuring the cost of the transaction by reference to the agreed price of \$0.64 per share, in accordance with the relevant agreement between the Company and Mason, rather than by reference to the fair value of the Company's shares at the relevant time.

Share based payment to Chemist Warehouse

In respect of the fee payable by the Company to Chemist Warehouse upon the signing of a long term supply agreement, as referred to in Note 24, this was offset against the subscription price payable in respect of the issue of shares to Chemist Warehouse. Generally, payments to a customer for a distinct good or service are accounted for under AASB 15 Revenue from Contracts with Customers. The fee payable to Chemist Warehouse did not represent a payment for distinct goods or services. In addition, given that the Company has issued shares, this is considered not to be consideration payable to a customer within the scope of AASB 15.

As a result, AASB 2 Share-based Payments has been applied. The consolidated entity has measured the services received by reference to the fair value of the shares granted.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Impairment of property, plant and equipment

Unless otherwise noted, 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.

Following the placement of Corio Bay Dairy Group Pty Ltd (CBDG) in voluntary administration after the end of the financial year, management assessed the estimated total recoverable value of property, plant and equipment under construction held by CBDG and referred to in Note 15. Management obtained and reviewed information relating to the value of these assets arising from the marketing process being undertaken by CBDG's Administrator and used this as a reference to reach an estimate of the fair value less costs of disposal.

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

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.

The Board has reviewed the carrying value of the Company's investment in Blend and Pack as at 30 June 2020. As a result of this review, the Board determined that the fair value of the Company's investment in Blend & Pack was \$1,000,000 at that date and a loss of \$4,127,000 was recognised. The \$4,127,000 fair value loss has been recorded in the consolidated entity's statement of profit and loss for the year ended 30 June 2020.

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.

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.

The Board has reviewed the carrying value of the Company's investment in RMC as at 30 June 2020. As a result of this review, the Board determined that the fair value of the Company's investment in RMC was \$100,000 at that date and a loss of \$900,000 was recognised. The \$900,000 fair value loss has been recorded in the consolidated entity's statement of profit and loss for the year ended 30 June 2020.

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 2020.

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 2020 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.

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Note 4. Operating segments

Identification of reportable operating segments

During the year ended 30 June 2020 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 2020 approximately 45% (2019: 12%) of the consolidated entity's external revenue was derived from sales to one customer.

Note 5. Revenue

	Consolidated	
	2020	2019
	\$'000	\$'000
<i>Revenue from contracts with customers</i>		
Goods transferred at a point in time	819	795
<i>Other revenue</i>		
Other revenue	115	92
Revenue	<u>934</u>	<u>887</u>

Note 6. Other income

	Consolidated	
	2020	2019
	\$'000	\$'000
Government assistance – Covid-19 related	114	-

Note 7. Expenses - Impairment and fair value adjustments of assets

(a) Impairment of assets

	Consolidated	
	2020	2019
	\$'000	\$'000
Write off of ODFA exclusivity and management fee	4,200	-
Write off prepayments for supply of raw materials	3,184	1,464
Write off ODFA prepayment	1,500	-
Loss of non-refundable deposit on proposed Blend & Pack acquisition	1,481	-
Impairment of Little Innoscents goodwill	404	-
Write off of spray Dryer intellectual property	300	-
Impairment of trade receivables	264	86
	<u>11,333</u>	<u>1,550</u>

Details of significant write offs and impairments shown above are as follows:

Note 7. Expenses - Impairment and fair value adjustments of assets (continued)

- Write off of ODFA exclusivity and management fee - prepayments previously made by the consolidated entity to Organic Dairy Farms of Australia (OFDA) to secure exclusivity and cost reductions in the future supply of milk to the consolidated entity's proposed future organic nutritional milk spray drying operation. This amount was written off due to the cancellations of the milk supply arrangement when ODFA was placed into administration during the year ended 30 June 2020.
- Write off prepayments for supply of raw materials - Advance payments for supply of raw materials included in Prepayments as at 30 June 2019 were written off to profit and loss during the year ended 30 June 2020.
- Write off ODFA prepayment - Prepayment made by the consolidated entity to OFDA for exclusive rights fee and future price discount - written off when OFDA went into administration during the year ended 30 June 2020.
- Loss of non-refundable deposit on proposed Blend & Pack acquisition - an amount of US\$1m was paid by the Company as a deposit as part of the proposed acquisition of Blend & Pack by the Company. The deposit was forfeited when the acquisition did not proceed.
- Impairment of Little Innoscents goodwill - as a result of annual impairment testing of goodwill recorded in the accounts of Little Innoscents Pty Ltd (Little Innoscents), it was determined that the carrying value of the goodwill exceeded its recoverable amount and an impairment loss expense was therefore recognised in profit and loss for the year ended 30 June 2020.
- Dryer intellectual property write off - an advance payment for the proposed use of intellectual property owned by ODFA in the operation of CBDG's proposed spray drying plant, which had previously been recognised as an asset, was written off when ODFA was placed into administration during the year ended 30 June 2020.

(b) Fair value losses recognised on investments

	Consolidated	
	2020	2019
	\$'000	\$'000
Reduction in fair value of investment in Blend & Pack Pty Ltd	4,127	-
Reduction in fair value of investment in Remarkable Milk Company Pty Ltd	900	-
	5,027	-
	5,027	-

Details of items above are as follows:

- Write-down of investment in Blend & Pack - The Board has reviewed the carrying value of the Company's investment in Blend & Pack Pty Ltd (Blend & Pack) as at 30 June 2020. As a result of this review, the Board determined that the fair value of the Company's investment in Blend & Pack was \$1,000,000 at that date and a loss of \$4,127,000 was recognised. The \$4,127,000 fair value loss has been recorded in the consolidated entity's statement of profit and loss for the year ended 30 June 2020.
- Write-down of investment in Remarkable Milk Company Pty Ltd - The Board has reviewed the carrying value of the Company's investment in Remarkable Milk Company Pty Ltd (RMC) as at 30 June 2020. As a result of this review, the Board determined that the fair value of the Company's investment in RMC was \$100,000 at that date and an loss of \$900,000 was recognised. The \$900,000 fair value loss has been recorded in the consolidated entity's statement of profit and loss for the year ended 30 June 2020.

(c) Impairment of property, plant and equipment under construction

	Consolidated	
	2020	2019
	\$'000	\$'000
Impairment loss on CBDG property, plant and equipment under construction	27,842	-

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Note 7. Expenses - Impairment and fair value adjustments of assets (continued)

The placement of Corio Bay Dairy Group Pty Ltd (CBDG) in voluntary administration on 21 August 2020, after the end of the financial year, has been determined by the Company to be an adjusting event after the reporting period. Accordingly, CBDG has reviewed the value of all non-current assets held by it and has assessed the recoverable value of these assets as at 30 June 2020. Following this review, it was assessed that the estimated total recoverable value of all property, plant and equipment assets held by CBDG, including Property, plant and equipment under construction, was \$13,500,000, based on a binding purchase offer received for those assets in December 2020 (refer Note 35). The consolidated entity has therefore restated these assets to that value by recognising an impairment loss on Property, plant and equipment under construction of \$27,842,000 as at 30 June 2020.

Note 8. Expenses

	Consolidated	
	2020	2019
	\$'000	\$'000
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Land and buildings right-of-use assets	219	-
<i>Amortisation</i>		
Patents and trademarks	7	9
Borrowing costs	-	89
Other	-	2
Total amortisation	7	100
Total depreciation and amortisation	226	100
<i>Employee benefits expense excluding superannuation</i>		
Employee benefits expense excluding superannuation	1,986	3,026

Note 9. Transaction termination fee - share based payment

The Company has recorded a share based payment expense of \$11,360,000, being the agreed value of 17,750,302 shares issued by the Company on 7 April 2020 to Mason Dairy Holdings Limited (Mason) as a Transaction termination fee payable upon the termination of the proposed acquisition by the Company of Blend & Pack Pty Ltd (Blend & Pack).

Under the terms of a Deposit Promissory Note entered into by the Company and Mason on 10 January 2020 in relation to the proposed Blend & Pack acquisition, the Company was obliged to issue to Mason 17,750,302 shares credited as fully paid, at an agreed price of \$0.64 per share, as part of a non-refundable deposit.

Note 10. Income tax benefit

	Consolidated	
	2020	2019
	\$'000	\$'000
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	37,846	22,212
Potential tax benefit @ 27.5%	10,408	6,108

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.

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Note 11. Current assets - trade and other receivables

	Consolidated	
	2020	2019
	\$'000	\$'000
Trade receivables	82	428
Other receivables	39	824
BAS receivable	710	787
	<u>831</u>	<u>2,039</u>

Note 12. Current assets - investments

	Consolidated	
	2020	2019
	\$'000	\$'000
Term deposits	25	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 13. Current assets - Prepayments and other

	Consolidated	
	2020	2019
	\$'000	\$'000
Prepayments	342	3,369
Other current assets	-	148
	<u>342</u>	<u>3,517</u>

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 included advance payments made by the consolidated entity for supply of raw materials. This amount was written off in full in the year ended 30 June 2020.

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Note 14. Non-current assets - other financial assets

	Consolidated	
	2020	2019
	\$'000	\$'000
Investment - Blend and Pack	5,127	5,127
Less: Movement in fair value	(4,127)	-
	<u>1,000</u>	<u>5,127</u>
Investment - Remarkable Milk Company	1,000	1,000
Less: Movement in fair value	(900)	-
	<u>100</u>	<u>1,000</u>
Long-term bank deposits	21	21
	<u>1,121</u>	<u>6,148</u>

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 reviewed the carrying value of the Company's investment in Blend and Pack as at 30 June 2020. As a result of this review, the Board determined that the fair value of the Company's investment in Blend & Pack was \$1,000,000, which is line with the valuation by the majority shareholder of Blend and Pack and thus a loss of \$4,127,000 was recognised. The \$4,127,000 fair value loss has been recorded in the consolidated entity's statement of profit and loss for the year ended 30 June 2020.

The company utilises comparable trading multiples in arriving at the valuation for these positions. Management determines comparable public companies (peers) based on industry, size, developmental stage and strategy. Management then calculates a trading multiple for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by its earnings before interest, taxes, depreciation and amortisation (EBITDA). The trading multiple is then discounted for considerations such as illiquidity and differences between the comparable companies based on company specific facts and circumstances.

Description	Fair Value at 30 June 2020 (\$'000s)	Valuation technique	Unobserva ble Inputs	Weighted average input	Reasonabl e possible shift +/-	Change in Valuation +/- (\$'000s)
Investments in unquoted companies	1,000	Comparabl e trading multiples	EBITDA multiple	8.5	1	107/(107)

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 Board has reviewed the carrying value of the Company's investment in RMC as at 30 June 2020. As a result of this review, RMC continued to incur losses for the financial year and RMC offering the Company to buy back the shares at the written down value, the Board determined that the fair value of the Company's investment in RMC was \$100,000 at that date and a loss of \$900,000 was recognised. The \$900,000 fair value loss has been recorded in the consolidated entity's statement of profit and loss for the year ended 30 June 2020.

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Note 14. Non-current assets - other financial assets (continued)

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 15. Non-current assets - property, plant and equipment

	Consolidated	
	2020	2019
	\$'000	\$'000
Land - at cost	2,100	2,100
Office equipment - at cost	96	9
Property, plant & equipment under construction	11,307	10,280
	<u>13,503</u>	<u>12,389</u>

Consolidated	Land at cost \$'000	Property, plant & equipment under construction \$'000	Office equipment \$'000	Total \$'000
Balance at 1 July 2018	-	769	-	769
Additions	2,100	9,511	9	11,620
Balance at 30 June 2019	2,100	10,280	9	12,389
Additions	-	28,869	87	28,956
Impairment of assets	-	(27,842)	-	(27,842)
Balance at 30 June 2020	<u>2,100</u>	<u>11,307</u>	<u>96</u>	<u>13,503</u>

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 relatively recently, during the previous 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 (CBDG).

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Note 15. Non-current assets - property, plant and equipment (continued)

The placement of Corio Bay Dairy Group Pty Ltd (CBDG) in voluntary administration on 21 August 2020, after the end of the financial year, has been determined by the Company to be an adjusting event after the reporting period. Accordingly, CBDG has reviewed the value of all non-current assets held by it and has assessed the recoverable value of these assets as at 30 June 2020. Following this review, it was assessed that the estimated total recoverable value of all property, plant and equipment assets held by CBDG, including Property, plant and equipment under construction, was \$13,500,000, based on a binding purchase offer received for those assets in December 2020 (refer Note 35). The consolidated entity has therefore restated these assets to that value by recognising an impairment loss on Property, plant and equipment under construction of \$27,842,000 as at 30 June 2020.

Note 16. Non-current assets - right-of-use assets

	Consolidated	
	2020	2019
	\$'000	\$'000
Land and buildings - right-of-use	922	-
Less: Accumulated depreciation	<u>(212)</u>	<u>-</u>
	<u>710</u>	<u>-</u>
Office equipment - right-of-use	39	-
Less: Accumulated depreciation	<u>(7)</u>	<u>-</u>
	<u>32</u>	<u>-</u>
	<u>742</u>	<u>-</u>

Additions to the right-of-use assets during the year were \$961,000.

The consolidated entity leases land and buildings for its offices and warehouses under agreements of between 3 to 5 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The consolidated entity also leases office equipment under agreements of 5 years.

Note 17. Non-current assets - intangibles

	Consolidated	
	2020	2019
	\$'000	\$'000
Goodwill - at cost	875	875
Less: Impairment	<u>(404)</u>	<u>-</u>
	<u>471</u>	<u>875</u>
Patents and trademarks - at cost	69	67
Less: Accumulated amortisation	<u>(53)</u>	<u>(45)</u>
	<u>16</u>	<u>22</u>
	<u>487</u>	<u>897</u>

Goodwill

During the year ended 30 June 2018, 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.

Note 17. Non-current assets - intangibles (continued)

The Board has reviewed the carrying value of the Little Innoscents goodwill asset as at 30 June 2020. As a result of this review, the Board determined that the recoverable amount of that asset was \$471,000 at that date and a provision for impairment of \$404,000 was recognised. The \$404,000 impairment charge has been recorded in the consolidated entity's statement of profit and loss for the year ended 30 June 2020.

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 2020 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 - 11.08%
- Management has made numerous assumptions about the budgeted revenue to be achieved in 2021, and this has resulted in a budgetted revenue increase compared to the actual revenues in 2020, 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 13% 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. Any adverse changes in the assumptions noted above would give rise to a further impairment charge.

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Note 18. Non-current assets - other

	Consolidated	
	2020	2019
	\$'000	\$'000
Prepayments	-	4,200
Borrowing costs	196	584
Less: Accumulated amortisation - borrowing costs	(89)	(89)
	<u>107</u>	<u>4,695</u>

Prepayments as at 30 June 2019 included payments of \$4,000,000, made by the consolidated entity to Organic Dairy Farms of Australia (ODFA) in order to secure cost reductions in the future supply of milk to the consolidated entity's proposed future organic nutritional milk spray drying operation. This amount and related prepayments were written off due to the cancellations of the milk supply arrangement when ODFA was placed into administration during the year ended 30 June 2020.

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 19. Current liabilities - trade and other payables

	Consolidated	
	2020	2019
	\$'000	\$'000
Trade Payables	9,864	3,854
Accruals	375	314
Other payables	271	519
	<u>10,510</u>	<u>4,687</u>

Refer to note 27 for further information on financial instruments.

Note 20. Current liabilities - borrowings

	Consolidated	
	2020	2019
	\$'000	\$'000
Loans - other	<u>4,121</u>	<u>375</u>

Refer to note 27 for further information on financial instruments.

Loans - other includes:

- a loan of \$1,600,000 made by a major shareholder of the Company, who is a non-related entity of the consolidated entity. The loan is unsecured, is interest-free and is repayable at call;
- a loan of \$375,000 by a non-related 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;
- funds totalling \$2,065,000 advanced to the Company by existing shareholders. These advances are unsecured, interest-free and repayable at call.

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Note 21. Current liabilities - lease liabilities

	Consolidated	
	2020	2019
	\$'000	\$'000
Lease liability	225	-

Refer to note 27 for further information on financial instruments.

Note 22. Non-current liabilities - borrowings

	Consolidated	
	2020	2019
	\$'000	\$'000
Loan - Niche Dairy Pty Ltd	906	1,686

Refer to note 27 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 Dairy), 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.

While the initial facility stipulated that Niche Dairy were financing 10% of the facility with Wattle covering the remaining 90% this only occurred for the first two instalments of \$906,000 and the remaining instalments were made by Wattle Health Australia on behalf of Niche Dairy. This resulted in a receivable owing from Niche Dairy to Wattle Australia as at 30 June 2019.

During the year ended 30 June 2020, Wattle Health Australia agreed with Niche to take over their portion of the loan whereby the loan payable by CBDG is now to Wattle Health Australia, rather than Niche Dairy except for the initial two instalments advanced directly by Niche Dairy. Therefore, as CBDG is part of the consolidated entity, the net loan payable by the consolidated entity to Niche was reduced from \$1,686,000 at 30 June 2019 to \$906,000 at 30 June 2020 with the loan receivable from Niche Dairy no longer applicable as Wattle had taken over that portion.

Financing arrangements

	Consolidated	
	2020	2019
	\$'000	\$'000
Total facilities		
Loan facility from private equity fund	-	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

The loan facility was a \$20 million 3-year loan at an interest rate of 8.0% p.a. with Prospere Advisor Limited and expired during the year ended 30 June 2020.

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Note 23. Non-current liabilities - lease liabilities

	Consolidated	
	2020	2019
	\$'000	\$'000
Lease liability	544	-

Refer to note 27 for further information on financial instruments.

Note 24. Equity - issued capital

	Consolidated			
	2020	2019	2020	2019
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	244,086,936	194,503,140	91,726	74,900

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2018	194,503,140		74,900
Balance	30 June 2019	194,503,140		74,900
Issue of shares to Chemist Warehouse*	23 January 2020	3,000,000	\$0.40	1,200
Issue of shares to consultant for professional services**	23 January 2020	1,103,208	\$0.40	441
Issue of shares to settle Termination fee***	7 April 2020	17,750,302	\$0.64	11,360
Share placement	5 May 2020	27,730,286	\$0.15	4,160
Capital raising costs		-	\$0.00	(335)
Balance	30 June 2020	244,086,936		91,726

* Issue of shares to Chemist Warehouse upon the signing of a long-term supply agreement between the Company and Chemist Warehouse, as announced to the market on 6 December 2019 and 23 January 2020

** Issue of shares to consultant in return for professional services provided associated with the Chemist Warehouse supply agreement

*** Issue of shares to Mason Dairy Holdings Limited as settlement of a transaction termination fee - refer Note 9

Ordinary shares

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

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

Share buy-back

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

Capital risk management

The consolidated entity's objectives when managing capital 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.

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Note 24. Equity - issued capital (continued)

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 2019 Annual Report.

Note 25. Equity - Reserves

	Consolidated	
	2020	2019
	\$'000	\$'000
Share-based payments reserve	12,233	12,233

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 2018	11,993
Vesting of employee Loan Share Plan shares	240
Balance at 30 June 2019	12,233
Balance at 30 June 2020	12,233

Note 26. Equity - dividends

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

Note 27. 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.

Note 27. Financial instruments (continued)

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 \$100,000.

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 \$10,000.

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.

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.

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Note 27. Financial instruments (continued)

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	2020	2019
	\$'000	\$'000
Loan facility from private equity fund	-	20,000

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 - 2020	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						
<i>Non-interest bearing</i>						
Trade payables	-	9,864	-	-	-	9,864
Accruals	-	375	-	-	-	375
Other payables	-	269	-	-	-	269
Other loans	-	4,121	-	-	-	4,121
<i>Interest-bearing - variable</i>						
Loan - Niche Dairy Pty Ltd	0.10%	-	-	-	415	415
<i>Interest-bearing - fixed rate</i>						
Loan - Niche Dairy Pty Ltd	15.00%	-	-	-	491	491
Lease liability in Wattle Health office	5.50%	84	14	-	-	98
Lease liability Little Innoscents Warehouse	5.50%	27	30	103	-	160
Lease liability CBDG Office	5.25%	106	115	257	-	478
Lease liability CBDG Photocopier	4.00%	7	8	18	-	33
Total non-derivatives		<u>14,853</u>	<u>167</u>	<u>378</u>	<u>906</u>	<u>16,304</u>

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Note 27. Financial instruments (continued)

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						
<i>Non-interest bearing</i>						
Trade payables	-	3,854	-	-	-	3,854
Accruals	-	314	-	-	-	314
Other payables	-	520	-	-	-	520
Other loans	-	375	-	-	-	375
<i>Interest-bearing - variable</i>						
Loan - Niche Dairy Pty Ltd	1.20%	-	-	-	772	772
<i>Interest-bearing - fixed rate</i>						
Loan - Niche Dairy Pty Ltd	15.00%	-	-	-	914	914
Total non-derivatives		5,063	-	-	1,686	6,749

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 28. 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	
	2020	2019
	\$	\$
Short-term employee benefits	1,502,453	1,786,691
Post-employment benefits	71,597	72,672
Long-term benefits	3,151	7,041
Termination benefits	185,728	-
	1,762,929	1,866,404

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Note 29. 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	
	2020	2019
	\$	\$
<i>Audit services - William Buck</i>		
Audit or review of the financial statements	71,500	74,000
<i>Other services - William Buck</i>		
Other assurance services	20,700	2,250
	<u>92,200</u>	<u>76,250</u>

Note 30. Contingent liabilities and contingent assets

As part of the supplier agreement with Chemist Warehouse (CW), the Company is required to issue equity on the following specific milestones:

- 5,000,000 fully paid ordinary shares on CW ranging specified products of the Company's ultra-premium certified organic A2 protein based infant formula range across the CW retail network; and
- 10,869,792 fully paid ordinary shares on CW ranging further specified products of the Company's ultra-premium certified organic A2 protein based infant formula range across the CW retail network.

As at 30 June 2020 those milestones have not been met.

Note 31. Commitments

	Consolidated	
	2020	2019
	\$'000	\$'000
<i>Capital commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	-	32,043
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	-	111
One to five years	-	144
	<u>-</u>	<u>255</u>
<i>Chemist Warehouse marketing support</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	1,200	-
One to five years	4,500	-
	<u>5,700</u>	<u>-</u>

Wattle Health Australia Limited
Notes to the financial statements
30 June 2020

Note 31. Commitments (continued)

Capital commitments as at 30 June 2019 related 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 (CBDG). As CBDG was placed into voluntary administration in August 2020, the status of the relevant contracts and commitments is not certain and therefore no amounts have been included for 30 June 2020.

Chemist Warehouse marketing support commitments arise from the Company's 10-year supply agreement with Chemist Warehouse for its full certified organic nutritional dairy range, including its premium range of Uganic infant formula and the Little Innoscents organic skin care range. Pursuant to the supply agreement, the Company will spend approximately \$A1.2 million annually in marketing support, to build brand awareness, sales and brand loyalty, over the first five years of the agreement's term.

Note 32. Related party transactions

Parent entity

Wattle Health Australia Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 34.

Key management personnel

Disclosures relating to key management personnel are set out in note 28 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 33. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2020	2019
	\$'000	\$'000
Loss after income tax	<u>(59,894)</u>	<u>(8,296)</u>
Total comprehensive loss	<u>(59,894)</u>	<u>(8,296)</u>

Wattle Health Australia Limited
Notes to the financial statements
30 June 2020

Note 33. Parent entity information (continued)

Statement of financial position

	Parent	
	2020	2019
	\$'000	\$'000
Total current assets	1,864	32,175
Total assets	17,189	55,376
Total current liabilities	6,051	2,063
Total liabilities	6,978	2,097
Equity		
Issued capital	91,726	74,900
Share-based payments reserve	12,233	12,233
Accumulated losses	(93,748)	(33,854)
Total equity	<u>10,211</u>	<u>53,279</u>

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 2020 and 30 June 2019.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 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.

Wattle Health Australia Limited
Notes to the financial statements
30 June 2020

Note 34. 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:

Name	Principal place of business / Country of incorporation	Principal activities	Parent		Non-controlling interest	
			Ownership interest 2020 %	Ownership interest 2019 %	Ownership interest 2020 %	Ownership interest 2019 %
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 (disposed of 8 January 2020)	Vietnam	Facilitate marketing and selling of Consolidated Entity's products into Vietnam	-	100.00%	-	-
Shanghai Wattle Health Trading Company Limited	China	Facilitate marketing and selling of Consolidated Entity's products into China	100.00%	100.00%	-	-
Wattle Health Australia Investments Pty Ltd	Australia	Investment	100.00%	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)

Wattle Health Australia Limited
Notes to the financial statements
30 June 2020

Note 34. 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	
	2020	2019
	\$'000	\$'000
<i>Summarised statement of financial position</i>		
Current assets	1,381	1,239
Non-current assets	15,450	17,314
Total assets	16,831	18,553
Current liabilities	8,785	2,477
Non-current liabilities	44,565	16,860
Total liabilities	53,350	19,337
Net liabilities	(36,519)	(784)
<i>Summarised statement of profit or loss and other comprehensive income</i>		
Expenses	(35,785)	(884)
Loss before income tax expense	(35,785)	(884)
Income tax expense	-	-
Loss after income tax expense	(35,785)	(884)
Other comprehensive income	-	-
Total comprehensive loss	(35,785)	(884)
<i>Statement of cash flows</i>		
Net cash used in operating activities	(2,398)	(712)
Net cash used in investing activities	(24,171)	(14,164)
Net cash from financing activities	26,321	10,000
Net decrease in cash and cash equivalents	(248)	(4,876)
<i>Other financial information</i>		
Loss attributable to non-controlling interests	(19,026)	(366)
Accumulated non-controlling interests at the end of reporting period	(19,337)	(311)

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

Note 35. Events after the reporting period

Post 30 June 2020, the Company issued a default notice under its secured loan to Corio Bay Dairy Group Pty Ltd (CBDG) following receiving a termination notice from Shepparton Collectives Partner (SPC), with the directors of CBDG subsequently placing CBDG into Voluntary Administration on 21 August 2020. WHA, under its secured loan to CBDG of circa \$44 million as at 30 June 2020 worked closely with the Administrator to obtain a sale offer for CBDG's assets, which was achieved in December 2020 (refer below).

Note 35. Events after the reporting period (continued)

On 21 October 2020, the Company announced that it had entered into a secured convertible note financing arrangement, with the key features of the convertible note as follows:

- total value of financing facility: \$3,000,000
- amount drawn down as at 21 October 2020: \$1,000,000 (before costs)
- subsequent drawdowns can be requested by the Company, subject to agreement by the noteholder (not to be unreasonably withheld)
- the issue (and therefore convertibility) of the convertible note is subject to shareholder approval pursuant to ASX listing rules. Until shareholder approval is obtained, any drawdowns including the initial \$1,000,000 is issued as a secured debt and, until shareholder approval is obtained for the issue of convertible note, the entire \$3,000,00 funding arrangement is a secured debt facility
- the secured note has a term of 12 months
- the secured note has a coupon rate of 12% per annum
- conversion price: \$0.15 (15 cents) per share
- the Company can at any time choose to repay the convertible note financing, with the note holders having the right on the issue of a redemption notice by the Company to convert the convertible note into fully paid ordinary shares
- the convertible note financing is secured by general and specific security deeds over all of the Company's assets
- the Company will seek shareholder approval for the issue of the convertible note by no later than 31 March 2021

On 9 November 2020 the Company announced that Dr Tony McKenna had resigned as Chief Executive Officer and Director of the Company, and that Mr George Karafotias had been appointed as Executive Director.

On 18 December 2020 the Company announced that:

- a binding offer from Korean Dairy Company Maeil Dairies Co. Ltd for the purchase of the assets of Corio Bay Dairy Group Limited (**CBDG**) for \$13.5 million had been received by CBDG's Administrator; and
- the Company had consented to partially release its first ranking security over the assets of CBDG at settlement anticipated January 2021.

No other matter or circumstance has arisen since 30 June 2020 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.

Wattle Health Australia Limited
Notes to the financial statements
30 June 2020

Note 36. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2020	2019
	\$'000	\$'000
Loss after income tax expense for the year	(65,443)	(10,341)
Adjustments for:		
Depreciation and amortisation	226	100
Impairment of property, plant and equipment	27,842	-
Impairment of goodwill	404	-
Impairment of intangibles	300	-
Share-based payments	13,001	240
Foreign exchange differences	(11)	-
Write off of ODFA exclusivity and management fee	4,200	-
Write off of prepayments for supply of raw materials	3,184	-
ODFA prepayment write off	1,500	-
Write off non-refundable deposit on proposed Blend & Pack acquisition	1,481	-
Bad debts written off	264	86
Write off of inventories	-	1,464
Other asset write offs	84	-
Write down of fair value of investments	5,027	-
Reclassification of share issue payments from operating to finance	246	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	68	(337)
Increase in finished goods inventory	(339)	(171)
Decrease/(increase) in prepayments	(325)	122
(Increase) in deposits	314	(4,232)
Increase in trade and other payables	501	377
Increase in provisions	(94)	18
Net cash used in operating activities	<u>(7,570)</u>	<u>(12,674)</u>

Note 37. Loss per share

	Consolidated	
	2020	2019
	\$'000	\$'000
Loss after income tax	(65,443)	(10,341)
Non-controlling interest	19,177	430
Loss after income tax attributable to the owners of Wattle Health Australia Limited	<u>(46,266)</u>	<u>(9,911)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>204,602,406</u>	<u>194,503,140</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>204,602,406</u>	<u>194,503,140</u>
	Cents	Cents
Basic loss per share	(22.61)	(5.10)
Diluted loss per share	(22.61)	(5.10)

Wattle Health Australia Limited
Notes to the financial statements
30 June 2020

Note 37. Loss per share (continued)

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 38. Share-based payments

Options

The consolidated entity may issue options to service 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 (Prosperre 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. These options expired unexercised during the year ended 30 June 2020.

Set out below are summaries of options granted:

2020							
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	\$0.00	4,687,500	-	-	(4,687,500)	-
			<u>4,687,500</u>	<u>-</u>	<u>-</u>	<u>(4,687,500)</u>	<u>-</u>
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
			<u>4,687,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,687,500</u>
Weighted average exercise price			\$1.60	\$0.00	\$0.00	\$0.00	\$1.60

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

Grant date	Expiry date	2020 Number	2019 Number
18/06/2018	18/06/2020	-	4,687,500
		<u>-</u>	<u>4,687,500</u>

The weighted average remaining contractual life of options outstanding at the end of the financial year was Nil (2019: 0.97).

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).

Note 38. Share-based payments (continued)

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 \$Nil was recorded for the year ended 30 June 2020 in relation to the issues of LFS (2019: \$239,908).

Note 39. Fair value measurement

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Investments in unquoted companies at fair value through profit or loss	-	-	1,100	1,100
Total assets	-	-	1,100	1,100
Consolidated - 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Investments in unquoted companies at fair value through profit or loss	-	-	6,127	6,127
Total assets	-	-	6,127	6,127

Note 39. Fair value measurement (continued)

There were no transfers between levels during the financial year.

Valuation techniques for fair value measurements categorised within level 2 and level 3

The basis of the valuation of unquoted investments is fair value using the following technique(s):

- The company utilises comparable trading multiples in arriving at the valuation for these positions. Management determines comparable public companies (peers) based on industry, size, developmental stage and strategy. Management then calculates a trading multiple for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by its earnings before interest, taxes, depreciation and amortisation (EBITDA). The trading multiple is then discounted for considerations such as illiquidity and differences between the comparable companies based on company specific facts and circumstances.

Level 3 assets

Movements in level 3 assets during the current and previous financial year are set out below:

Consolidated	Investments in unquoted companies at fair value through profit or loss \$'000
Balance at 1 July 2018	5,119
Additions	1,008
Balance at 30 June 2019	6,127
Losses recognised in profit or loss	(5,027)
Balance at 30 June 2020	<u>1,100</u>

The level 3 assets and liabilities unobservable inputs and sensitivity are as follows:

Description	Unobservable inputs	Sensitivity
Investments in unquoted companies at fair value through profit or loss - shares in Blend and Pack and shares in RMC	EBITDA multiple	A change of 1 in the EBITDA multiple would increase/decrease fair value by \$107,000

Note 40. Variation from Preliminary Final Report

Subsequent to the release of the consolidated entity's Preliminary final report (**Appendix 4E**), the Administrator of Corio Bay Dairy Group Pty Ltd (CBDG) continued work on the marketing of CBDG's assets. The information arising from this marketing process has between the date of release of the Preliminary final report and the date of release of this Annual report has enabled management to reassess its estimate of the fair value less costs of disposal of those assets.

This has resulted in management revising downward its estimate of the fair value of these assets by \$6,500,000, from \$20,000,000, as disclosed in the Appendix 4E, to \$13,500,000 in this Annual report, with consequent reductions in the consolidated entity's:

- Total assets, from \$25,727,000, as disclosed in the Appendix 4E, to \$19,227,000 in this Annual report; and
- Net assets, from \$9,321,000, as disclosed in the Appendix 4E, to \$2,821,000 in this Annual report .

Consequently, the Impairment loss on Property, plant and equipment under construction, recorded as \$21,342,000 in the Appendix 4E, has been increased by \$6,500,000 to \$27,842,000 in this Annual report, with a consequent increase in the consolidated entity's Loss after income tax, from \$58,943,000, as disclosed in the Appendix 4E, to \$65,443,000 in this Annual report.

Wattle Health Australia Limited
Directors' declaration
30 June 2020

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 2020 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



Mr George Karafotias
Executive Director

21 December 2020
Melbourne

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 2020, 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 2020 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 (including Independence Standards)* (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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the financial report, which indicates that the Group has incurred a loss before tax of \$65,443,000 for the year ended 30 June 2020 and net operating cash outflows during the same period amounted to \$7,570,000. As a result, the continuing viability of the Group is dependent upon continued support of shareholders, successfully raising further capital, its revenue growth and cost containment strategies.

ACCOUNTANTS & ADVISORS

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These conditions, along with other matters as set forth in Note 2 indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

SHARE BASED PAYMENT – COMMERCIAL TRANSACTION	
Area of focus Refer also to notes 2, 3, 24 and 31	How our audit addressed it
<p>A long term supply agreement with Chemist Warehouse Retail Group (Chemist Warehouse) was entered into by the Group on 6 December 2019, which was effective from 1 March 2020.</p> <p>As detailed in the agreement, 18,869,792 fully paid ordinary shares will be issued by the Group to Chemist Warehouse, of which 3,000,000 were issued as at 30 June 2020. The fully paid ordinary shares are subject to Chemist Warehouse providing equivalent value in marketing support.</p> <p>This transaction was determined to be accounted for in accordance with AASB 2 <i>Share-based Payments</i>.</p> <p>The valuation of the shares to be issued requires significant judgment and expertise.</p> <p>In addition, the Group is required to pay a fee for marketing to build brand awareness, sales and brand loyalty.</p> <p>The Group's key judgements and estimates are disclosed in Note 3 of the financial report.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — Reviewing the terms of the supply agreement; — Assessing whether the expense recorded was in accordance with Australian Accounting Standards, in respect of the shares to be issued by the Group to Chemist Warehouse; — Agreeing the material terms and conditions of each share-based payment arrangement to documentation; — Assessing the inputs in the calculation of share-based payments arrangements; — Assessing the assumptions used in determining the fair value of the shares at grant date, including the share price of the underlying equity and dividend yield; and — Reviewing the appropriateness of the disclosure impact of the share-based payment arrangements in the financial report.

PROPERTY, PLANT AND EQUIPMENT

Area of focus Refer also to notes 2, 3, 7, 15 and 35	How our audit addressed it
<p>On the 21st August 2020, CBDG was placed into Voluntary Administration and as such a material adjusting subsequent event took place which saw the value of all non-current assets reassessed to their estimated recoverable value based on a realisation basis rather than expected use.</p> <p>During the financial year the Group had made significant investment in the design and construction of an 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 (CBDG).</p> <p>As the works were classified as capital-work-in progress, no depreciation was expensed in the current financial year.</p> <p>Based on a binding offer for the purchase of the assets of CBDG received by the CBDG administrator, a value of the fair value less costs of disposal of \$13.5 million has been determined for all property, plant and equipment, including the drying facility under construction. As a result, an impairment loss for property, plant and equipment under construction of \$27.5 million has been recognised.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — Vouching material acquisition of land and buildings 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; — Reviewing third party support to verify that the binding offer of \$13.5 million was accurate in concluding that the recoverable value of the assets were appropriate at 30 June 2020; and — We have also assessed the adequacy of disclosures in relation to property, plant and equipment and subsequent events in the Notes to the financial report.

CLASSIFICATION AND VALUATION OF INVESTMENT IN BLEND AND PACK PTY LTD

Area of focus Refer also to notes 2, 3, 7 and 14	How our audit addressed it
<p>On 4 July 2017 the Group acquired 5% of the issued ordinary shares of Blend and Pack Pty Ltd (B&P).</p> <p>In the prior year it was determined that the interest in B&P has been accounted for as an investment which the Group has chosen to hold at fair value through profit and loss.</p> <p>As the acquisition of an additional 75% of (B&P) share capital did not complete as planned. the original purchase price stake is no longer the most appropriate and reliable valuation for the investment and varied the valuation methodology to a comparable trading multiple approach. As at 30 June 2020, the revised fair value of the investment resulted in an impairment of \$4.1 million being recorded.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> — Determining that the investment was valued appropriately and in line with <i>AASB 13 – Fair Value Measurement</i>. — As part of this assessment we assessed the assumptions used in concluding that carrying value was appropriate at 30 June 2020 including the EBITDA multiple; and — We have also assessed the adequacy of disclosures in relation to the investment in the Notes to the financial report.

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 2020, 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.

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 2020.

In our opinion, the Remuneration Report of Wattle Health Australia Limited, for the year ended 30 June 2020, 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

A. A. Finnis

Director

Melbourne, 21 December 2020

Wattle Health Australia Limited
Shareholder information
30 June 2020

The shareholder information set out below was applicable as at 14 December 2020.

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 fully paid ordinary shares No.	Percentage of ordinary shares held by holders in this range %
1 to 1,000	1,419	-
1,001 to 5,000	1,987	2
5,001 to 10,000	872	3
10,001 to 100,000	1,280	16
100,001 and over	267	79
	<u>5,825</u>	<u>100</u>
Holding less than a marketable parcel	<u>1,144</u>	<u>-</u>

Wattle Health Australia Limited
Shareholder information
30 June 2020

The total number of fully paid ordinary shares on issue is 244,086,936.

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 % of total shares issued
	Number held
WATTLE TRADING PTY LTD	22,027,890
GGP INVESTMENTS PTY LTD (GGP SUPERANNUATION FUND A/C)	19,292,760
MONEX BOOM SECURITIES (HK) LTD (CLIENTS ACCOUNT)	17,750,302
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	12,170,500
JAMATA PTY LTD + LLEA LK PTY LTD (LMB WATTLE TRADING UNIT A/C)	11,986,844
BRILLIANT RIVER LIMITED	7,480,801
CITICORP NOMINEES PTY LIMITED	6,016,641
NO BULL HEALTH PTY LTD	4,000,000
TNL GROUP PTY LTD (LKAK INVESTMENT A/C)	4,000,000
CW RETAIL HOLDINGS PTY LTD (CW RETAILS HOLDINGS A/C)	3,000,000
JAMATA PTY LTD WILLIAMS FAMILY TRUST (WILLIAMS FAMILY A/C)	3,000,000
MR DAVID JAMES STEWART	2,566,667
MR GEORGE KARAFOTIAS	2,103,630
ACEE GROUP PTY LTD	1,872,371
ELZED HOLDINGS PTY LTD	1,812,500
SKANDALELLIS PTY LTD (SKANDA SUPER FUND A/C)	1,676,667
MICHAEL JEFFREY	1,666,667
FIRST INVESTMENT PARTNERS PTY LTD	1,333,333
JB ADVISORY PTY LIMITED	1,306,578
AFTHARTOS PTY LTD CHRIKOM DISCRETIONARY A/C	1,103,208
	<u>126,167,359</u>
	<u>51.68</u>

Unquoted equity securities

There are no unquoted equity securities.

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares % of total shares issued
	Number held
Lazarus Karasavvidis*	38,014,734
Martin Glenister*	37,014,734
Ian Ollifent	19,292,760
Mason Strategic Investments (Asia) Limited and its holding companies	18,105,303

- * 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.

Wattle Health Australia Limited
Shareholder information
30 June 2020

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	<u>632,500</u>
		<u><u>862,500</u></u>

Other information

There is no current on-market buy-back of the Company's securities.

The Company's Company Secretary is Mr Kobe Li.