Wattle Health Australia Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Wattle Health Australia Limited
ABN:	77 150 759 363
Reporting period:	For the year ended 30 June 2020
Previous period:	For the year ended 30 June 2019

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2. Results for announcement to the market

				$'000
Revenue and other income from ordinary activities	up	1.1%	to	1,107
Loss from ordinary activities after tax attributable to the owners of Wattle Health Australia Limited	up	337.3%	to	*(43,341)
Loss for the year attributable to the owners of Wattle Health Australia Limited	up	337.3%	to	*(43,341)

Comments
**On 21 August Corio Bay Dairy Group (CBDG) placed into administration by WHA. WHA is the only secured creditor of CBDG. As a result of being under administration CBDG asset needs to be written down in WHA FY2020 Financials. As the only secured creditor of CBDG, WHA is working with administrators to maximise value for shareholders. Administration outcomes include options that could see the asset returned to WHA, or the asset being liquidated or sold with the proceeds returned to WHA, or WHA negotiating a new commercial arrangement/JV to complete the project.*

The loss for the consolidated entity after providing for income tax and non-controlling interest amounted to $43,341,000 (30 June 2019: $9,911,000).

Dividends
There were no dividends paid, recommended or declared during the current financial period.

Financial Performance

Sales revenue for the period was $1.04 million (30 June 2019: $0.88 million), an increase of 18% 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 loss for the period was $58.94 million (30 June 2019: $10.34 million) 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. As the only secured creditor of CBDG, WHA is working with administrators to maximise value for shareholders. The administration outcomes include options that will see the asset returned to WHA, or the asset liquidated or sold with the proceeds coming to WHA, or WHA accepting a new commercial arrangement/JV to complete the project.

Securities for the terminated Blend and Pack transaction and write off of prepayments made to ODFA by CBDG also contributed one-off adjustments to the loss.

Financial Position

The net assets of the entity for the period was $9.32 million (30 June 2019: $51.4 million), mainly reflecting non cash write downs of circa $49 million and current liabilities of CBDG of circa $8.5 million. Borrowings of the group are in relation to funds being advanced to CBDG and the Company having agreed to convert borrowings to equity subject to shareholder approval.

Review of operations

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.

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. Wattle Health Australia Limited (the Company) under its secured loan of circa $44 million as at 30 June 2020. This process will provide the Administrators and WHA with time to assess a range of opportunities to realise the best outcome for all stakeholders.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	3.58	25.60

4. Control gained over entities and date control gained

Not applicable.

5. Loss of control over entities

Name of entities (or group of entities)	Wattle Health Australia (Vietnam Co. Ltd
Date control lost	8 January 2020

	$'000
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)	(46)
Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) whilst controlled during the whole of the previous period (where material)	(50)

6. Dividends

Current period
There were no dividends paid, recommended or declared during the current financial period.

Previous period
There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

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9. Foreign entities

The consolidated entity includes:

- Wattle Health Australia (Vietnam) Co. Ltd, a wholly-owned subsidiary incorporated in Vietnam, which was disposed of by the consolidated entity on 8 January 2020; and
- Shanghai Wattle Health Trading Company Limited, a wholly-owned subsidiary incorporated in China.

The financial statements of these companies are prepared in accordance with International Financial Reporting Statements.

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10. Audit qualification or review

This report, and the accompanying financial statements, are based upon accounts which are in the process of being audited.

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11. Attachments

Unaudited summary consolidated financial statements for Wattle Health Australia Limited and its controlled entities for the year ended 30 June 2020 are attached.

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12. Signed

Signed ____________________ Date: 31 August 2020

Dr Tony McKenna
Managing Director

Wattle Health Australia Limited

ABN 77 150 759 363

Summary Financial Information - 30 June 2020

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

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
Revenue		1,048	887
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 expense		(441)	(240)
Employee benefits expense		(2,271)	(3,378)
Selling, marketing and distribution expenses		(3,272)	(2,366)
Amortisation expense		(226)	(100)
Impairment of assets	2	(16,360)	(1,550)
Impairment of plant and equipment	2	(21,342)	-
Transaction termination fee (share based payment)	3	(11,360)	-
Occupancy costs		-	(264)
Finance costs		(860)	(25)
Loss before income tax expense		(58,943)	(10,341)
Income tax expense		-	-
Loss after income tax expense for the year		(58,943)	(10,341)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(58,943)	(10,341)
Loss for the year is attributable to:			
Non-controlling interest		(15,602)	(430)
Owners of Wattle Health Australia Limited		(43,341)	(9,911)
		(58,943)	(10,341)
Total comprehensive loss for the year is attributable to:			
Non-controlling interest		(15,602)	(430)
Owners of Wattle Health Australia Limited		(43,341)	(9,911)
		(58,943)	(10,341)
		Cents	**Cents**
Basic loss per share		(21.50)	(5.10)
Diluted loss per share		(21.50)	(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	Consolidated 2019 $'000
Assets			
Current assets			
Cash and cash equivalents		1,118	18,317
Trade and other receivables		831	2,039
Finished goods inventory		951	612
Investments	4	25	9,765
Prepayments and other	5	342	3,517
Total current assets		3,267	34,250
Non-current assets			
Other financial assets	6	1,121	6,148
Property, plant and equipment	7	20,003	12,389
Right-of-use assets		742	-
Intangibles		487	897
Other	8	107	4,695
Total non-current assets		22,460	24,129
Total assets		25,727	58,379
Liabilities			
Current liabilities			
Trade and other payables	9	10,510	4,687
Borrowings	10	4,121	375
Lease liabilities		225	-
Employee benefit provisions		93	159
Total current liabilities		14,949	5,221
Non-current liabilities			
Borrowings	11	906	1,686
Lease liabilities		544	-
Employee benefit provisions		7	34
Total non-current liabilities		1,457	1,720
Total liabilities		16,406	6,941
Net assets		9,321	51,438
Equity			
Issued capital	12	91,726	74,900
Reserves		12,233	12,233
Accumulated losses		(78,830)	(35,489)
Equity attributable to the owners of Wattle Health Australia Limited		25,129	51,644
Non-controlling interest		(15,808)	(206)
Total equity		9,321	51,438

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	-	-	(43,341)	(15,602)	(58,943)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive loss for the year	-	-	(43,341)	(15,602)	(58,943)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs (note 12)	16,826	-	-	-	16,826
Balance at 30 June 2020	91,726	12,233	(78,830)	(15,808)	9,321

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	-
Net cash used in operating activities		(7,570)	(12,674)
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	-
Net cash used in investing activities		(16,922)	(24,852)
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)	-
Net cash from financing activities		7,282	-
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	-
Cash and cash equivalents at the end of the financial year		1,118	18,317

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

Note 1. Significant accounting policies

This financial report has been prepared in accordance with International Financial Reporting Standards, other authoritative pronouncements and Interpretations of the Australian Accounting Standards Board and the Corporations Act 2001.

This financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2019, the 31 December 2019 half-year financial report and any public announcements made by the Consolidated entity during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as noted below.

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.

	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
	790
Lease liabilities - current (AASB 16)	(180)
Lease liabilities - non-current (AASB 16)	(610)
	(790)
Impact on opening retained profits as at 1 July 2019	-

Note 1. Significant accounting policies (continued)

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.

Note 2. Expenses – Impairment of assets

(a) Impairment of assets

	Consolidated	
	2020 $'000	2019 $'000
Write off of ODFA exclusivity and management fee	4,200	-
Impairment of investment in Blend & Pack Pty Ltd	4,127	-
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 investment in Remarkable Milk Company Pty Ltd	900	-
Impairment of Little Innoscents goodwill	404	-
Write off of spray Dryer intellectual property	300	-
Impairment of trade receivables	264	86
	16,360	1,550

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

Note 2. Expenses - asset write offs and impairments (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.
- Impairment 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 an impairment loss of $4,127,000 was recognised. The $4,127,000 impairment charge has been recorded in the consolidated entity's statement of profit and loss for 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 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 impairment loss of $900,000 was recognised. The $900,000 impairment charge has been recorded in the consolidated entity's statement of profit and loss for the year ended 30 June 2020.
- 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) Impairment of property, plant and equipment under construction

	Consolidated	
	2020 $'000	2019 $'000
Impairment loss on CBDG property, plant and equipment under construction	21,342	-

Following the placement of Corio Bay Dairy Group Pty Ltd in voluntary administration after the end of the financial year, 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 $20,000,000 and agreed to restate these assets to that value by recognising an impairment loss on Property, plant and equipment under construction of $21,342,000 as at 30 June 2020.

Note 3. 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 4. Current assets - investments

	Consolidated 2020 $'000	Consolidated 2019 $'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 5. Current assets - Prepayments and other

	Consolidated 2020 $'000	Consolidated 2019 $'000
Prepayments	342	3,369
Other current assets	-	148
	342	3,517

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.

Note 6. Non-current assets - other financial assets

	Consolidated 2020 $'000	Consolidated 2019 $'000
Investment - Blend and Pack	5,127	5,127
Less: Impairment	(4,127)	-
	1,000	5,127
Investment - Remarkable Milk Company	1,000	1,000
Less: Impairment	(900)	-
	100	1,000
Long-term bank deposits	21	21
	1,121	6,148

Note 6. Non-current assets - other financial assets (continued)

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 at that date and a provision for impairment of $4,127,000 was recognised. The $4,127,000 impairment charge has been recorded in the consolidated entity's statement of profit and loss for the year ended 30 June 2020.

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, the Board determined that the fair value of the Company's investment in RMC was $100,000 at that date and a provision for impairment of $900,000 was recognised. The $900,000 impairment charge has been recorded in the consolidated entity's statement of profit and loss for the year ended 30 June 2020.

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 7. 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	17,807	10,280
	20,003	12,389

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

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	-	(21,342)	-	(21,342)
Balance at 30 June 2020	2,100	17,807	96	20,003

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

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

Following the placement of Corio Bay Dairy Group Pty Ltd in voluntary administration after the end of the financial year, 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 $20,000,000 and agreed to restate these assets to that value by recognising an impairment loss on Property, plant and equipment under construction of $21,342,000 as at 30 June 2020.

Note 8. Non-current assets - other

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

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 9. Current liabilities - trade and other payables

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

Note 10. Current liabilities - borrowings

	Consolidated	
	2020 $'000	2019 $'000
Loans - other	4,121	375

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.

Note 11. Non-current liabilities - borrowings

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

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

During the year ended 30 June 2020, Wattle Health Australia agreed with Niche to take over part of the loan made by Niche to Corio Bay CBDG. Therefore, the relevant part of that loan is now payable by CBDG to Wattle Health Australia, rather than Niche . 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.

Note 12. Equity - issued capital

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

Note 12. Equity - issued capital (continued)

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 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

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.

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 13. Commitments

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

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 14. 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 of circa $44 million as at 30 June 2020 will work closely with the Administrator to maximise both the return and value to the Company.

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.