

1. Company details

Name of entity:	Wattle Health Australia Limited
ABN:	77 150 759 363
Reporting period:	For the half-year ended 31 December 2020
Previous period:	For the half-year ended 31 December 2019

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	54.2% to	714
Profit/(loss), before tax and derecognition of non-controlling interest upon deconsolidation of CBDG, of consolidated entity	up	126.9% to	2,569
Loss from ordinary activities after tax attributable to the owners of Wattle Health Australia Limited	up	75.7% to	(16,787)

Dividends

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

Comments

The consolidated entity recorded a profit before de-recognition of non-controlling interest of \$2,569,000.

The loss for the consolidated entity after providing for income tax and non-controlling interest amounted to \$16,787,000 (31 December 2019: \$9,553,000).

Financial Performance

The loss of \$16,787,000 for the consolidated entity includes a non-recurrent loss on de-recognition of non-controlling interest of \$14,792,000. This loss on de-recognition of non-controlling interest arose upon the consolidated entity's deconsolidation of Corio Bay Dairy Group Pty Ltd during the half year ended 31 December 2020.

Revenue for the period was \$714,000 an increase of 54.2% on the prior corresponding period 31 December 2019: \$463,000. The increase in revenue was a result in improved sales in both Wattle Health's Uganic and Little Innoscents brands.

The consolidated entity's operating result was positively impacted by the disposal of the Corio Bay Dairy Group Pty Ltd (CBDG) with a profit before loss on derecognition of non-controlling interest of \$2.57 million (31 December 2019: \$9.89 million loss). The Consolidated entity performance was further improved due to the reduction of operating cash expenses with cashflow from operating activities of (\$2,256,000) (31 December 2019: (\$6,946,000)) a reduction of 67.5%.

Financial Position

The net assets of the entity at 31 December 2020 was \$5.3 million (30 June 2020: \$2.8 million) an increase of 89%, mainly reflecting the de-consolidation of Corio Bay Dairy Group from the Group. The Net Current Assets of the Group was \$3.7 million (30 June 2020: (\$11.7 million deficit) with borrowings of the group, in relation to funds being advanced to CBDG, being agreed to be converted into equity subject to shareholder approval.

Review of operations

Period of Challenges and Opportunities

The half year period has presented Wattle Health with challenges with the Company overcoming these to be in a strong position to take advantage of the various opportunities in the health and wellness market. The disposal of Corio Bay Dairy Group and the restructure of Wattle Health has placed the group in a strong financial position to move forward positively.

Brand development

Since the launch of Uganic in Chemist Warehouse in March 2020, despite the challenges caused by the disruption of Covid-19 in both the diagog and CBEC channels, both brand awareness and sales continue a positive trajectory.

Uganic continues its expansion of distribution channels in the domestic market, with its ranging in over 400 retail stores across the Chemist Warehouse retail chain, this was enhanced in December 2020 with a supply agreement signed with national pharmacy retailer, Australian Pharmaceuticals Industries.

Wattle Health, under the Supply Agreement with Chemist Warehouse, launched and ranged new products under Uganic (organic whole and skim milk powder) in October 2020.

Uganic is expanding its presence internationally with a licensing agreement signed with first orders placed with Verdure Trading in December 2020 for the Middle East market. This is a testament to the growing brand awareness in the domestic market which will allow Wattle Health to look at additional international markets for the Uganic brand.

Little Innoscents continues to grow in sales both domestically and internationally, with month on month increases in sales, leveraging off our ranging in Chemist Warehouse has resulted in growing brand awareness.

Little Innoscents has seen an increase in activity in international market, primarily in Vietnam, and with expanding domestic presence in the domestic market with ranging secured in Australian Pharmaceuticals Industries in December 2020, we anticipate continued growth moving forward.

Other matters

On 21 October 2020, Wattle Health raised \$3 million via a Convertible loan subsequently increased to \$3.5 million through Reach Corporate. The terms of the Convertible Loan are for a term of 12 months with a coupon rate of 12% converting into fully paid ordinary shares at \$0.15 (subject to shareholder approval). The Company also agreed to issue a total of 20 million options (subject to shareholder approval) with an exercise price of \$0.175 expiring 30 September 2023.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>1.99</u>	<u>20.91</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Name of entities (or group of entities) Corio Bay Dairy Group Pty Ltd

Date control lost 21 August 2020

\$'000

Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period	8,364
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	(497)

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

9. Foreign entities

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

The consolidated entity includes:

- 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.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Half-year financial report.

11. Attachments

Details of attachments (if any):

The Half-year financial report of Wattle Health Australia Limited for the half-year ended 31 December 2020 is attached.

12. Signed



Signed _____

Date: 24 March 2021

George Karafotias
Executive Director

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Wattle Health Australia Limited

ABN 77 150 759 363

Half-year financial report - 31 December 2020

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Directors	Eric Jiang (Non-Executive Director) Kobe Li (Non-Executive Director) George Karafotias (Executive Director)
Company secretary	Kobe Li
Registered office	Level 21, 459 Collins Street Melbourne VIC 3000 Phone: +61 3 8399 9419
Principal place of business	Level 21, 459 Collins Street Melbourne VIC 3000
Share register	Computershare Investor Services Pty Ltd Yarra Falls, 452 Johnston Street Abbotsford VIC 3067 Phone: 1300 555 159 (within Australia) Phone: +61 3 9415 4062
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	https://www.wattlehealth.com.au

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 half-year ended 31 December 2020.

The information in this report should be read in conjunction with the most recent annual financial report, being the report for the year ended 30 June 2020.

Directors

The following persons were directors of Wattle Health Australia Limited during the whole of the financial half-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 (Executive Director) (appointed 9 November 2020)
Dr Tony McKenna (Managing Director) (resigned 9 November 2020)

Principal activities

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

- Sale and Development of Health and Wellness products.

Dividends

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

Review of operations

The loss for the consolidated entity after providing for income tax and non-controlling interest amounted to \$16,787,000 (31 December 2019: \$9,553,000).

The consolidated entity recorded a profit before de-recognition of non-controlling interest of \$2,569,000.

Financial performance and position

Financial Performance

The loss of \$16,787,000 for the consolidated entity includes a non-recurrent loss on de-recognition of non-controlling interest of \$14,792,000. This loss on de-recognition of non-controlling interest arose upon the consolidated entity's deconsolidation of Corio Bay Dairy Group Pty Ltd during the half year ended 31 December 2020.

Revenue for the period was \$714,000 (31 December 2019: \$463,000) an increase of 54.2%, with increase in sales in both Wattle Health's Uganic and Little Innoscents brands despite challenging market conditions due to Covid-19 (primarily due to the disruption of the diagou and CBEC channels).

The consolidated entity's operating result was positively impacted by the disposal of the Corio Bay Dairy Group Pty Ltd (CBDG) with a profit before loss on derecognition of non-controlling interest of \$2.57 million (31 December 2019: \$9.89 million loss). The Consolidated entity performance was further improved due to the reduction of operating cash expenses with cashflow from operating activities of (\$2,256,000) (31 December 2019: (\$6,946,000)) a reduction of 67.5%.

Excluding the impact of the loss on derecognition of non-controlling interest upon deconsolidation of CBDG, the consolidated entity made an operating profit before tax of \$2,569,000, as follows:

	\$'000
Loss from operations of consolidated entity	(3,877)
Gain on deconsolidation of CBDG attributed to the owners of Wattle Health Australia Limited	6,446
Profit before tax and derecognition of non-controlling interest upon deconsolidation of CBDG	<u>2,569</u>
Loss on derecognition of non-controlling interest upon deconsolidation of CBDG	<u>(14,792)</u>
Loss after income tax expense for the half-year	<u>(12,223)</u>

The loss on derecognition of non-controlling interest upon deconsolidation of \$14.79 million effectively reflects the impairment charges recorded in the consolidated entity's financial statements during the year ended 30 June 2020, and previously attributed to non-controlling interest, which must now be recorded through the consolidated entity's profit and loss, in accordance with accounting standards, due to the derecognition of that non-controlling interest following the deconsolidation of CBDG (refer Note 5 to the financial statements).

Financial Position

The net assets of the entity at 31 December 2020 was \$5.3 million (30 June 2020: \$2.8 million) an increase of 89%, mainly reflecting the de-consolidation of Corio Bay Dairy Group from the Group. The Net Current Assets of the Group was \$3.7 million (30 June 2020: (\$11.7 million deficit) with borrowings of the group, in relation to funds being advanced to CBDG, being agreed to be converted into equity subject to shareholder approval.

Period of Challenges and Opportunities

The period has presented Wattle Health with challenges with the Company overcoming these to be in a strong position to take advantage of the various opportunities in the health and wellness market. The disposal of Corio Bay Dairy Group and the restructure of Wattle Health has placed the group in a strong financial position to move forward positively.

Brand development

Since the launch of Uganic in Chemist Warehouse in March 2020, despite the challenges caused by the disruption of Covid-19 in both the diagogu and CBEC channels, both brand awareness and sales continue a positive trajectory.

Uganic continues its expansion of distribution channels in the domestic market, with its ranging in over 400 retail stores across the Chemist Warehouse retail chain, this was enhanced in December 2020 with a supply agreement signed with national pharmacy retailer, Australian Pharmaceuticals Industries.

Wattle Health, under the Supply Agreement with Chemist Warehouse, launched and ranged new products under Uganic (organic whole and skim milk powder) in October 2020.

Uganic is expanding its presence internationally with a licensing agreement signed with first orders placed with Verdure Trading in December 2020 for the Middle East market. This is a testament to the growing brand awareness in the domestic market which will allow Wattle Health to look at additional international markets for the Uganic brand.

Little Innoscents continues to grow in sales both domestically and internationally, with month on month increases in sales, leveraging off our ranging in Chemist Warehouse has resulted in growing brand awareness.

Little Innoscents has seen an increase in activity in international market, primarily in Vietnam, and with expanding domestic presence in the domestic market with ranging secured in Australian Pharmaceuticals Industries in December 2020, we anticipate continued growth moving forward.

Other matters

On 31 August 2020 the directors of Corio Bay Dairy Group (CBDG) placed CBDG into voluntary administration after Wattle Health issued a letter of default to CBDG. In December 2020 the administrators of CBDG entered into a binding transaction for the sale of the assets of CBDG for \$13.5 million. Wattle Health under its first ranking secured charge will receive the proceeds from the sale minus the cost of the administration process. This has released Wattle Health from large future obligation and the disposal of an underperforming asset.

On 21 October 2020, Wattle Health raised \$3 million via a Convertible loan subsequently increased to \$3.5 million through Reach Corporate. The terms of the Convertible Loan are for a term of 12 months with a coupon rate of 12% converting into fully paid ordinary shares at \$0.15 (subject to shareholder approval). The Company also agreed to issue a total of 20 million options (subject to shareholder approval) with an exercise price of \$0.175 expiring 30 September 2023.

Board and management changes

Tony McKenna resigned as Managing Director and Chief Executive Officer on 9 November 2020. George Karafotias was appointed as Executive Director on 9 November 2020.

Significant changes in the state of affairs

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:

- total value of financing facility: \$3,500,000
- amount drawn down as at 31 December 2020: \$3,000,000 (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 \$3,000,000 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 30 June 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 after December 2020.

There were no other significant changes in the state of affairs of the consolidated entity during the reporting period.

Matters subsequent to the end of the financial half-year

On 14 January 2021 the Company announced that it would buy back and cancel 13,437,500 fully paid ordinary shares (**Loan Shares**) which were originally issued in December 2017 to directors and employees pursuant to the Company's Employee Share Loan Plan. The buy back and share cancellation was completed on 4 February 2021.

On 12 February 2021 the Company announced that it had entered into an agreement to acquire the remaining 20% of its 80%-owned subsidiary, Little Innoscents Pty Ltd (**LI**), for \$200,000, taking its ownership of LI to 100%.

As at the date of this report approximately \$11 million of the CBDG loan has been received by the consolidated entity, with the remainder expected to be received during the June 2021 quarter.

No other matter or circumstance has arisen since 31 December 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.

Rounding of amounts

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

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

On behalf of the directors



George Karafotias
Executive Director

24 March 2021

**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 half-year ended 31 December 2020 there have been:

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

William Buck

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

A. A. Finnis

A. A. Finnis
Director

Melbourne, 24 March 2021

ACCOUNTANTS & ADVISORS

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Wattle Health Australia Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2020



		Consolidated	
	Note	31 December 2020	31 December 2019
		\$'000	\$'000
Revenue from sale of goods		714	463
Interest revenue calculated using the effective interest method		-	54
Expenses			
Raw materials and consumables used		(274)	(399)
Administrative and corporate expenses		(1,512)	(2,269)
Employee benefits expense		(878)	(1,848)
Selling, marketing and distribution expenses		(1,250)	(1,437)
Depreciation and amortisation expense		(59)	(104)
Loss on disposal of CBDG	5	(8,346)	-
Write off of assets and other losses	6	(210)	(3,515)
Finance costs		(408)	(838)
Profit/(loss) before income tax expense		<u>(12,223)</u>	<u>(9,893)</u>
Income tax expense		-	-
Loss after income tax expense for the half-year		(12,223)	(9,893)
Other comprehensive loss for the half-year, net of tax		-	-
Total comprehensive loss for the half-year		<u><u>(12,223)</u></u>	<u><u>(9,893)</u></u>
Gain/(loss) for the half-year is attributable to:			
Non-controlling interest		4,564	(340)
Owners of Wattle Health Australia Limited		(16,787)	(9,553)
		<u>(12,223)</u>	<u>(9,893)</u>
Total comprehensive gain/(loss) for the half-year is attributable to:			
Non-controlling interest		4,564	(340)
Owners of Wattle Health Australia Limited		(16,787)	(9,553)
		<u>(12,223)</u>	<u>(9,893)</u>
		Cents	Cents
Basic loss per share	14	(6.88)	(4.91)
Diluted loss per share	14	(6.88)	(4.91)

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 31 December 2020



		Consolidated	
	Note	31 December 2020 \$'000	30 June 2020 \$'000
Assets			
Current assets			
Cash and cash equivalents		110	1,118
Trade and other receivables	7	12,456	831
Inventories		1,152	951
Investments		-	25
Prepayments and other		37	342
Total current assets		<u>13,755</u>	<u>3,267</u>
Non-current assets			
Other financial assets		1,100	1,121
Property, plant and equipment	8	-	13,503
Right-of-use assets		145	742
Intangibles		487	487
Other		-	107
Total non-current assets		<u>1,732</u>	<u>15,960</u>
Total assets		<u>15,487</u>	<u>19,227</u>
Liabilities			
Current liabilities			
Trade and other payables		1,881	10,510
Borrowings	9	8,042	4,121
Lease liabilities		36	225
Employee benefit provisions		59	93
Total current liabilities		<u>10,018</u>	<u>14,949</u>
Non-current liabilities			
Borrowings	10	-	906
Lease liabilities		118	544
Employee benefit provisions		16	7
Total non-current liabilities		<u>134</u>	<u>1,457</u>
Total liabilities		<u>10,152</u>	<u>16,406</u>
Net assets		<u>5,335</u>	<u>2,821</u>
Equity			
Issued capital		91,726	91,726
Reserves	11	-	12,233
Accumulated losses		(86,309)	(81,755)
Equity attributable to the owners of Wattle Health Australia Limited		5,417	22,204
Non-controlling interest		(82)	(19,383)
Total equity		<u>5,335</u>	<u>2,821</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 half-year ended 31 December 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 2019	74,900	12,233	(35,489)	(206)	51,438
Loss after income tax expense for the half-year	-	-	(9,553)	(340)	(9,893)
Other comprehensive loss for the half-year, net of tax	-	-	-	-	-
Total comprehensive loss for the half-year	-	-	(9,553)	(340)	(9,893)
Balance at 31 December 2019	<u>74,900</u>	<u>12,233</u>	<u>(45,042)</u>	<u>(546)</u>	<u>41,545</u>

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 2020	91,726	12,233	(81,755)	(19,383)	2,821
Profit/(loss) after income tax expense for the half-year	-	-	(16,787)	4,564	(12,223)
Other comprehensive loss for the half-year, net of tax	-	-	-	-	-
Total comprehensive loss for the half-year	-	-	(16,787)	4,564	(12,223)
Derecognition of non-controlling interest upon deconsolidation of Corio Bay Dairy Group	-	-	-	14,737	14,737
<i>Transactions with owners in their capacity as owners:</i>					
Expiry of employee Loan Share Plan shares	-	(12,233)	12,233	-	-
Balance at 31 December 2020	<u>91,726</u>	<u>-</u>	<u>(86,309)</u>	<u>(82)</u>	<u>5,335</u>

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 half-year ended 31 December 2020



	Note	Consolidated	
		31 December 2020 \$'000	31 December 2019 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		494	409
Payments to suppliers and employees (inclusive of GST)		(2,806)	(7,410)
Interest received		-	54
Interest and other finance costs paid		(6)	(17)
Government grants		62	-
		<hr/>	<hr/>
Net cash used in operating activities		(2,256)	(6,964)
Cash flows from investing activities			
Payment of deposit for proposed acquisition of Blend and Pack Pty Ltd		-	(1,481)
Payments for plant under construction	8	(791)	(13,720)
Payments for property, plant and equipment	8	-	(26)
Payments for security deposits		-	(78)
Transfers from non-cash term deposits to cash and cash equivalents		(90)	9,740
		<hr/>	<hr/>
Net cash used in investing activities		(881)	(5,565)
Cash flows from financing activities			
Proceeds from borrowings		3,021	1,642
Share applications to be refunded		(81)	-
Convertible note costs		(757)	-
Payment of lease liabilities		(54)	(99)
		<hr/>	<hr/>
Net cash from financing activities		2,129	1,543
Net decrease in cash and cash equivalents		(1,008)	(10,986)
Cash and cash equivalents at the beginning of the financial half-year		1,118	18,317
Effects of exchange rate changes on cash and cash equivalents		-	12
		<hr/>	<hr/>
Cash and cash equivalents at the end of the financial half-year		<u>110</u>	<u>7,343</u>

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

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 half-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 is:

Level 21, 459 Collins Street
Melbourne VIC 3000

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 24 March 2021.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity, other than as disclosed in the financial statements.

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.

The consolidated entity made a loss after tax of \$12,223,000 during the half year ended 31 December 2020 (2019: loss of \$9,893,000) and the net cash used in operating activities was \$2,256,000 (2019: \$6,964,000 net outflow).

The cash balance as at 31 December 2020 was \$110,000 (30 June 2020: \$1,118,000). The surplus of current assets over current liabilities excess of current liabilities over current assets as at 31 December 2020 was \$3,737,000 (30 June 2020: excess of current liabilities over current assets of \$11,682,000).

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:

Note 2. Significant accounting policies (continued)

- The Company, as first ranking secured creditor of Corio Bay Dairy Group Pty Ltd (CBDG), expects to receive approximately \$12.1 million cash in early 2021 from the sale of the CBDG asset. As at the date of this report \$11 million of this has been received;
- the Company aims to continue to grow its distribution network and revenue for its organic brands primarily through Chemist Warehouse and to continue to reduce capital expenditure;
- shareholder loans of \$3,655,000 and the loan from Niche Dairy Pty Ltd of \$906,000, all included in Borrowings in Current liabilities as at 31 December 2020, have been agreed to be converted into equity, subject to shareholder approval.;
- 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 ability to raise additional funds if required.

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.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

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 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.

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.

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

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 set out in the Notes to the financial statements for the year ended 30 June 2020. 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

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

Assessment of Fair Valuation of the Blend and Pack Investment

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

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

The Board 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 and recorded in the consolidated entity's statement of profit and loss for the year ended 30 June 2020.

The Board reviewed the carrying value of the Company's investment in Blend and Pack as at 31 December 2020. As a result of this review, the Board determined that the fair value of the Company's investment in Blend & Pack was not materially different from its carrying value of \$1,000,000.

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.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deconsolidation of Corio Bay Dairy Group Pty Ltd

Corio Bay Dairy Group Pty Ltd (CBDG), a controlled entity of Wattle Health Australia Limited and a member of the consolidated entity, was placed into voluntary administration by its directors in August 2020. At the time that that CBDG was placed into voluntary administration Wattle Health ceased to control CBDG and, therefore, CBDG ceased to be a member of the consolidated entity. Consequently, CBDG was deconsolidated from the consolidated entity, which resulted in a loss to the consolidated entity – refer Note 5.

Note 4. Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

During the half-year ended 31 December 2020 the consolidated entity operated in one business and geographical segment, being a provider of high quality Australian made health and wellness products throughout Australasia.

All revenues of the consolidated entity are recognised at a point in time for all revenue types.

Note 5. Loss on disposal of Corio Bay Dairy Group

As noted in Note 3, Corio Bay Dairy Group Pty Ltd (CBDG) was placed into as placed into voluntary administration by its directors in August 2020 and, as Wattle Health ceased to control CBDG at that point, CBDG was deconsolidated from the consolidated entity. The following loss was incurred by the consolidated entity on deconsolidation of CBDG:

	Consolidated	
	31 December 2020	31 December 2019
	\$'000	\$'000
De-recognition of net liabilities before derecognition of non-controlling interest attributed to the owners of Wattle Health Australia Limited upon deconsolidation of CBDG	6,446	-
Loss on derecognition of non-controlling interest upon deconsolidation of CBDG	<u>(14,792)</u>	<u>-</u>
Loss on disposal of CBDG	<u>(8,346)</u>	<u>-</u>

In accordance with Accounting Standard AASB10 *Consolidated Financial Statements* the consolidated entity has, upon losing control of Corio Bay Dairy Group Pty Ltd (CBDG) during the reporting period, derecognised the carrying value of non-controlling interests in CBDG at the date when control was lost and recognised this amount as a loss in profit and loss attributable to the parent entity.

Note 6. Expenses

	Consolidated	
	31 December 2020	31 December 2019
	\$'000	\$'000
Loss before income tax includes the following specific expenses:		
Asset write-offs		
Inventory write-off	177	-
Inventory prepayment write-off	-	3,323
Bad debts	<u>33</u>	<u>192</u>
Total Asset write-offs	<u>210</u>	<u>3,515</u>

Note 7. Current assets - trade and other receivables

	Consolidated	
	31 December 2020 \$'000	30 June 2020 \$'000
Trade receivables	196	82
Loan to Corio Bay Dairy Group Pty Ltd	12,102	-
Other receivables	-	39
BAS receivable	158	710
	12,456	831
	12,456	831

The loan to Corio Bay Dairy Group Pty Ltd (CBDG) was, prior to the loss of control by the consolidated entity over CBDG referred to in Note 3, an intercompany loan which was eliminated in full on consolidation. Following the deconsolidation of CBDG, this loan is now recognised in full in the financial statements of the consolidated entity.

The consolidated entity expects to recover the loan to CBDG as:

- the loan was secured by a charge over the assets of CBDG; and
- the administrator of CBDG has arranged a sale of these assets to a third party for a price which is expected to enable CBDG to repay the loan to the consolidated entity.

As at the date of this report approximately \$11 million of the CBDG loan has been received by the consolidated entity, with the remainder expected to be received during the June 2021 quarter.

Note 8. Non-current assets - Property, plant and equipment

	Consolidated	
	31 December 2020 \$'000	30 June 2020 \$'000
Land - at cost	-	2,100
Office equipment - at cost	-	96
Property, plant & equipment under construction	-	11,307
	-	13,503
	-	13,503

Land at cost, and Property, plant and equipment under construction as at 30 June 2020 comprised the accumulated costs of land acquisition, preparation and construction work on the organic nutritional milk spray drying plant, being constructed for Corio Bay Dairy Group Pty Ltd (CBDG). Following the deconsolidation of CBDG during the reporting period, these assets are no longer assets of the consolidated entity.

Note 9. Current liabilities - Borrowings

	Consolidated	
	31 December	30 June 2020
	2020	2020
	\$'000	\$'000
Loans - other	4,030	4,121
Loan - Niche Dairy Pty Ltd	906	-
Convertible loans payable	3,106	-
	<u>8,042</u>	<u>4,121</u>

Loans - other comprises the following:

- 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. The loan is unsecured, is interest-free and is repayable at call;
- funds totalling \$2,055,000 advanced to the Company by existing shareholders. These advances are unsecured, interest-free and repayable at call.

Loan - Niche Dairy Pty Ltd

This is a loan by a non-related entity. The loan is to be repaid within 12 months 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.

Convertible loans payable

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: \$3,500,000
- amount drawn down as at 31 December 2020: \$3,000,000 (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 30 June 2021

The balance at 31 December 2020 includes accrued interest payable.

Note 10. Non-current liabilities - Borrowings

	Consolidated	
	31 December	30 June 2020
	2020	2020
	\$'000	\$'000
Loan - Niche Dairy Pty Ltd	-	906
	<u> </u>	<u> </u>

The Niche Dairy Pty Ltd loan was reclassified as a current liability during the half year ended 31 December 2020 - refer Note 9.

Note 11. Equity - reserves

	Consolidated	
	31 December	30 June 2020
	2020	2020
	\$'000	\$'000
Share-based payments reserve	-	12,233
	<u> </u>	<u> </u>

Movements in reserves

Movements in each class of reserve during the current financial half-year are set out below:

Consolidated	Share-based payments reserve \$'000
Balance at 1 July 2020	12,233
Expiry of employee Loan Share Plan shares	<u>(12,233)</u>
Balance at 31 December 2020	<u> </u>

Note 12. Commitments

	Consolidated	
	31 December	30 June 2020
	2020	2020
	\$'000	\$'000
<i>Chemist Warehouse marketing support</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	1,200	1,200
One to five years	<u>3,900</u>	<u>4,500</u>
	<u>5,100</u>	<u>5,700</u>

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 13. Events after the reporting period

On 14 January 2021 the Company announced that it would buy back and cancel 13,437,500 fully paid ordinary shares (**Loan Shares**) which were originally issued in December 2017 to directors and employees pursuant to the Company's Employee Share Loan Plan. The buy back and share cancellation was completed on 4 February 2021.

On 12 February 2021 the Company announced that it had entered into an agreement to acquire the remaining 20% of its 80%-owned subsidiary, Little Innoscents Pty Ltd (**LI**), for \$200,000, taking its ownership of LI to 100%.

As at the date of this report approximately \$11 million of the CBDG loan has been received by the consolidated entity, with the remainder expected to be received during the June 2021 quarter.

No other matter or circumstance has arisen since 31 December 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.

Note 14. Loss per share

	Consolidated	
	31 December 2020	31 December 2019
	\$'000	\$'000
Loss after income tax	(12,223)	(9,893)
Non-controlling interest	(4,564)	340
Loss after income tax attributable to the owners of Wattle Health Australia Limited	<u>(16,787)</u>	<u>(9,553)</u>
	Cents	Cents
Basic loss per share	(6.88)	(4.91)
Diluted loss per share	(6.88)	(4.91)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>244,086,936</u>	<u>194,503,140</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>244,086,936</u>	<u>194,503,140</u>

The dilutive impact of loan funded shares 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 are non-dilutive as the consolidated entity is loss generating.

Note 15. 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
Assets				
Investments in unquoted companies at fair value through profit or loss	-	-	1,100	1,100
Total assets	-	-	1,100	1,100

There were no transfers between levels during the reporting period.

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

There were no movements in level 3 assets during the reporting period.

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 Pty Ltd and shares in Remarkable Milk Company Pty Ltd	EBITDA multiple	A change of 1 in the EBITDA multiple would increase/decrease fair value by \$107,000

Wattle Health Australia Limited
Directors' declaration
31 December 2020



In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors

A handwritten signature in black ink, appearing to read "George Karafotias".

George Karafotias
Executive Director

24 March 2021

Wattle Health Australia Limited

Independent auditor's review report

Report on the Review of the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Wattle Health Australia Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half year (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- a) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half year ended on that date; and
- b) complying with Australian Accounting Standard 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the half-year financial report which indicates that the Group incurred a net loss after income tax of \$12,223,000 and net operating cash outflows during the same period which, amounted to \$2,256,000. 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. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. Our conclusion is not modified in respect of this matter.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the

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Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

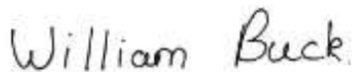
Responsibility of Management for the Financial Report

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

Auditor's Responsibilities for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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



William Buck Audit (Vic) Pty Ltd

ABN: 59 116 151 136



A. A. Finniss

Director

Melbourne, 24 March 2021

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