

1. Company details

Name of entity:	Wellnex Life Limited
ABN:	77 150 759 363
Reporting period:	For the half-year ended 31 December 2021
Previous period:	For the half-year ended 31 December 2020

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	>100% to	8,560
Loss from ordinary activities after tax attributable to the owners of Wellnex Life Limited	down	87.2% to	(2,146)
Loss for the half-year attributable to the owners of Wellnex Life Limited	down	87.2% to	(2,146)

Dividends

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

Comments

The loss for the consolidated entity after providing for income tax amounted to \$2,146,000 (31 December 2020: \$16,787,000).

Financial Performance

Revenue for the period was \$8.56 million an increase of 1,099% on the prior corresponding period 31 December 2020: \$0.7 million. The increase in revenue was a result of Brand Solutions Australia acquisition and improved sales in the Little Innoscents brands.

Loss for the half-year of \$2.15 million was down 87.2% on the prior corresponding period 31 December 2020: \$12.22 million, which included one-off expenses in the acquisition of Brand Solutions Australia and the re-quotations of the company's securities to official quotation on the ASX. The loss for the previous financial year included a loss of \$16.8 million attributable to the owners of Wellnex Life and a profit \$4.56 million to the non-controlling interest.

There were also one-off costs associated with the development of new brands that were brought to market during the period and associated increase in marketing expense to support the ranging in all major pharmaceutical and grocery retailers.

During the period the Company increased its inventory by circa \$1.3 million to circa \$5.3 million to negate the impact of the worldwide problem of logistics with delays and increased costs. The increased costs impacted the profitability of the group and will continue to pose issues throughout CY22 with an expected "return to normal" in CY23.

Revenue is expected to continue to increase in the second half of FY22 that will further decrease the cash loss and put the company on a trajectory of profitability.

Financial Position

The net assets of the entity at 31 December 2021 was \$8.6 million (30 June 2021: deficit of \$0.2 million). The increment was mainly attributable to capital raising activities during the period and conversion of shareholder and convertible loans.

The Company is currently pursuing a total of \$4.1 million through the administrator of Corio Bay Dairy Group for preferential creditor payments. The administrator has sent letters of demands to the relevant parties with negotiations commencing with at least one party to settle the claim. Funds have been provided in a trust account to prepare for litigation against these parties. While the Company cannot validate the amount to be recovered, legal advice suggests that the claims are strong with a good prospect of recovery.

The balance sheet provides a strong platform for the business to execute its business objectives of continuing to grow its brands, products and revenue in the fast growing health and wellness market.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>0.88</u>	<u>(0.31)</u>

4. Control gained over entities

Name of entities (or group of entities) BSPS Aust Pty Ltd - Brand Solutions Australia and Pharma Solutions Australia

Date control gained 1 July 2021

\$'000

Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material) (308)

Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) for the whole of the previous period (where material) -

5. Loss of control over entities

Not applicable.

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:

Not applicable.

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 Wellnex Life Limited for the half-year ended 31 December 2021 is attached.

12. Signed

Signed *karafotias*

Date: 28 February 2022

George Karafotias
Executive Director

For personal use

Wellnex Life Limited

ABN 77 150 759 363

Half-year financial report - 31 December 2021

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Wellnex Life Limited
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31 December 2021



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Directors

Eric Jiang (Non-Executive Director)
Kobe Li (Non-Executive Director)
George Karafotias (Executive Director)
Zack Bozinovski (Executive Director)

Company secretary

Kobe Li

Registered office
and principal place of business

Building 2, Level 3,
Suite 69, 574 Plummer Street
Port Melbourne VIC 3207
Phone: +61 3 8399 9419

Share register

Computershare Investor Registry Services
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067
Phone: 1300 787 272 (within Australia)
Phone: +61 3 9415 5000 (overseas callers)

Auditor

William Buck
Level 20, 181 William Street
Melbourne VIC 3000

Solicitors

Holding Redlich
Level 8, 555 Bourke Street
Melbourne VIC 3000

Stock exchange listing

Wellnex Life Limited securities are listed on the Australian Securities Exchange (ASX
code: WNX and WNXO)

Website

<https://www.wellnexlife.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 Wellnex Life 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 2021.

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 2021.

Directors

The following persons were directors of Wellnex Life 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 (Chief Executive Officer and Executive Director)
Zack Bozinovski (Executive Director) (appointed 13 July 2021)

Principal activities

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

- acquisition of Brand Solutions Australia and Pharma Solutions Australia business; and
- marketing and selling a portfolio of premium branded products for the health and wellness market;

Dividends

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

Review of operations

Birth of Wellnex Life Limited

This period has transformed the Company's business and financial profile, with the Company now a participant in the exciting and growing health and wellness market. The Company launched 4 new exciting brands during the period to complement its already extensive portfolio of brands and product in market.

Brand Solutions Australia

Wellnex Life completed the acquisition of leading brand and marketing company, Brand Solutions Australia (BSA), on 1 July 2021 which resulted in the Company being a substantial participant in the exciting and growing health and wellness market. BSA has long history of in the health and wellness space with growing portfolio of brands and sales. BSA has grown its sales in 3 years by 173% with sales in FY22 at \$18.3 million with projected sales for FY22 at circa \$21 million.

The completion of the acquisition of BSA allowed the Company to apply for re-quotation of its securities to official quotation on the ASX after a long-term suspension of circa 18 months, which occurred on 14 July 2021.

Brand and Product Growth

Wellnex Life during the period continued to grow its brand and product portfolio with 4 new exciting launches that builds on the strategy of developing new and innovative wholly owned brands that will build on the on our presence in the market, revenue and most importantly margins.

1. Wagner Health Liquigesic

Wellnex Life launched Australia's first TGA approved soft gel liquid paracetamol product in a joint venture with leading retailer Chemist Warehouse under the Wagner Liquigesic brand. This new brand commenced ranging in Chemist Warehouse in October with strong initial sales recorded. The brand launch was also complimented with a paracetamol plus ibuprofen product.

2. The Iron Company

Wellnex Life launched Australia's first slow-release iron gummy under the brand The Iron Company, with 2 initial varieties including a straight Iron and an Iron plus vitamin C. The uniqueness of this product has resulted in the brand being ranged in all major pharmaceutical retailers with ranging to commence in Coles and Woolworths in the 3rd quarter of FY22.

3. Wakey Wakey

Wellnex Life launched a new energy brand, Wakey Wakey, in both an effervescent tablet and gummy format. This new innovative product and packaging has secured ranging in all major pharmaceutical and grocery retailers.

4. Pharmacy Own

Wellnex Life launched Pharmacy Own with new the new brand to be exclusively distributed by CH2, Australia's only fully integrated pharmaceutical and medical consumable distributor. CH2 distribution network includes over 2,500 pharmacies that will fast track the distribution of the Pharmacy Own brand. First products will be available in the second half of FY22, with an aim over the medium term to have circa 50 products in the market.

Performance Inspired

Wellnex Life secured the distribution rights for Mark Wahlberg's and Tom Dowd's sport and supplements brand, Performance Inspired for Australia and New Zealand. The Company has secured ranging of Performance Inspired with Chemist Warehouse with product to be available in the first quarter of FY23.

Contract Manufacturing

Wellnex Life in developing innovative and unique products secured circa \$1.6 million in contract manufacturing orders with interest increasing. The Company will continue to maximise its investment in its own product research and developments to grow its revenue base.

Other matters

Wellnex Life during the period redeemed \$2 million in Convertible notes and issued \$2.4 million in new notes with on superior terms with a coupon rate of 9% and converting at \$0.20 per share with an expiry of 13 months from issue.

Financial Performance

Revenue for the period was \$8.56 million an increase of 1,099% on the prior corresponding period 31 December 2020: \$0.7 million. The increase in revenue was a result of Brand Solutions Australia acquisition and improved sales in the Little Innocents brands.

Loss for the half-year of \$2.15 million was down 82% on the prior corresponding period 31 December 2020: \$12.22 million, which included one-off expenses in the acquisition of Brand Solutions Australia and the re-quotations of the company's securities to official quotation on the ASX.

There was also one-off costs associated with the development of new brands that were brought to market during the period and associated increase in marketing expense to support the ranging in all major pharmaceutical and grocery retailers.

During the period the Company increased its inventory by circa \$1.3 million to circa \$5.3 million to negate the impact of the worldwide problem of logistics with delays and increased costs. The increased costs impacted the profitability of the group and will continue to pose issues throughout CY22 with an expected "return to normal" in CY23.

Revenue is expected to continue to increase in the second half of FY22 that will further decrease the cash loss and put the company on a trajectory of profitability.

Financial Position

The net assets of the entity at 31 December 2021 was \$8.6 million (30 June 2021: deficit of \$0.2 million). The increment was mainly attributable to capital raising activities during the period and conversion of shareholder and convertible loans.

The Company is also pursuing a total of \$4.1 million through the administrator of Corio Bay Dairy Group, in regard to preferential creditor payments. The administrator has sent letter of demands to the relevant parties with negotiations commencing with at least one party to settle the claim. Funds have been provided in a trust account to prepare if required litigation against these parties to recover these funds. While the Company cannot at this point of validate the amount to be recovered, we have received legal advice that the claims are strong with a good prospect of recovery.

The balance sheet provides a strong platform for the business to execute its business objectives of continuing to grow its brands, products and revenue in the fast growing health and wellness market.

Significant changes in the state of affairs

1 July 2021 – Wellnex Life completed the acquisition of established brand and distribution company, Brand Solutions Australia via the issue of 13,331,667 fully paid ordinary shares and the payment of \$2.75 million cash. The total consideration of the acquisition is approximately \$6.16 million. With regards to the fair value of assets and liabilities acquired the majority of the value is expected to be realised in the value of the brand names by the Group. Work is ongoing to determine the calculation of these fair values as at the date of this report

5 July 2021 – The Company completed a Rights Issue raising \$2.17 million through the issue of 14,515,931 fully paid ordinary shares at \$0.15.

9 July 2021 – The Company issued 41,808,781 fully paid ordinary shares to convert shareholder loans of \$5.6 million and convertible loans of \$1 million.

9 July 2021 – The Company Issued 13.5 million unlisted options to Reach Corporate at a conversion price of \$0.15 expiring 24 months from issue.

9 July 2021 – The Company issued 47,525,221 listed options at a conversion price of \$0.20 expiring 10 July 2023. The Company was issued to the following parties:

- Reach Corporate 7,500,000
- Shareholder and Convertible Loan investors – 20,904,390
- Institutional Placement Investors (April 2020) – 19,120,831

13 July 2021 - Executive Director George Karafotias was appointed to the role of Chief Executive Officer.

13 July 2021 – Zack Bozinovski was appointed as Executive Director and Chief Strategy Officer of Wellnex Life.

14 July 2021 – The Company received confirmation from the ASX that the Company's securities would achieve re-quototation to official quotation.

20 July 2021 – The Company converted \$200,000 of the Convertible Loans via the issue of 1,333,333 fully paid ordinary shares and 666,667 listed options at \$0.20 expiring 10 July 2023

18 August 2021 – The Company secured a licensing agreement with Mark Wahlberg's Performance Inspired brand on an exclusive basis for Australia and New Zealand.

20 August 2021 – The Company converted \$250,000 of the Convertible Loans via the issue of 1,666,666 fully paid ordinary shares and 833,333 listed options at \$0.20 expiring 10 July 2023.

10 September 2021 – The Company redeemed \$2,000,000 of the Convertible Loans through existing cash reserves.

30 September 2021 - The Company refinanced its previous, unconverted \$2 million Loan Note, with the issue of new Convertible Note, raising up to \$2.5 million on more favourable terms. The new Notes have a conversion price at \$0.20 per share and coupon rate of 9%, expiring 13 months from issue date. In the event of a conversion, the new Notes will allow the Noteholders to be issued one listed option at \$0.20 per share for every two shares converted, expiring 10 July 2023.

Matters subsequent to the end of the financial half-year

On 16 February 2022 the Company announced that it had formalised a joint venture to launch Ocean Road Dairies, Australia's first organic A2 infant formula range using fresh Australian milk. The joint venture has formally secured ranging of Ocean Dairies in Australia's largest pharmacy chain, Chemist Warehouse. The ranging is targeted to commence by the end of FY22 in Chemist Warehouse pharmacies nationally (circa 500 stores).

No other matter or circumstance has arisen since 31 December 2021 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

karafotias

George Karafotias
Executive Director

28 February 2022

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF WELLNEX LIFE LIMITED

I declare that, to the best of my knowledge and belief during the half-year ended 31 December 2021 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, 28 February 2022

ACCOUNTANTS & ADVISORS

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Wellnex Life Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2021



		Consolidated	
	Note	31 December 2021	31 December 2020
		\$'000	\$'000
Revenue from sale of goods	5	8,560	714
Cost of sales		<u>(6,136)</u>	<u>(274)</u>
Gross profit		<u>2,424</u>	<u>440</u>
Other income	6	196	-
Expenses			
Administrative and corporate expenses		(2,196)	(1,512)
Employee benefits expense		(1,427)	(878)
Selling, marketing and distribution expenses		(808)	(1,250)
Depreciation and amortisation expense		(57)	(59)
Loss on disposal of CBDG		-	(8,346)
Write off of assets and other losses		-	(210)
Finance costs		<u>(278)</u>	<u>(408)</u>
Loss before income tax expense		<u>(2,146)</u>	<u>(12,223)</u>
Income tax expense		<u>-</u>	<u>-</u>
Loss after income tax expense for the half-year		<u>(2,146)</u>	<u>(12,223)</u>
Other comprehensive income for the half-year, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income for the half-year		<u><u>(2,146)</u></u>	<u><u>(12,223)</u></u>
Loss for the half-year is attributable to:			
Non-controlling interest		-	4,564
Owners of Wellnex Life Limited		<u>(2,146)</u>	<u>(16,787)</u>
		<u><u>(2,146)</u></u>	<u><u>(12,223)</u></u>
Total comprehensive income for the half-year is attributable to:			
Non-controlling interest		-	4,564
Owners of Wellnex Life Limited		<u>(2,146)</u>	<u>(16,787)</u>
		<u><u>(2,146)</u></u>	<u><u>(12,223)</u></u>
		Cents	Cents
Basic loss per share	16	(0.71)	(6.88)
Diluted loss per share	16	(0.71)	(6.88)

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

Wellnex Life Limited
Statement of financial position
As at 31 December 2021



		Consolidated	
		31 December	
	Note	2021 \$'000	30 June 2021 \$'000
Assets			
Current assets			
Cash and cash equivalents		4,459	7,775
Trade and other receivables	7	2,599	886
Inventories	8	5,297	664
Prepayments and other assets		120	493
		<u>12,475</u>	<u>9,818</u>
Non-current assets classified as held for sale	6	164	-
Total current assets		<u>12,639</u>	<u>9,818</u>
Non-current assets			
Property, plant and equipment		10	-
Right-of-use assets		265	125
Intangibles	9	5,887	479
Total non-current assets		<u>6,162</u>	<u>604</u>
Total assets		<u>18,801</u>	<u>10,422</u>
Liabilities			
Current liabilities			
Trade and other payables	10	5,733	1,266
Borrowings	11	4,045	9,175
Lease liabilities		76	30
Employee benefit provisions		169	76
Total current liabilities		<u>10,023</u>	<u>10,547</u>
Non-current liabilities			
Lease liabilities		201	103
Employee benefit provisions		21	21
Total non-current liabilities		<u>222</u>	<u>124</u>
Total liabilities		<u>10,245</u>	<u>10,671</u>
Net assets/(liabilities)		<u>8,556</u>	<u>(249)</u>
Equity			
Issued capital	12	102,620	91,726
Reserves		2,569	2,512
Accumulated losses		(96,633)	(94,487)
Total equity/(deficiency)		<u>8,556</u>	<u>(249)</u>

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

Wellnex Life Limited
Statement of changes in equity
For the half-year ended 31 December 2021



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 income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income 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>

Consolidated	Issued capital \$'000	Share-based payment reserve \$'000	Convertible loan reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2021	91,726	2,345	167	(94,487)	(249)
Loss after income tax expense for the half-year	-	-	-	(2,146)	(2,146)
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income for the half-year	-	-	-	(2,146)	(2,146)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 12)	2,006	-	-	-	2,006
Issue of shares as partial consideration for the BSA transaction (note 12)	2,000	-	-	-	2,000
Issue of shares on conversion of shareholder and convertible loans (note 12)	6,721	-	-	-	6,721
Transfers to issued capital on conversion of convertible loans	167	-	(167)	-	-
Recognition of equity component of convertible note issued during the year	-	-	224	-	224
Balance at 31 December 2021	<u>102,620</u>	<u>2,345</u>	<u>224</u>	<u>(96,633)</u>	<u>8,556</u>

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

Wellnex Life Limited
Statement of cash flows
For the half-year ended 31 December 2021



	Note	Consolidated	
		31 December 2021 \$'000	31 December 2020 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		9,580	494
Payments to suppliers and employees (inclusive of GST)		(13,153)	(2,806)
Interest received		3	-
Interest and other finance costs paid		(38)	(6)
Government grants		-	62
Net cash used in operating activities		(3,608)	(2,256)
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	14	(3,816)	-
Payments for plant under construction		-	(791)
Payments for investments		(3)	-
Funds received from liquidator on the wind up of Corio Bay Dairy Group Pty Ltd		629	-
Transfers from non-cash term deposits to cash and cash equivalents		-	(90)
Net cash used in investing activities		(3,190)	(881)
Cash flows from financing activities			
Proceeds from issue of shares		2,177	-
Payments for capital raising		(172)	-
Proceeds from issue of convertible debt securities		2,350	-
Proceeds from borrowings		1,692	3,021
Payments for transaction costs relating to borrowings		(528)	-
Share applications to be refunded		-	(81)
Convertible note costs		-	(757)
Repayment of borrowings		(2,000)	-
Payment of lease liabilities		(37)	(54)
Net cash from financing activities		3,482	2,129
Net decrease in cash and cash equivalents		(3,316)	(1,008)
Cash and cash equivalents at the beginning of the financial half-year		7,775	1,118
Cash and cash equivalents at the end of the financial half-year		4,459	110

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

Note 1. General information

The financial statements cover Wellnex Life Limited as a consolidated entity consisting of Wellnex Life 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 Wellnex Life Limited's functional and presentation currency.

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

Building 2, Level 3, Suite 69,
574 Plummer Street
Port Melbourne VIC 3207

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 28 February 2022.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2021 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 2021 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.

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.

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

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.

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 2021. 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.

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.

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 2021 the consolidated entity acquired the assets of Brand Solutions Australia and Pharma Solutions Australia. The business operates in the same business and geographical segment as the rest of the Group, 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. Revenue from sale of goods

	Consolidated	
	31 December 2021 \$'000	31 December 2020 \$'000
<i>Sales revenue</i>		
Goods transferred at a point in time	8,541	608
<i>Other revenue</i>		
Other	19	106
Revenue from sale of goods	<u>8,560</u>	<u>714</u>

Note 6. Other income

	Consolidated	
	31 December 2021 \$'000	31 December 2020 \$'000
Reversal of previously written off investment in Remarkable Milk Company*	164	-
Interest income	3	-
Other	29	-
	<u>196</u>	<u>-</u>

* The Company entered a contract for the sale of shares in Remarkable Milk Company for \$3,280 per share totalling \$164,000. This investment was previously written off to nil. It was reversed to the contract amount as at 31 December 2021 and disclosed as assets held for sale on the statement of financial position. This transaction is expected to be settled on or about 28 February 2022.

Note 7. Current assets - trade and other receivables

	Consolidated	
	31 December 2021 \$'000	30 June 2021 \$'000
Trade receivables	2,599	212
Loan to Corio Bay Dairy Group Pty Ltd	-	500
GST receivable	-	174
	<u>2,599</u>	<u>886</u>

Note 8. Current assets - inventories

	Consolidated	
	31 December	30 June 2021
	2021	2021
	\$'000	\$'000
Finished goods - at cost	3,106	664
Less: Provision for impairment	(49)	-
	<u>3,057</u>	<u>664</u>
Stock in transit - at cost	2,240	-
	<u>5,297</u>	<u>664</u>

Note 9. Non-current assets - intangibles

	Consolidated	
	31 December	30 June 2021
	2021	2021
	\$'000	\$'000
Goodwill - at cost	5,887	471
Patents and trademarks - at cost	-	69
Less: Accumulated amortisation	-	(61)
	<u>-</u>	<u>8</u>
	<u>5,887</u>	<u>479</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Goodwill \$'000	Patents and trademarks \$'000	Total \$'000
Balance at 1 July 2021	471	8	479
Additions through business combinations (note 14)	5,416	-	5,416
Write off of assets	-	(8)	(8)
Balance at 31 December 2021	<u>5,887</u>	<u>-</u>	<u>5,887</u>

Note 10. Current liabilities - trade and other payables

	Consolidated	
	31 December	30 June 2021
	2021	2021
	\$'000	\$'000
Trade payables	5,139	805
Accruals	41	147
GST payable	58	-
Other payables	495	314
	<u>5,733</u>	<u>1,266</u>

Note 11. Current liabilities - Borrowings

	Consolidated	
	31 December 2021 \$'000	30 June 2021 \$'000
Convertible loans	2,229	9,175
Insurance funding	124	-
Trade and debtor financing	1,692	-
	<u>4,045</u>	<u>9,175</u>

Consolidated	Convertible loans \$'000	Insurance funding \$'000	Trade and debtor financing \$'000	Total \$'000
Balance at 1 July 2021	9,175	-	-	9,175
Conversion of shareholder loans to issued capital (note 12)	(5,271)	-	-	(5,271)
Conversion of convertible loans to issued capital (note 12)	(1,450)	-	-	(1,450)
Repayment of borrowings	(2,000)	-	-	(2,000)
Payments for borrowing costs	(528)	-	-	(528)
Proceeds from issue of new Convertible notes	2,350	-	-	2,350
Recognition of equity component of convertible note issued during the year	(224)	-	-	(224)
Accrued interest on convertible notes	177	-	-	177
Proceeds from borrowings	-	-	1,692	1,692
Insurance funding drawdown	-	167	-	167
Payments for insurance funding	-	(43)	-	(43)
Balance at 31 December 2021	<u>2,229</u>	<u>124</u>	<u>1,692</u>	<u>4,045</u>

Convertible notes payable

On 30 September 2021, the Company refinanced its previous, unconverted \$2 million Loan Note, with the issue of new Convertible Note. The key features of the new Convertible Note are as follows:

- total value of convertible note: \$2,500,000
- amount drawn down as at 31 December 2021: \$2,400,000 (before costs)
- subsequent drawdowns can be requested by the Company, subject to agreement by the noteholder (not to be unreasonably withheld)
- the secured note has a term of 13 months
- the secured note has a coupon rate of 9% per annum
- conversion price: \$0.20 (20 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

Trade and debtor facility

In July 2021, the Company entered into a secured revolving trade and debtor facility with Scottish Pacific, with the key terms of this facility as follows:

- total value of financing facility: \$2,500,000
- term: minimum of 24 month to July 2023
- amount drawn down as at 31 December 2021: \$1,692,000
- interest rate: Bank Bill Swap Bid Rate (BBSY) plus 4%
- this financing facility is secured by general and specific security deeds over all of the Company's assets

Note 12. Equity - issued capital

	Consolidated			
	31 December 2021 Shares	30 June 2021 Shares	31 December 2021 \$'000	30 June 2021 \$'000
Ordinary shares - fully paid	<u>303,305,814</u>	<u>230,649,436</u>	<u>102,620</u>	<u>91,726</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	30 June 2021	230,649,436		91,726
Issue of shares as partial consideration for the BSA transaction	1 July 2021	13,331,667	\$0.15	2,000
Issue of shares as part of a Rights Issue	5 July 2021	8,797,087	\$0.15	1,320
Issue of shares as part of a Rights Issue	7 July 2021	5,718,844	\$0.15	858
Issue of shares to convert shareholder loans	9 July 2021	35,142,115	\$0.15	5,271
Issue of shares on conversion of convertible loans	9 July 2021	6,666,666	\$0.15	1,000
Issue of shares on conversion of convertible loans	20 July 2021	1,333,333	\$0.15	200
Issue of shares on conversion of convertible loans	20 August 2021	1,666,666	\$0.15	250
Transfer from convertible loans reserve		-	-	167
Capital raising costs		-	-	(172)
Balance	31 December 2021	<u>303,305,814</u>		<u>102,620</u>

Note 13. Commitments

	Consolidated	
	31 December 2021 \$'000	30 June 2021 \$'000
<i>Chemist Warehouse marketing support</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	600	1,200
One to five years	<u>3,900</u>	<u>3,300</u>
	<u>4,500</u>	<u>4,500</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 \$A0.6 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. Business combinations

Brand Solutions Australia and Pharma Solutions Australia

On 1 July 2020, the Company acquired the assets of leading brand and distribution businesses Brand Solutions Australia and Pharma Solutions Australia ("BSA") for a total consideration of \$6.2 million. The acquisition has been accounted as a Business Combination under AASB 3 *Business Combinations*. BSA has expanded portfolio of brands that provides a diversified range of products in fast growing consumer health and wellness sectors. BSA also provides access to more efficient manufacturing and speed to market whilst adding significant R&D capabilities for new product development.

The provisional fair values of the identifiable net assets acquired are detailed below:

	Fair value \$'000
Cash and cash equivalents (overdraft)	(119)
Trade receivables	2,075
Inventories	4,229
Right-of-use assets	186
Trade payables	(5,392)
Employee benefits	(46)
Lease liability	(186)
Net assets acquired	747
Goodwill	5,416
Acquisition-date fair value of the total consideration transferred	<u>6,163</u>
Acquisition costs expensed to profit or loss	<u>450</u>
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	6,163
Add: bank overdraft	119
Less: shares issued by company as part of consideration	(2,000)
Less: advance payment made in prior period	(466)
Net cash used	<u>3,816</u>

i. Consideration transferred

The Company paid a cash consideration of \$4.16 million and issued 13,331,667 fully paid ordinary shares with a fair value of \$0.15 per share to the vendors of BSA. The acquisition is also subject to deferred consideration. However in this instance, the deferred consideration will be treated as remuneration given the continuous employment of BSA founder by the Company.

ii. Earn out consideration

The Company will be required to issue the FY22, FY23 and FY24 consideration options, which will each be convertible into consideration shares as part of the deferred earn out consideration payable to the vendor during those FY22, FY23 and FY24 earn out period.

Earn Out Amounts

- The Earn Out Amounts are calculated for each Earn Out Period by comparison of the actual EBITDA performance of the Business for that financial year against a target EBITDA of \$791,667 (EBITDA Hurdle).
- If the actual EBITDA for an Earn Out Period is less than or equal to the EBITDA Hurdle, no Earn Out Amount is payable and no Consideration Shares can be issued pursuant to the corresponding Consideration Option.
- If actual EBITDA for an Earn Out Period is greater than the EBITDA Hurdle, an Earn Out Amount equal to: (6.0 x EBITDA for the relevant Earn Out Period less the Completion Amount) x 50%, is payable for that Earn Out Period.

Note 14. Business combinations (continued)

The Earn Out Amounts do not form part of total consideration transferred on acquisition date. The Earn Out consideration payable is contingent on the vendor remaining in employment with the company and therefore it is to be treated as a remuneration expense in the statement of profit or loss and other comprehensive income.

iii. Acquisition related costs

Acquisition-related costs amounting to \$450,000 are not included as part of consideration for the acquisition and have been recognised as transaction costs. These costs have been included within administration expenses in the statement of profit or loss and other comprehensive income.

iv. Identifiable net assets

The fair value of the trade receivables and inventories acquired as part of the business combination amounted to \$2.1 million and \$4.2 million respectively. As of the acquisition date, the company's best estimate is that all cash will be collected and the inventories were not impaired.

v. Goodwill

Goodwill of \$5.4 million was primarily related to the providing the company a significant opportunity to accelerate growth in the consumer health and wellness sectors.

Goodwill was allocated to a single cash generating unit as at acquisition date. The goodwill that arose from this business combination is not deductible for tax purposes.

vi. Contribution to the Consolidated Entity's result

BSA contributed revenues of \$7.9 million and net loss of \$0.3 million from the date of the acquisition to 31 December 2021.

In accordance with the Australian Accounting Standards (AASB3), the consolidated entity has up to 12 months from the date of acquisition to complete its initial acquisition accounting. The consolidated entity will commence an exercise to consider the fair value of intangible assets acquired. As at the date of this report, this assessment is not complete.

Note 15. Events after the reporting period

On 16 February 2022 the Company announced that it had formalised a joint venture to launch Ocean Road Dairies, Australia's first organic A2 infant formula range using fresh Australian milk. The joint venture has formally secured ranging of Ocean Diaries in Australia's largest pharmacy chain, Chemist Warehouse. The ranging is targeted to commence by the end of FY22 in Chemist Warehouse pharmacies nationally (circa 500 stores).

No other matter or circumstance has arisen since 31 December 2021 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 16. Loss per share

	Consolidated	
	31 December 2021	31 December 2020
	\$'000	\$'000
Loss after income tax	(2,146)	(12,223)
Non-controlling interest	-	(4,564)
Loss after income tax attributable to the owners of Wellnex Life Limited	<u>(2,146)</u>	<u>(16,787)</u>
	Cents	Cents
Basic loss per share	(0.71)	(6.88)
Diluted loss per share	(0.71)	(6.88)

Note 16. Loss per share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	300,519,736	<u>244,086,936</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>300,519,736</u>	<u>244,086,936</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 17. Share-based payments

Options

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

On 9 July 2021 the Company issued options to Reach Corporate as consideration for the provision of corporate advisory services provided to the Company. The issued options, with a total fair value of approximately \$1,512,000, were:

- 13,500,000 unquoted "Class A" options, with an exercise price of \$0.15 (15 cents) and expiry date of 30 September 2023. The fair value of each option was 7.861 cents, and the approximate total value of this share based payment was \$1,061,000; and
- 7,500,000 quoted "Class B" options, with an exercise price of \$0.20 (20 cents) and expiry date of 10 July 2023. The fair value of each option was 6.007 cents, and the approximate total value of this share based payment was \$451,000.

On 9 July 2021 the Company also issued options to participants in a previous share placement. These options were granted as a condition of the conversion of the shareholder loan, as per the relevant shareholder loan agreement. The options issued were 13,865,143 quoted "Class B" options, with an exercise price of \$0.20 (20 cents) and expiry date of 10 July 2023. The fair value of each option was 6.007 cents, and the approximate total value of this share based payment was \$833,000.

Although the abovementioned Class A and Class B options were issued in July 2021, for accounting purposes their grant date was deemed to be 21 May 2021, being the date of their approval by shareholders at the Company's Annual General Meeting and the point at which they were effectively fully vested. The relevant corporate advisory services for which options were to be issued had been provided prior to 30 June 2021 and the relevant shareholder agreement under which placement options were to be issued, and the relevant share placement, were made prior to 30 June 2021. Accordingly, the share based payments relating to these options were recognised as expenses in the year ended 30 June 2021.

In addition to the aforementioned options, the Company also had further 27,660,078 quoted Class "B" options on issue as at 31 December 2021. These options were free attaching options as detailed in the Company's prospectus dated 13 May 2021. Therefore the fair value of these options were nil.

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 2021 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

karafotias

George Karafotias
Executive Director

28 February 2022

Wellnex Life 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 Wellnex Life Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated entity), which comprises the consolidated statement of financial position as at 31 December 2021, 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 Wellnex Life Limited is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2021 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*.

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 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.

ACCOUNTANTS & ADVISORS

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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 2021 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

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

A. A. Finnis

A. A. Finnis
Director

Melbourne, 28 February 2022

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