

Wellnex Life Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Wellnex Life Limited
ABN:	77 150 759 363
Reporting period:	For the year ended 30 June 2022
Previous period:	For the year ended 30 June 2021

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	>100% to	18,607
Loss from ordinary activities after tax attributable to the owners of Wellnex Life Limited	down	69.8% to	(7,449)
Loss for the year attributable to the owners of Wellnex Life Limited	down	69.8% to	(7,449)

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 \$7,449,000 (30 June 2021: \$24,688,000 (excluding non-controlling interest)).

Financial Performance

Revenue for the period was \$18.61million an increase of 1,457.1% on the prior corresponding period (30 June 2021 of: \$1.2 million). The strong revenue increase includes minimal sales from the supply agreement signed with GSK which will accelerate in the coming year. Further increases in revenue in the coming financial year will come from the launch of Pharmacy Own, Performance Inspired, Australia's first organic A2 infant formula range and organic growth of our existing brands.

Loss for the full year of \$7.45 million was down 70% on the prior corresponding period (30 June 2021: \$24.69 million), which was driven by the following:

- One-off expenses of \$1.6 million in costs associated with the acquisition of Brand Solutions Australia, re-quotations of the Company's securities to official quotation on the ASX and various capital raises;
- Share-based payment of \$0.63 million;
- Write down of the Little Innoscents goodwill balance of \$0.47 million (The Company is preparing to re-launch the brand with new packaging and formulations)
- Circa \$1.5 million one-off costs in the preparation of exciting new launches in Wakey Wakey, The Iron Company, Pharmacy Own, Performance Inspired, Ocean Road Dairies organic A2 infant formula and commencement of approval for an S3 registered medicinal cannabis product.

The loss from normal business operations excluding one-off and non-cash expenses was circa \$3.25 million, with the Company is on a trajectory to profitability. This will come from an increase in revenue but also as importantly an increase in margins, as a higher proportion of the Company's revenue will be derived from Wellnex's owned brands.

The Company main growth drivers for this financial year include:

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- Continued growth in Wakey Wakey and The Iron Company, which is ranged in over 2,000 pharmacies and leading grocery retailers in Coles and Woolworths.
- Launch of Australia's first Organic A2 infant formula, Ocean Road Dairies, in Chemist Warehouse commencing in October 2022
- Launch of Pharmacy Own in an exclusive distribution agreement with one of Australia's largest pharmaceutical providers CH2, with first sales in December 2022.
- Continued growth in contract manufacturing (including GSK), with confirmed purchase orders received by the Company to date at circa \$5 million for this financial year.
- Launch of medicinal cannabis products by the third quarter of this financial year for the SAS market in conjunction with the Company applying for an S3 registration.

Financial Position

The total assets of the entity at 30 June 2022 were \$19.6 million (30 June 2021: \$10.43 million), an increase of 91%. The net assets of the entity were \$4.4 million (30 June 2021: deficit of \$0.2 million).

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 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 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. No amounts have been recorded in the Group's statement of financial position in respect of this matter as at 30 June 2022.

The statement of financial position 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.

Birth of Wellnex Life Limited

Financial Year 2022 has been a period of transformation and growth, with the acquisition of Brand Solutions Australia that was completed on 1 July 2021. This also enabled the Company to have its shares re-instated to official quotation on the ASX after close to 24 months of suspension. The Company has been aggressive to continually grow the business with new exciting brand launches, signing of exciting licensing agreement and securing a momentous supply agreement with one of the world's largest pharmaceutical companies in GSK.

Brand and Product Growth

Wellnex Life during the financial year continued to grow its brand and product portfolio with some exciting new and planned launches that build on the strategy of developing new and innovative wholly owned brands that will build 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 and subsequently entered into a joint venture with leading retailer Chemist Warehouse under the Wagner Health Liquigesic brand. Wagner Health Liquigesic commenced selling across Chemist Warehouse in October which was complimented soon after with a paracetamol plus ibuprofen soft gel product. We have seen sales growing over this period with further multiple subsequent orders received to meet ever increasing demand.

The IP of the product remains the property of Wellnex, thus allowing the same product to be provided to parties like GSK amongst others, but just as important will be part of the Pharmacy Own launch.

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 and major grocery retailers Coles and Woolworths.

The Company anticipates that as brand awareness increases there will be continued growth in sales for the brand which will provide a healthy margin for the organisation.

3. Wakey Wakey

Wellnex Life successfully launched and rolled out a new energy brand, Wakey Wakey, in both an effervescent tablet and gummy format. With this new innovative product and packaging it secured ranging in all major pharmacy and grocery retailers.

Initial sales have been strong and will continue to grow and importantly provide healthy margin to Wellnex Life.

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4. Pharmacy Own

Wellnex Life during the period signed an exclusive supply agreement with one of Australia's pharmaceutical and medical consumable distributors, CH2, for the launch of Pharmacy Own. Wellnex Life during the period has been developing a strong offer of over the counter (OTC) products that will provide consumers equivalent efficacious products to the major brands found in the Australian market.

The Supply Agreement with CH2 will allow Wellnex Life to gain significant national distribution across the CH2's network for the "Pharmacy Own" brand, which includes circa 2000 domestic pharmacies. This launch builds on the existing brand launches in FY22 that are providing high margin products for the growing consumer demand.

5. 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 and first right to distribute into the Asian market. This premium band has secured distribution with Chemist Warehouse with products to be on shelf in October 2022.

Wellnex Life during the period secured for the products to be manufactured locally which will give Wellnex Life a grater margin, minimise logistic costs and ensure timely supply.

6. Contract Manufacturing

Wellnex Life in developing innovative and unique products continues to grow its contract manufacturing business, including securing a momentous supply agreement with GSK for its liquid paracetamol soft gel product. Wellnex Life has seen a significant growth in orders in the first 2 months of the new financial year of circa \$5 million which is circa 200% increase in orders received in FY22.

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.

Subsequently the Company redeemed the outstanding notes via the issue of new convertible notes, raising \$6.15 million, with a coupon rate of 9% and converting at \$0.21 per shares with an expiry of 24 months from issue.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(0.358)</u>	<u>3.580</u>

4. Control gained over entities and date control gained

Name of entities (or group of entities)	\$'000
BSPS Aust Pty Ltd - Brand Solutions Australia and Pharma Solutions Australia	
Contribution of such entities to the reporting entity's (loss from ordinary activities before income tax during the period (where material)	(1,487)
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)	102

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

Not applicable.

10. Audit qualification or review

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

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

11. Attachments

Unaudited summary consolidated financial statements for Wellnex Life Limited and its controlled entities for the year ended 30 June 2022 are attached.

12. Signed

Signed

Date: 31 August 2022


George Karafotias
Managing Director

Wellnex Life Limited

ABN 77 150 759 363

Summary Financial Information - 30 June 2022

Wellnex Life Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2022

		Consolidated	
	Note	30 June 2022	30 June 2021
		\$'000	\$'000
Revenue	5	18,607	1,195
Other income		186	239
Expenses			
Raw materials and consumables used		(14,107)	(1,360)
Administrative and corporate expenses		(4,624)	(2,795)
Share based payments issued to third parties		(628)	(2,345)
Employee benefits expense		(3,332)	(1,281)
Selling, marketing and distribution expenses		(1,666)	(1,981)
Depreciation and amortisation expense		(119)	(83)
Loss on disposal of CBDG		-	(8,346)
Impairment of assets		(339)	(636)
Impairment of goodwill		(471)	-
Movement in fair value of investments		-	(1,100)
Finance costs		(956)	(1,626)
Loss before income tax expense		(7,449)	(20,119)
Income tax expense		-	-
Loss after income tax expense for the year		(7,449)	(20,119)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(7,449)	(20,119)
Loss for the year is attributable to:			
Non-controlling interest		-	4,569
Owners of Wellnex Life Limited		(7,449)	(24,688)
		(7,449)	(20,119)
Total comprehensive loss for the year is attributable to:			
Non-controlling interest		-	4,569
Owners of Wellnex Life Limited		(7,449)	(24,688)
		(7,449)	(20,119)
		Cents	Cents
Basic loss per share	16	(2.47)	(10.31)
Diluted loss per share	16	(2.47)	(10.31)

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 30 June 2022

		Consolidated	
	Note	30 June 2022	30 June 2021
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents		3,181	7,775
Trade and other receivables	6	6,171	886
Inventories	7	4,319	664
Prepayments and other		168	493
Total current assets		<u>13,839</u>	<u>9,818</u>
Non-current assets			
Property, plant and equipment		42	-
Right-of-use assets		269	125
Intangibles	8	5,459	479
Total non-current assets		<u>5,770</u>	<u>604</u>
Total assets		<u>19,609</u>	<u>10,422</u>
Liabilities			
Current liabilities			
Trade and other payables	9	7,086	1,266
Borrowings	10	2,377	9,175
Lease liabilities		95	30
Employee benefit provisions		192	76
Provisions		55	-
Total current liabilities		<u>9,805</u>	<u>10,547</u>
Non-current liabilities			
Borrowings	11	5,198	-
Lease liabilities		188	103
Employee benefit provisions		59	21
Total non-current liabilities		<u>5,445</u>	<u>124</u>
Total liabilities		<u>15,250</u>	<u>10,671</u>
Net assets/(liabilities)		<u>4,359</u>	<u>(249)</u>
Equity			
Issued capital	12	102,620	91,726
Reserves		3,450	2,512
Accumulated losses		(101,711)	(94,487)
Total equity/(deficiency)		<u>4,359</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 year ended 30 June 2022

Consolidated	Issued capital \$'000	Share-based payment reserve \$'000	Convertible loan reserve \$'000	Accumulated losses attributable to owners of the Parent entity \$'000	Non-controlling interest \$'000	Total deficiency in 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 year	-	-	-	(24,688)	4,569	(20,119)
Other comprehensive income for the year, net of tax	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(24,688)	4,569	(20,119)
Reserve relating to new compound financial instruments	-	-	167	-	-	167
<i>Transactions with owners in their capacity as owners:</i>						
Share-based payments	-	2,345	-	-	-	2,345
Expiry of employee Loan Share Plan shares	-	(12,233)	-	12,233	-	-
Derecognition of non-controlling interest upon deconsolidation of Corio Bay Dairy Group	-	-	-	-	14,737	14,737
Derecognition of non-controlling interest upon full acquisition of Little Innoscents	-	-	-	-	77	77
Adjustment to equity arising from change in Little Innoscents non-controlling interest	-	-	-	(277)	-	(277)
Balance at 30 June 2021	<u>91,726</u>	<u>2,345</u>	<u>167</u>	<u>(94,487)</u>	<u>-</u>	<u>(249)</u>

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

Wellnex Life Limited
Statement of changes in equity
For the year ended 30 June 2022

Consolidated	Issued capital \$'000	Share-based payment reserve \$'000	Convertible loan reserve \$'000	Accumulated losses attributable to owners of the Parent entity \$'000	Total equity \$'000
Balance at 1 July 2021	91,726	2,345	167	(94,487)	(249)
Loss after income tax expense for the year	-	-	-	(7,449)	(7,449)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(7,449)	(7,449)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 12)	2,006	-	-	-	2,006
Share-based payments	-	628	-	-	628
Issue of shares as partial consideration for the BSA transaction (note 12)	2,000	-	-	-	2,000
Issue of shares of 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	-	-	702	-	702
Derecognition of convertible notes reserve on repayment and re-issue of notes	-	-	(225)	225	-
Balance at 30 June 2022	<u>102,620</u>	<u>2,973</u>	<u>477</u>	<u>(101,711)</u>	<u>4,359</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 year ended 30 June 2022

	Consolidated	
Note	30 June 2022	30 June 2021
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	17,880	1,271
Payments to suppliers and employees (inclusive of GST)	(26,332)	(5,270)
Interest received	3	-
Interest and other finance costs paid	(221)	(439)
Government grants	59	62
	<u> </u>	<u> </u>
Net cash used in operating activities	(8,611)	(4,376)
Cash flows from investing activities		
Payment for purchase of business, net of cash acquired	(3,816)	-
Transaction costs related to purchase of business	(450)	-
Payments for investments	(3)	(666)
Payments for intellectual property	(42)	-
Payments relating to investment projects	-	(791)
Proceeds received from CBDG administrator in settlement of CBDG loan	666	11,000
Proceeds from term deposits	-	21
Relinquishment of cash upon deconsolidation of CBDG	-	(80)
	<u> </u>	<u> </u>
Net cash from/(used in) investing activities	(3,645)	9,484
Cash flows from financing activities		
Proceeds from issue of shares	2,177	-
Transaction costs related to issues of equity	(171)	-
Proceeds from issue of convertible debt securities	5,991	(1,139)
Transaction costs related to loans and borrowings	(576)	(370)
Proceeds from borrowings	3,713	3,220
Share applications refunded	-	(81)
Repayment of borrowings	(3,372)	(10)
Repayment of lease liabilities	(100)	(71)
	<u> </u>	<u> </u>
Net cash from financing activities	7,662	1,549
Net increase/(decrease) in cash and cash equivalents	(4,594)	6,657
Cash and cash equivalents at the beginning of the financial year	7,775	1,118
	<u> </u>	<u> </u>
Cash and cash equivalents at the end of the financial year	<u>3,181</u>	<u>7,775</u>

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

Wellnex Life Limited
Notes to the financial statements
30 June 2022

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 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 are:

Registered office

Building 2, Level 3, 574 Plummer St Port Melbourne VIC
3207

Principal place of business

Building 2, Level 3, 574 Plummer St 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 31 August 2022. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Note 3. Critical accounting judgements, estimates and assumptions

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

Share-based payment transactions

Unless noted otherwise, the consolidated entity measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of option-based transactions is determined by using either the Binomial or Black-Scholes model taking into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, as well as the terms and conditions upon which the instruments were granted.

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. 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 and/or tax losses only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. No deferred tax assets were recognised as at 30 June 2021.

Business combinations

Business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

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 year ended 30 June 2022 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

	Consolidated	
	30 June 2022	30 June 2021
	\$'000	\$'000
Goods transferred at a point in time	18,607	1,195

Wellnex Life Limited
Notes to the financial statements
30 June 2022

Note 6. Current assets - trade and other receivables

	Consolidated	
	30 June 2022	30 June 2021
	\$'000	\$'000
Trade receivables	5,691	212
Other receivable	461	-
	<u>6,152</u>	<u>212</u>
Loan - Corio Bay Dairy Group Pty Ltd	-	500
Joint Venture - Ocean Dairies Pty Ltd	19	-
	<u>19</u>	<u>500</u>
GST receivable	-	174
	<u>6,171</u>	<u>886</u>

The other receivable balance represents monies held in trust on behalf of the Group in respect of the final settlement and distribution of funds in relation to the disposal of the Corio Bay Dairy Group ("CBDG").

Note 7. Current assets - Inventories

	Consolidated	
	30 June 2022	30 June 2021
	\$'000	\$'000
Finished goods - at cost	<u>4,319</u>	<u>664</u>

Note 8. Non-current assets - intangibles

	Consolidated	
	30 June 2022	30 June 2021
	\$'000	\$'000
Goodwill - at cost	<u>5,004</u>	<u>471</u>
Patents and trademarks - at cost	74	69
Less: Accumulated amortisation	<u>(3)</u>	<u>(61)</u>
	71	8
Brands - at cost	<u>136</u>	<u>-</u>
Customer Relationships - at cost	276	-
Less: Accumulated amortisation	<u>(28)</u>	<u>-</u>
	248	-
	<u>5,459</u>	<u>479</u>

Wellnex Life Limited
Notes to the financial statements
30 June 2022

Note 8. Non-current assets - intangibles (continued)

Reconciliations

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

Consolidated	Goodwill \$'000	Patents & trademarks \$'000	Brand \$'000	Customer Relationships \$'000	Total \$'000
Balance at 1 July 2020	875	69	-	-	944
Impairment of assets	(404)	(61)	-	-	(465)
Balance at 30 June 2021	471	8	-	-	479
Additions	5,004	66	136	276	5,482
Impairment	(471)	-	-	-	(471)
Amortisation	-	(3)	-	(28)	(31)
Balance at 30 June 2022	<u>5,004</u>	<u>71</u>	<u>136</u>	<u>248</u>	<u>5,459</u>

The impairment charge recorded in the current and prior year represents the write down of Goodwill acquired on the acquisition of Little Innocence.

Note 9. Current liabilities - trade and other payables

	Consolidated 30 June 2022 \$'000	30 June 2021 \$'000
Trade Payables	5,707	805
Accruals	313	147
Other payables	1,066	314
	<u>7,086</u>	<u>1,266</u>

Note 10. Current liabilities - borrowings

	Consolidated 30 June 2022 \$'000	30 June 2021 \$'000
Convertible loans	-	9,175
Insurance funding	36	-
Trade and debtor financing	2,341	-
	<u>2,377</u>	<u>9,175</u>

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: \$5,300,000
- 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 11. Non-current liabilities - borrowings

	Consolidated	
	30 June 2022	30 June 2021
	\$'000	\$'000
Convertible notes payable	5,198	-
	<u>5,198</u>	<u>-</u>
	Convertible loans \$'000	
Consolidated		
Balance 1 July 2021 (current liability)		9,175
Conversion of shareholder loans to issued capital (note 12)		(5,271)
Conversion of convertible loans to issued capital (note 12)		(1,450)
Repayment of convertible notes		(2,000)
Borrowing costs associated with convertible note issue		(591)
Proceeds from issue of new convertible notes		5,991
Recognition of equity component of convertible notes issued during the year		(702)
Accrued interest on convertible notes		46
		<u>46</u>
Balance as at 30 June 2022		<u>5,198</u>

Convertible loans payable

On 2 June 2022, the Company refinanced its previous, unconverted \$2.4 million convertible notes, with the issue of new convertible notes. The key features of the new Convertible Note are as follows:

- amount drawn down as at 30 June 2022: \$6,150,000 (before costs);
- the secured note has a term of 24 months from issue;
- the secured note has a coupon rate of 9% per annum;
- conversion price: \$0.21 (21 cents) per share, with the noteholder having the right to receive one option for every two shares converted at a strike price of \$0.21 (21 cents) with a 24 month term from issue;
- 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;

Note 12. Equity - issued capital

	Consolidated			
	30 June 2022	30 June 2021	30 June 2022	30 June 2021
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	303,305,814	230,649,436	102,620	91,726
	<u>303,305,814</u>	<u>230,649,436</u>	<u>102,620</u>	<u>91,726</u>

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Note 12. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2020	244,086,936		91,726
Cancellation of loan funded shares	4 February 2021	<u>(13,437,500)</u>	\$0.00	<u>-</u>
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	857
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		-	\$0.00	167
Capital raising costs		<u>-</u>	\$0.00	<u>(171)</u>
Balance	30 June 2022	<u><u>303,305,814</u></u>		<u><u>102,620</u></u>

Note 13. Commitments

	Consolidated	
	30 June 2022	30 June 2021
	\$'000	\$'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><u>4,500</u></u>	<u><u>4,500</u></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 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:

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Note 14. Business combinations (continued)

	Fair value \$'000
Cash and cash equivalents	(119)
Trade receivables	2,075
Inventories	4,229
Right-of-use assets	186
Brand	136
Customer relationships	276
Trade payables	(5,392)
Employee benefits	(46)
Lease liability	(186)
Net assets acquired	1,159
Goodwill	5,004
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 periods.

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: $(6.0 \times \text{EBITDA for the relevant Earn Out Period less the Completion Amount}) \times 50\%$, 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. No earn out amounts were paid to the vendors during the year ended 30 June 2022.

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 \$5.0 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 \$17.8 million and net loss of \$1.5 million from the date of the acquisition to 30 June 2022.

Note 15. Events after the reporting period

On 18 July 2022 the Company announced that it had formalised a joint venture with Onelife Botanicals for the manufacture, distribution and sale of cannabis and hemp-based products. The Joint Venture will allow Wellnex to be one of the first to market with a registered medicinal product under S3 registration and allow it to bring to market products under SAS by the end of CY22.

Wellnex once it obtains an S3 registration will obtain 4% of the fully diluted capital of Onelife Botanicals.

No other matter or circumstance has arisen since 30 June 2022 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.

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Note 16. Loss per share

	Consolidated	
	30 June 2022	30 June 2021
	\$'000	\$'000
Loss after income tax	(7,449)	(20,119)
Non-controlling interest	<u>-</u>	<u>(4,569)</u>
Loss after income tax attributable to the owners of Wellnex Life Limited	<u>(7,449)</u>	<u>(24,688)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>301,702,267</u>	<u>239,343,852</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>301,702,267</u>	<u>239,343,852</u>
	Cents	Cents
Basic loss per share	(2.47)	(10.31)
Diluted loss per share	(2.47)	(10.31)

The dilutive impact of loan funded shares and options has not been included in the weighted average number of ordinary shares for the purposes of calculating diluted EPS as it does not meet the requirements for inclusion in AASB 133 'Earnings Per Share'. The rights to these loan funded shares and options are non-dilutive as the consolidated entity is loss generating.