

HydraLyte®

Appendix 4E – Preliminary Final Report

(ASX Listing rule 4.2A)

Company Name:	The Hydration Pharmaceuticals Company Limited (the 'Company')
ABN:	83 620 385 677
Reporting Period:	Financial year ended 31 December 2022
Previous Reporting Period:	Financial year ended 31 December 2021

Hydration solutions company, The Hydration Pharmaceuticals Company Limited (ASX: HPC) ("Hydralyte North America" or "the Company"), is pleased to report on its activities and cash flows for the 12 months ending 31 December 2022 (FY2022).

IMPORTANT NOTE: *The consolidated financial statements and this associated analysis is presented in USD (\$), which is The Hydration Pharmaceuticals Company Limited's functional and presentation currency.*

Results for Announcement to the Market for Year Ending 31 December 2022:

Revenue	Up	49%	to	\$9,099,968
Loss after tax attributable to members	Up	18%	to	\$10,607,167
Net loss for the period attributable to members	Up	18%	to	\$10,607,167
Net cash used in operating activities	Up	21%	to	\$9,751,840

Highlights

- 49% increase in FY2022 net sales to \$9.1M
- 6ppt increase in Gross Margin to 52% resulting in a 68% increase in Gross Profit from \$2.8M to \$4.7M
- E-commerce sales increased to 45% of total net sales
- Net sales underpinned 49% growth in sales to Canadian retail outlets and 54% increase in Amazon US sales
- Strong investment in sales and marketing capability to support scaling of the business and increase brand awareness in key markets
- Underlying EBITDA Loss of (\$8.6M) – after adjusting items including share based expenses, amortization and FX gains (refer table overleaf)

A\$12m loan facility secured

The Company entered into a A\$12m two-tranche secured loan facility with boutique asset manager PURE Asset Management Pty Ltd. The first tranche of A\$6.5m was activated in November 2022. Certain requirements must be met to achieve the remaining A\$5.5m second tranche, for which the company believes it is well placed to achieve. This new funding added to the Company's current cash at bank and provides additional financial flexibility to execute on anticipated growth opportunities in FY2023.

As part of the funding package, 22,413,794 warrants were issued for the first tranche.

Additional details of the debt financing and associated warrants are outlined in the notes of the financials below.

Financial Results

Net Sales

The Company achieved net revenue of \$9,099,968 for FY22, which represented a 49% or \$3.0 million increase on the previous 12-month period (FY21: \$6,127,177).

Gross Margin

The Company's gross margin improved by six percentage points from 46% to 52% for FY22, up 68% in dollars to \$4,696,358 (FY21: \$2,789,598).

Sales and Marketing Expenses

With 49% YOY sales growth and continued growth focus, Hydralyte strategically invested in sales and marketing resulting in a \$4.2M increase in sales and marketing expense. The increases are outlined in the following table:

Shay Mitchell and Other Influencers Increase	\$1.4M	Includes \$0.4M in Shay Share Based Payment expense
Digital Ads Increase	\$1.2M	
Sales Warehousing and Distribution Increase	\$1.1M	
Other Marketing Increase	\$0.3M	
Asset Creation Increase	\$0.2M	
Total Increase in Sales and Marketing Expenses	\$4.2M	

The investment in sales and marketing has assisted the Company in achieving increased brand awareness in Canada and the US, which underpinned record YOY sales growth. Hydralyte North America has implemented an increased focus on optimising marketing expenditure over the coming 12 months, with total spend expected to reduce during FY2023.

Adjusted EBITDA

The Company was materially impacted by Non-cash costs related to Share based comp, FX gains, and Interest related to its recent A\$12m two-tranche secured loan facility. In addition to the loan facility, the Company issued warrants related to the convertible note, this resulting in recognizing a gain on the value of the equity-based liability. After removing the adjusting items, Hydralyte calculates an underlying loss for the year at \$8.6M. Following is a summary of adjusting items hitting the unaudited Consolidated Statement of Profit or Loss:

Loss for the Year		\$ 10,607,167	
Adjusting Items:			
Share Based Payment Expense	\$ (2,132,562)		non-cash
Amortization of Borrowing Costs	\$ (94,904)		non-cash
FV Movement of Derivative	\$ 65,331		non-cash
FX gain/loss	\$ 120,484		non-cash
Total Adjustments		\$ (2,041,652)	
Adjusted EBITDA Loss		\$ 8,565,515	

Outlook

Hydralyte is focused on new product innovation and has multiple new products currently in development – including additional co-branded SKUs with entrepreneur and brand ambassador Ms Shay Mitchell.

The company received manufacturing approval from Health Canada, which allows its US-based contract manufacturer to commence production of the Company's liquid product range for the Canadian market. This was viewed as a strategic priority and optimises Hydralyte North America's manufacturing process from a centralised production hub, allowing the Company the opportunity to capitalise on its existing North American distribution channels. The manufacturing approval grant is expected to lead to a reduction in costs of goods sold, cheaper freights and an increase gross margin on the liquid range.

Dividends

No dividends have been paid or declared since the beginning of the current reporting period. No dividends were paid for the previous reporting period.

Net Tangible Assets

	31 December 2022	31 December 2021
Net Tangible Assets/(Liabilities)	\$3,981,172	\$13,226,351
Shares (No.)	163,755,295	161,026,683

Loss per Share

	31 December 2022	31 December 2021
Basic/Diluted loss per share (cents)	6.52	11.85

Change in control:

There are no entities for which control was gained or lost in the period.

About Hydralyte North America:

A well-known brand developed in Australia in 2001 to produce a range of electrolyte-rich tablets, liquids and powders, Hydralyte North America formed in 2014 and aims to grow its footprint in new international markets, led by an experienced management team and high skilled Board of Directors. Hydralyte North America does not operate in Australia or New Zealand, where the brand is owned by Care Pharmaceuticals, but has exclusive rights to the Hydralyte brand in North and South America, Europe (excluding Turkey), China (excluding Taiwan) and Hong Kong. Current operations are focused on the United States and Canada, with headquarters in San Diego, California.

Status of Audit of Accounts

This Preliminary Financial Report is based accounts which are in the process of being audited. The accounts are likely to contain an independent audit report that is subject to an emphasis of matter related to going concern, as shareholder approval is a likely condition that the Company must satisfy in order to access the second tranche of its loan facility (refer to note 8).

The directors and management have considered the Group's projected cash flows and ability to continue as a going concern for at least the next 12 months. The Group is dependent on its ability to generate sufficient funds from its operating activities and operating within the requirements of its loan facility. Whilst the directors and management are expecting continued revenue growth and sustained margins, the Group is likely to need access to the second tranche of its loan facility with PURE Asset Management within the next 12 months. As disclosed in note 8, access to the second tranche of the loan facility is subject to various conditions, including a possible need for shareholder approval associated with issuing warrants related to the second tranche.

Management and the directors are confident that the Group will be successful in meeting these conditions, including the related shareholder approvals should the need arise, and accordingly have prepared the financial statements on a going concern basis. Should the Company be unsuccessful in meeting these conditions, there is a material uncertainty which may cast significant doubt on whether the Group will be able to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

These financial statements do not include any adjustments that may be appropriate relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

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Appendix 4E
Preliminary Final Report

For the year ended 31 December 2022

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The Hydration Pharmaceuticals Company Limited

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Consolidated Financial Statements

For the Year Ended 31 December 2022

The Hydration Pharmaceuticals Company Limited

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2022

	Notes	2022 \$	2021 \$
Revenue	2	9,099,968	6,127,178
Cost of sales		(4,403,610)	(3,337,579)
Gross profit		4,696,358	2,789,599
Other income		5	93
Sales and marketing expenses		(9,227,254)	(5,060,470)
Administrative expenses		(1,695,273)	(1,546,234)
Employee benefits expense		(4,475,611)	(3,012,662)
Depreciation and amortisation expense		-	(3,337)
Transaction costs associated with IPO		-	(663,275)
Fair value movement on derivative financial instruments	8	65,331	-
Foreign exchange gain/(loss)		120,485	1,410,662
Finance costs		(91,207)	(2,866,037)
Loss before income tax		(10,607,166)	(8,951,661)
Income tax expense		-	-
Loss for the year		(10,607,166)	(8,951,661)
Other comprehensive income, net of tax			
Exchange differences on translation of foreign controlled entities		(611,622)	(1,241,976)
Other comprehensive income/(loss) for the year, net of tax		(611,622)	(1,241,976)
Total comprehensive loss for the year		(11,218,788)	(10,193,637)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company:			
Basic and diluted earnings/(loss) per share		(0.07)	(0.12)

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

The Hydration Pharmaceuticals Company Limited

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Consolidated Statement of Financial Position

As At 31 December 2022

	Notes	2022 \$	2021 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	4,688,191	10,672,533
Trade and other receivables	4	1,306,397	1,012,546
Inventories	5	3,386,379	1,794,742
Other assets	6	1,009,579	1,825,262
TOTAL CURRENT ASSETS		<u>10,390,546</u>	<u>15,305,083</u>
NON-CURRENT ASSETS			
TOTAL NON-CURRENT ASSETS		-	-
TOTAL ASSETS		<u>10,390,546</u>	<u>15,305,083</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	7	2,326,070	2,058,195
Derivative financial instruments	8	349,470	-
TOTAL CURRENT LIABILITIES		<u>2,675,540</u>	<u>2,058,195</u>
NON-CURRENT LIABILITIES			
Provisions		22,052	20,537
Borrowings	8	3,711,781	-
TOTAL NON-CURRENT LIABILITIES		<u>3,733,833</u>	<u>20,537</u>
TOTAL LIABILITIES		<u>6,409,373</u>	<u>2,078,732</u>
NET ASSETS		<u>3,981,173</u>	<u>13,226,351</u>
EQUITY			
Contributed equity		36,613,006	36,408,321
Reserves		2,343,950	1,186,647
Accumulated losses		(34,975,783)	(24,368,617)
TOTAL EQUITY		<u>3,981,173</u>	<u>13,226,351</u>

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

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Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2022

2022

	Contributed Equity	Accumulated Losses	Foreign Currency Translation Reserve	Share Based Payment Reserve	Total
	\$	\$	\$	\$	\$
Balance at 1 January 2022	36,408,321	(24,368,617)	(630,902)	1,817,549	13,226,351
Profit/(loss) for the year	-	(10,607,166)	-	-	(10,607,166)
Other comprehensive income	-	-	(611,622)	-	(611,622)
Total comprehensive loss for the year	-	(10,607,166)	(611,622)	-	(11,218,788)
Transactions with owners in their capacity as owners					
Issue of shares	250,000	-	-	-	250,000
Share issue transaction costs	(45,315)	-	-	-	(45,315)
Employee share scheme	-	-	-	1,768,925	1,768,925
Balance at 31 December 2022	36,613,006	(34,975,783)	(1,242,524)	3,586,474	3,981,173

2021

Balance at 1 January 2021	16,494,829	(15,416,956)	611,074	313,903	2,002,850
Loss for the year	-	(8,951,661)	-	-	(8,951,661)
Other comprehensive income	-	-	(1,241,976)	-	(1,241,976)
Total comprehensive loss for the year	-	(8,951,661)	(1,241,976)	-	(10,193,637)
Transactions with owners in their capacity as owners					
Conversion of convertible notes	8,850,524	-	-	-	8,850,524
Issue of IPO shares	12,201,590	-	-	-	12,201,590
Share issue transaction costs	(1,138,622)	-	-	-	(1,138,622)
Employee share scheme	-	-	-	1,503,646	1,503,646
Balance at 31 December 2021	36,408,321	(24,368,617)	(630,902)	1,817,549	13,226,351

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

The Hydration Pharmaceuticals Company Limited

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Consolidated Statement of Cash Flows For the Year Ended 31 December 2022

	2022	2021
Note	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers (inclusive of GST)	8,806,122	5,947,918
Payments to suppliers and employees (inclusive of GST)	(18,407,801)	(13,427,118)
Transaction costs associated with borrowings and IPO	(150,161)	(598,850)
Net cash inflow/(outflow) from operating activities	<u>(9,751,840)</u>	<u>(8,078,050)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash inflow/(outflow) from investing activities	<u>-</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	4,075,844	-
Proceeds from the issue of convertible notes	-	6,415,000
Proceeds from issue of IPO shares	-	12,033,415
Transaction costs from issuance of convertible notes and shares	-	(1,421,239)
Net cash inflow/(outflow) from financing activities	<u>4,075,844</u>	<u>17,027,176</u>
Net increase/(decrease) in cash and cash equivalents	(5,675,996)	8,949,126
Cash and cash equivalents at beginning of financial year	10,672,533	1,644,583
Effects of exchange rate changes on cash and cash equivalents	(308,346)	78,824
Cash and cash equivalents at end of financial year	3 <u>4,688,191</u>	<u>10,672,533</u>

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

The Hydration Pharmaceuticals Company Limited

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

The consolidated financial report covers The Hydration Pharmaceuticals Company Limited and its controlled entities ('the Group'). The Hydration Pharmaceuticals Company Limited is a for-profit Group limited by shares, incorporated and domiciled in Australia.

Each of the entities within the Group prepare their financial statements based on the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in USD (\$) which is the parent entity's functional and presentation currency.

1 Basis of Preparation

These consolidated financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

Historical cost convention

The financial statements, except for cash flow information, have been prepared on an accrual basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The amounts presented in the financial statements have been rounded to the nearest dollar unless stated otherwise.

Going Concern

These financial statements have been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Group incurred a loss of \$10,607,166 (2021: \$8,951,661) and had net cash outflows from operating activities of \$9,751,840 (2021: \$8,078,050) for the year ended 31 December 2022 as a result of being a rapidly growing startup company.

The directors and management have considered the Group's projected cash flows and ability to continue as a going concern for at least the next 12 months. The Group is dependent on its ability to generate sufficient funds from its operating activities and operating within the requirements of its loan facility. Whilst the directors and management are expecting continued revenue growth and sustained margins, the Group is likely to need access to the second tranche of its loan facility with PURE Asset Management within the next 12 months. As disclosed in note 8, access to the second tranche of the loan facility is subject to various conditions, including a possible need for shareholder approval associated with issuing warrants related to the second tranche.

Management and the directors are confident that the Group will be successful in meeting these conditions, including the related shareholder approvals should the need arise, and accordingly have prepared the financial statements on a going concern basis. Should the Company be unsuccessful in meeting these conditions, there is a material uncertainty which may cast significant doubt on whether the Group will be able to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

These financial statements do not include any adjustments that may be appropriate relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

The Hydration Pharmaceuticals Company Limited

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

2 Revenue

	2022	2021
	\$	\$
<i>Revenue</i>		
Revenue from contracts with customers	9,099,968	6,127,178
	<u>9,099,968</u>	<u>6,127,178</u>

The Group derives its revenue from the transfer of goods at a point in time in the following geographical regions:

	2022	2021
	\$	\$
US	4,500,526	3,131,180
Canada	4,599,442	2,995,998
Total	<u>9,099,968</u>	<u>6,127,178</u>

3 Cash and Cash Equivalents

	2022	2021
	\$	\$
Cash at bank and in hand	4,688,191	10,672,533
	<u>4,688,191</u>	<u>10,672,533</u>

4 Trade and Other Receivables

	2022	2021
	\$	\$
Trade receivables	1,311,855	1,024,378
Provision for doubtful accounts	(12,882)	(12,882)
Other receivables	7,424	1,050
	<u>1,306,397</u>	<u>1,012,546</u>

5 Inventories

	2022	2021
	\$	\$
Raw materials and consumables	329,754	303,293
Finished goods	2,694,368	1,313,214
Goods in transit	539,405	290,476
Writedowns	(177,148)	(112,241)
	<u>3,386,379</u>	<u>1,794,742</u>

The Hydration Pharmaceuticals Company Limited

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

6 Other Assets

	2022	2021
	\$	\$
Prepayments	1,009,579	1,825,262
	<u>1,009,579</u>	<u>1,825,262</u>

7 Trade and Other Payables

	2022	2021
	\$	\$
Trade payables	453,473	569,239
Returns and other liabilities	305,915	463,998
Accrued expenses	1,566,682	1,024,958
	<u>2,326,070</u>	<u>2,058,195</u>

8 Borrowings and derivative financial instruments

On 17 October 2022, the Company entered into a A\$12m two-tranche secured loan facility (the "facility") with boutique asset manager and existing substantial shareholder PURE Asset Management Pty Ltd ("PURE" or "PURE Asset Management").

The loan is documented in a facility agreement between the Company, its subsidiaries and PURE Asset Management Pty Ltd in its capacity as trustee for The Income and Growth Fund (**Pure**) (**Facility Agreement**) dated 14 October 2022 (**Facility Date**) together with a General Security Deed between the same parties dated the same date.

The facility is a A\$12,000,000 two-tranche facility comprising:

- a **First Loan** of A\$6,500,000 to be utilised within 14 days after the Facility Date; and
- a **Second Loan** of A\$5,500,000 to be utilised within 365 days of the Facility Date.

Key terms of the funding

Hydralyte North America accessed the first tranche of A\$6.5m on 10 November 2022 following the execution of the facility agreement and, subject to satisfaction (or waiver by PURE) of certain conditions (see below for further details), the Company can access the remaining A\$5.5m within 365 days from the execution of the facility agreement.

The repayment date is 48 months after the utilisation date of the First Loan and includes an interest rate of 10% per annum (payable quarterly) (or 15.0% if a default or review event is subsisting).

The Company may repay the loan prior to the repayment date in tranches of \$500,000 if it gives PURE at least 30 business days' notice and pays a 2.5% repayment fee on the repayment amount.

The Facility includes a 1.5% establishment fee, payable on the utilisation date of the First Loan, and a line fee of 2.0% of the value of the Second Loan, payable on utilisation of the Second Loan.

The Facility includes the following covenants:

- from utilisation of the First Loan, minimum cash covenant at all times of US\$750,000;
- from utilisation of the Second Loan, minimum cash covenant at all times of US\$1,500,000;

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

8 Borrowings and derivative financial instruments (continued)

- at all times:
 - default event: quarterly gross profit less than or equal to US\$750,000, tested each financial quarter-end; and
 - review event: quarterly gross profit less than or equal to US\$1,000,000, tested each financial quarter-end.

The review event can be cured by clearing the test hurdle at a subsequent quarter.

The conditions that the Company must satisfy in order to access the Second Loan are:

- shareholder approval being obtained (or not required) for the issue of the warrants relating to the Second Tranche Warrants;
- 'total return on advertising spend' (calculated as total group gross sales divided by total group marketing expenditure) being greater than or equal to 2.2x for a minimum of three months in a five month period prior to utilisation;
- Group gross sales being greater than or equal to US\$1.1 million for a minimum of three months in a five month period prior to utilisation; and
- no event of default or review event continuing or expected at the time

The facility is secured by a first-ranking general security over all present and after-acquired property of the Company and each Group entity in all relevant jurisdictions.

Warrants

As part of the funding package, the Company issued 22,413,794 warrants to acquire fully paid ordinary shares (**Shares**) to PURE (or nominee) on drawdown of the first tranche, utilising the Company's existing capacity under ASX Listing Rule 7.1 (**First Tranche Warrants**).

The First Tranche Warrants will be exercisable for Shares at an exercise price representing the lower of:

- \$0.29;
- a 20.0% discount to the price of any change of control transaction; and
- an 'anti-dilution price adjustment' price (see below for further details).

Subject to drawdown of the second tranche of the loan and approval of the Company's shareholders for the purposes of Listing Rule 7.1, the Company will issue to PURE (or nominee) the number of warrants over Shares calculated in accordance with the formula outlined below. (**Second Tranche Warrants**).

The Second Tranche Warrants will be exercisable for Shares at an exercise price representing the lower of:

- 150% of the trailing volume weighted average price of shares immediately prior to the second tranche utilisation notice, subject to a floor price (minimum) of \$0.15 and a price cap (maximum) of \$0.40;
- a 20.0% discount to the price of any change of control transaction; and
- an 'anti-dilution price adjustment' price (see below).

Using the 'floor price' for the purposes of the formula, this would result in the issue of 36,666,667 warrants.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

8 Borrowings and derivative financial instruments (continued)

The Second Tranche Warrants are exercisable at an exercise price representing the Second Tranche Exercise Price that applies at the time of exercise of the Second Tranche Warrants.

If the warrants are exercised, the proceeds are expected to provide sufficient funding to extinguish the loan in full, or the funds can be applied to future corporate funding requirements.

Anti-dilution price adjustment

If the Company makes an issue of equity securities (or a series of consecutive issuances of equity securities in any period not exceeding 12 months), other than the exercise or conversion of options, rights or other convertible securities on issue at the Facility Date, and the diluted amount of those equity securities (in aggregate) exceeds 15% of the number of Shares on issue immediately before the announcement of the issue or first issuance, the anti-dilution price adjustment price of the Warrants will be calculated in accordance with the following formula:

$(A + B) / C$, where:

- **A** is the market capitalisation of the Company on the trading day prior to the announcement of the issue of equity securities;
- **B** is the number of equity securities the subject of the issue multiplied by their issue price; and
- **C** is the number of Shares on issue immediately before the announcement of the issue of equity securities plus the diluted amount of the issued equity securities.

Expiry of the Warrants

The Warrants expire on the date that is 7 days prior to the Repayment Date of the Loan (being 48 months after utilisation of the First Loan).

Prohibited issuances

The Company may not issue any shares other than ordinary shares while the Warrants are on issue (absent PURE's consent).

Other terms

The Warrants:

- do not confer any entitlement to dividends or other distributions, nor any right to attend or vote at a general meeting of the Company;
- have no entitlement to participate in a new issue of capital offered to shareholders without first being exercised;
- will not be quoted on ASX, however the Company will apply for quotation of the Shares issued on exercise of the Warrants; and
- contain standard adjustment terms, consistent with the ASX Listing Rules, in the event of a bonus issue, pro rata issue, reorganisation or reconstruction of capital.

Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2022

8 Borrowings and derivative financial instruments (continued)

The following tables summarise the carrying value of borrowings and derivative financial instruments associated with the funding package entered into by the Company:

Borrowings

	AUD	USD
	\$	\$
Total facility amount	6,500,000	4,205,236
Transaction costs	(434,291)	(279,553)
Fair value of warrants	(614,447)	(397,522)
Initial carrying value of borrowings	5,451,262	3,528,161
Amortisation of transaction costs	26,902	18,109
Foreign currency adjustment	-	165,511
Closing carrying value of borrowings	<u>5,478,164</u>	<u>3,711,781</u>

Derivative financial instruments

	AUD	USD
	\$	\$
Fair value of warrants	614,447	397,522
Fair value movement on warrants	(96,775)	(65,331)
Foreign currency adjustment	-	17,279
Closing carrying value of warrants	<u>517,672</u>	<u>349,470</u>

The Group determined that an obligation to issue warrants arose from the draw down of the first tranche of the facility, and consequently, a liability for the warrants was recognised on 10 November 2022.

On the issuance date of the facility and the warrants, the warrants were initially measured as a derivative at fair value of A\$614,447 (US\$397,522). Borrowings were measured as the difference between the A\$6.5m first tranche debt amount less the transaction costs of A\$434,291, less the fair value of the warrants of A\$614,447, resulting in an initial net debt book value of A\$5,451,262 (US\$3,528,161). Subsequent adjustments to the carrying value have been made for foreign currency translation (US\$165,511) and amortisation of borrowing costs (US\$18,109), resulting in a 31 December 2022 balance sheet carrying value for net debt on the first tranche of US\$3,711,781.

On the cash flow statement, the proceeds from these borrowings are recorded as the net amount of proceeds received after setup and legal fees of \$129,392 were deducted, resulting in the \$4,075,844 displayed on the statement of cash flows.

The initial derivative value of A\$614,447 (US\$397,522) tied to the warrants is presented in current liabilities with the title "Derivative financial instruments". An adjustment to update the fair value of the derivative based on conditions as at 31 December 2022 was recognised, which decreased the derivative liability by US\$65,331.