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 2023
Previous Reporting Period:	Financial year ended 31 December 2022

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 2023 (FY2023).

IMPORTANT NOTE: *Unless otherwise designated, the consolidated financial statements and this associated analysis are 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 2023:

Revenue	Up	10%	to	$10,041,184
Loss after tax attributable to members	Down	24%	to	$8,102,378
Net loss for the period attributable to members	Down	24%	to	$8,102,378
Net cash used in operating activities	Down	41%	to	$5,729,705

Highlights

- 10% increase in FY2023 net sales to $10.0M
- 2ppt increase in Gross Margin to 54% resulting in a 15% increase in Gross Profit from $4.7M to $5.4M
- Sales and Marketing expenses decreased by $2.4M
- Marketing as a percentage of sales decreased to 39% down from 74% in FY22.
- Net cash used in operating activities down 41% to $5.7M
- Underlying EBITDA Loss of ($6.6M) – after adjusting items including share based payment expenses, amortisation and FX gains (refer table overleaf); this marked a $2M reduction over FY22

Financial Results

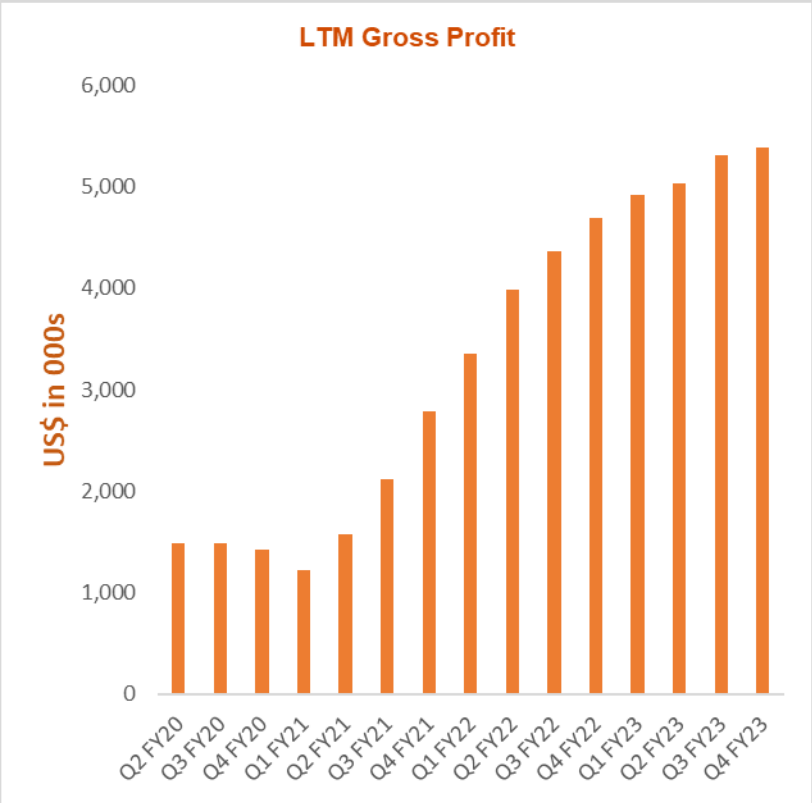
Net Sales

The Company achieved net revenue of $10,041,184 during FY23, which represented a 10% or $0.9 million increase on the previous 12-month period (FY22: $9,099,968). The Company faced inventory shortages due to high demand combined with supplier delays from September through December 2023, which resulted in unfilled orders worth approximately $877,576 in net sales. The Company's inventory situation has since recovered with best selling products back in stock and meeting demand from key retailers. After adjusting for inventory shortages, the YoY growth rate increases to 20%.

	FY22	FY23	YoY change
Total net revenue	9,100	10,041	10%
E-commerce sales	4,082	4,448	9%
Traditional retail sales	5,018	5,594	11%
Gross Margins	4,696	5,392	15%
Gross Margin %	52%	54%	2ppt

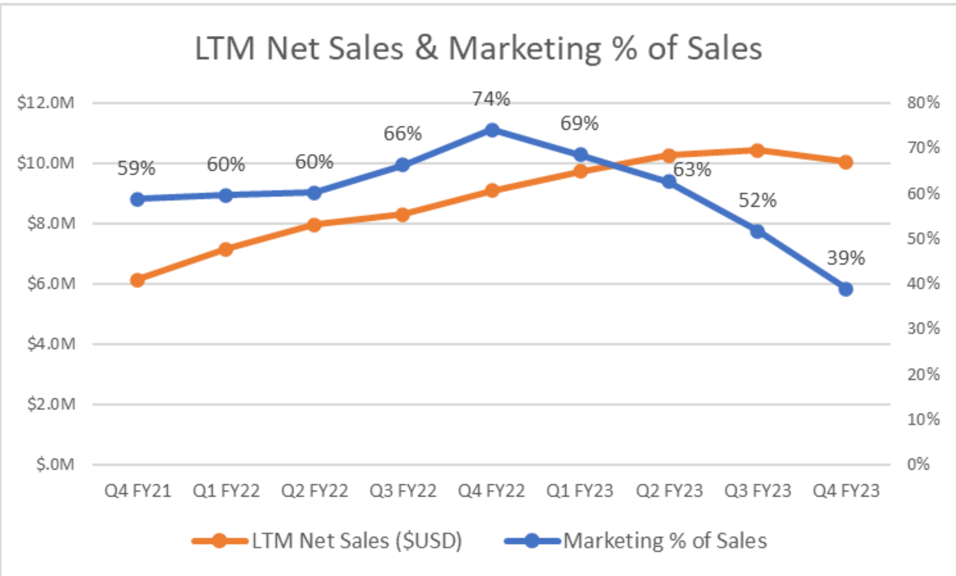
Gross Margin

The Company's gross margin improved by two percentage points from 52% to 54% for FY23. This led to a 15% increase in dollar value to $5,391,706 (FY22: $4,696,358).



Sales and Marketing Expenses

The Company achieved YOY sales growth of 10%, while investing less in marketing resulting in a $2.4M decrease in sales and marketing expense. The following chart highlights the Company's initiative to conserve capital and focus on sustainable growth:



To drive more sustainable revenue growth, the Company is actively shifting product marketing investments towards higher conversion and higher margin products. This was highlighted by the decrease in marketing as a percentage of sales to 39% in FY23 down from 74% in FY22. The Company will continue this strategy into FY24.

Adjusted EBITDA

The Company was materially impacted by non-cash costs related to share based compensation and interest related to its A$12M two-tranche secured loan facility. In addition to the loan facility, the Company issued warrants related to the facility for which there was a fair value gain during the year. After adjusting for these items, Hydralyte calculates an underlying loss for the year at $6.6M. Following is a summary of adjusting items impacting the unaudited Consolidated Statement of Profit or Loss:

Loss for the Year			**$8,102,378**	
Adjusting Items:				
Share Based Payments Expense	$	(1,116,855)		non-cash
Interest/Amortisation	$	(654,238)		
FV Movement of Derivative	$	285,933		non-cash
FX gain/loss	$	(3,532)		non-cash
Total Adjustments			($1,488,693)	
Adjusted EBITDA Loss			**$6,613,685**	

Outlook

Hydralyte is focused on higher conversion and higher margin products and has multiple new products currently in development. The Company continues to re-evaluate its existing product suite for improvements and has recently released a range of innovative new flavour products of its highest selling SKUs.

With key brand investments completed during FY22, the Company continued to execute a number of initiatives to reduce operating expenditures and preserve cash in FY23, which included a reduction in marketing spend. The reduced net cash use in FY23 is a direct result of this ongoing strategy, which is expected to continue into 2024.

Subsequent to the end of the period, the Company continued to reduce expenditure and has implemented a number of payroll cuts which will reduce staff costs by approximately US$0.6M per annum. This is being undertaken in conjunction with multiple other initiatives which have the potential to further reduce the Company's net operating expenditure during FY24.

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 2023	31 December 2022
Net Tangible Assets/(Liabilities)	$(358,255)	$3,981,172
Shares (No.)	265,141,804	163,755,295
Net Tangible Assets (cents)	0.00	2.43

Loss per Share

	31 December 2023	31 December 2022
Basic/Diluted loss per share (cents)	4.15	6.52

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 highly 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 on 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 the Company is dependent on generating sufficient funds from its operating activities and securing additional funding through the continued support of its current lenders or from other sources.

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 from the expected signing date of these financial statements. Whilst the directors and management are expecting continued revenue growth and sustained margins, the continuing viability of the Group is dependent on its ability to generate sufficient funds from its operating activities and securing additional funding through the continued support of its current lenders or from other sources.

Potential variation to Facility Agreement with Pure Asset Management

As at the date of this report, the directors and management have substantially agreed to the terms of a variation to the facility agreement with Pure Asset Management, which is expected to be completed and signed in early March 2024.

The Company is in discussions with its senior secured lender, Pure Asset Management Pty Ltd as trustee for The Income and Growth Fund (**Pure Asset Management**), regarding a potential variation to the Facility Agreement between the parties dated 15 October 2022 pursuant to which three additional tranches of debt would be available to be drawn-down by the Company subject to various conditions and consents as outlined below. Based on the current status of discussions with Pure Asset Management, the Company anticipates that the key terms of the potential variation of the Facility Agreement would be as follows:

- An initial tranche of A$1.5 million of debt would become available for draw-down shortly after agreeing the variation, planned for early March.
- The Company would agree to grant approximately 75 million additional warrants to Pure Asset Management. The warrants are currently expected have an exercise price of A$.02 and an expiry date of February 2028 and would be required to be cancelled for consideration if an insolvency event occurred. The grant of warrants would be subject to any required shareholder approval for the purposes of the ASX Listing Rules.
- Two further tranches of A$1.5 million each would be available for draw-down in the future, subject to Pure Asset Management agreeing to make the tranches available at the time of the draw-down request (in its discretion).
- The interest rate on the additional debt would be 15% and the interest would be payable in shares at a volume weighted average price at the time of the payment.
- The interest rate on the existing debt (of A$6.5 million) would increase from 10% to 15% from the date of the variation, with 50% of the interest payable in shares at a volume weighted average price at the time of the payment.
- Payment of the interest in shares would be subject to any shareholder approvals required by the ASX Listing Rules.
- The interest rate would increase to 30% on the occurrence of a material default of the Facility Agreement by the Company.
- Pure Asset Management would be guaranteed a minimum of 12 months of interest on the new debt from the date of the variation of the Facility Agreement.

The Board cautions that there is no certainty that any variation to the Facility Agreement will be agreed and accordingly there is no certainty that any additional debt will become available from Pure Asset Management. Further, in the event that a variation is agreed there is no certainty that the terms will reflect the description provided above.

The Company will update the market as to the progress of any variation to the Facility Agreement as and when required by the Listing Rules.

Management and the directors are of the view that the Group will be successful in securing the variation to the debt facility mentioned above and meeting these conditions, including related shareholder approvals should the need arise, and accordingly have prepared the financial statements on a going concern basis. However, due to the factors described above, 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.

Potential Strategic Transactions

In addition to the potential arrangements with Pure Asset Management described above, the Board is currently considering a range of strategic transactions to seek to strengthen the Company's financial position and performance.

The strategic transactions include potential change of control transactions, asset divestments and/or capital raisings.

The Company has had discussions with a range of potential investors or counterparties in respect of strategic transactions and certain of those discussions are continuing.

To this end, Two Roads Advisors, a New York-based corporate advisor and investment bank, was appointed in FY23 in order to engage with potential investors and acquirers.

The Board intends to continue engaging with potential investors or counterparties to seek to agree a strategic transaction or transactions for the benefit of shareholders.

The Board cautions that, despite the best efforts of the Company, there is no certainty that any strategic transaction will eventuate.

The Company will update the market as to the progress of any strategic transaction as and when required by the Listing Rules.

For consideration

The Group continues to implement a number of strategic opportunities to continue to grow revenue and profit margin towards break-even, including:

- Development of a new ready-to-drink product line with significant pre-release sales traction in Canadian and US retailers.
- Continued realisation of implemented changes in the supply chain through access to on-shore production, providing the Group improved lead times and reduced risk of inventory shortages.
- Product and SKU rationalisation and optimisation initiatives to preserve cash and improve margin.
- Adjustments to business growth initiatives in the UK and China to improve profitability.

ABN 83 620 385 677

Appendix 4E
Preliminary Final Report

For the year ended 31 December 2023

The Hydration Pharmaceuticals Company Limited

ABN 83 620 385 677

Consolidated Financial Statements

For the Year Ended 31 December 2023

The Hydration Pharmaceuticals Company Limited

ABN 83 620 385 677

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2023

	Note	2023 $	2022 $
Revenue	2	**10,041,184**	9,099,968
Cost of sales		**(4,649,478)**	(4,403,610)
Gross profit		**5,391,706**	4,696,358
Other income		**-**	5
Sales and marketing expenses		**(6,846,940)**	(9,227,254)
Administrative expenses		**(2,553,683)**	(1,695,273)
Employee benefits expense		**(3,732,962)**	(4,475,611)
Fair value movement on derivative financial instruments		**285,933**	65,331
Foreign exchange gain/(loss)		**(3,532)**	120,485
Finance costs		**(642,900)**	(91,207)
Loss before income tax		**(8,102,378)**	(10,607,166)
Income tax expense		**-**	-
Loss for the year		**(8,102,378)**	(10,607,166)
Other comprehensive income, net of tax			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign controlled entities		**(74,146)**	(611,622)
Other comprehensive income for the year, net of tax		**(74,146)**	(611,622)
Total comprehensive loss for the year		**(8,176,524)**	(11,218,788)

Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company:		
Basic and diluted earnings/(loss) per share	**(0.04)**	(0.07)

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

Consolidated Statement of Financial Position
As at 31 December 2023

	Note	2023 $	2022 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	**1,840,274**	4,688,191
Trade and other receivables	4	**1,748,571**	1,306,397
Inventories	5	**2,392,082**	3,386,379
Other assets	6	**710,492**	1,009,579
TOTAL CURRENT ASSETS		**6,691,419**	10,390,546
NON-CURRENT ASSETS			
TOTAL NON-CURRENT ASSETS		**-**	-
TOTAL ASSETS		**6,691,419**	10,390,546
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	7	**3,064,336**	2,326,070
Derivative financial instruments		**69,232**	349,470
TOTAL CURRENT LIABILITIES		**3,133,568**	2,675,540
NON-CURRENT LIABILITIES			
Provisions		**23,352**	22,052
Borrowings	8	**3,892,754**	3,711,781
TOTAL NON-CURRENT LIABILITIES		**3,916,106**	3,733,833
TOTAL LIABILITIES		**7,049,674**	6,409,373
NET ASSETS		**(358,255)**	3,981,173
EQUITY			
Contributed equity		**39,328,597**	36,613,006
Reserves		**3,391,309**	2,343,950
Accumulated losses		**(43,078,161)**	(34,975,783)
TOTAL EQUITY		**(358,255)**	3,981,173

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

The Hydration Pharmaceuticals Company Limited

ABN 83 620 385 677

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2023

2023

	Note	Contributed Equity $	Accumulated Losses $	Foreign Currency Translation Reserve $	Share Based Payment Reserve $	Total $
Balance at 1 January 2023		36,613,006	(34,975,783)	(1,242,524)	3,586,474	3,981,173
Loss for the year		-	(8,102,378)	-	-	(8,102,378)
Other comprehensive income		-	-	(74,146)	-	(74,146)
Total comprehensive loss for the year		-	(8,102,378)	(74,146)	-	(8,176,524)
Transactions with owners in their capacity as owners						
Issue of shares		2,956,954	-	-	-	2,956,954
Share issue transaction costs		(241,363)	-	-	-	(241,363)
Employee share scheme		-	-	-	1,121,505	1,121,505
Balance at 31 December 2023		39,328,597	(43,078,161)	(1,316,670)	4,707,979	(358,255)

2022

	Note	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
Loss for the year		-	(10,607,166)	-	-	(10,607,166)
Other comprehensive income		-	-	(611,622)	-	(611,622)
Other comprehensive income		-	(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

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

The Hydration Pharmaceuticals Company Limited

ABN 83 620 385 677

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2023

	Note	2023 $	2022 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		**9,599,011**	8,806,122
Payments to suppliers and employees (inclusive of GST)		**(14,800,920)**	(18,407,801)
Transaction costs associated with borrowings		**-**	(150,161)
Interest paid		**(527,796)**	-
Net cash inflow/(outflow) from operating activities		**(5,729,705)**	(9,751,840)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash inflow/(outflow) from investing activities		**-**	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**-**	4,075,844
Proceeds from issuance of equity securities		**2,703,779**	-
Proceeds from exercise of warrants		**253,175**	-
Transaction costs from issuance of equity securities		**(241,363)**	-
Net cash inflow/(outflow) from financing activities		**2,715,591**	4,075,844
Net increase/(decrease) in cash and cash equivalents		**(3,014,114)**	(5,675,996)
Cash and cash equivalents at beginning of financial year		**4,688,191**	10,672,533
Effects of exchange rate changes on cash and cash equivalents		**166,197**	(308,346)
Cash and cash equivalents at end of financial year	3	**1,840,274**	4,688,191

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2023

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.

Historical cost convention

The consolidated 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 financial assets and financial liabilities. The amounts presented in the consolidated 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 $8,102,378 (2022: $10,607,166) and had net cash outflows from operating activities of $5,729,705 (2022: $9,751,840) for the year ended 31 December 2023 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 from the expected signing date of these financial statements. Whilst the directors and management are expecting continued revenue growth and sustained margins, the continuing viability of the Group is dependent on its ability to generate sufficient funds from its operating activities and securing additional funding through the continued support of its current lenders or from other sources.

Potential variation to Facility Agreement with Pure Asset Management

As at the date of this report, the directors and management have substantially agreed to the terms of a variation to the facility agreement with Pure Asset Management, which is expected to be completed and expected to have signed in early March 2024.

The Company is in advanced negotiations with its senior secured lender, Pure Asset Management Pty Ltd as trustee for The Income and Growth Fund (**Pure Asset Management**), regarding a potential variation to the Facility Agreement between the parties dated 15 October 2022 pursuant to which three additional tranches of debt would be available to be drawn-down by the Company subject to various conditions and consents. Based on the current status of discussions with Pure Asset Management, the Company anticipates that the key terms of the potential variation of the Facility Agreement would be as follows:

- An initial tranche of A$1.5 million of debt would become available for draw-down shortly after agreeing the variation, planned for early March.

1 Basis of preparation (continued)

Going Concern (continued)

- The Company would agree to grant approximately 75 million additional warrants to Pure Asset Management. The warrants are currently expected have an exercise price of A$0.02 and an expiry date of February 2028 and would be required to be cancelled for consideration if an insolvency event occurred. The grant of warrants would be subject to any required shareholder approval for the purposes of the ASX Listing Rules.
- Two further tranches of A$1.5 million each would be available for draw-down in the future, subject to Pure Asset Management agreeing to make the tranches available at the time of the draw-down request (in its discretion).
- The interest rate on the additional debt would be 15% and the interest would be payable in shares at a volume weighted average price at the time of the payment.
- The interest rate on the existing debt (of A$6.5 million) would increase from 10% to 15% from the date of the variation, with 50% of the interest payable in shares at a volume weighted average price at the time of the payment.
- Payment of the interest in shares would be subject to any shareholder approvals required by the ASX Listing Rules.
- The interest rate would increase to 30% on the occurrence of a material default of the Facility Agreement by the Company.
- Pure Asset Management would be guaranteed a minimum of 12 months of interest on the new debt from the date of the variation of the Facility Agreement.

The Board cautions that there is no certainty that any variation to the Facility Agreement will be agreed and accordingly there is no certainty that any additional debt will become available from Pure Asset Management. Further, in the event that a variation is agreed there is no certainty that the terms will reflect the description provided above.

The Company will update the market as to the progress of any variation to the Facility Agreement as and when required by the Listing Rules.

Management and the directors are of the view that the Group will be successful in securing the variation to the debt facility and meeting these conditions, including related shareholder approvals should the need arise, and accordingly have prepared the financial statements on a going concern basis. However, due to the factors described above, 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.

Potential Strategic Transactions

In addition to the potential arrangements with Pure Asset Management described above, the Board is currently considering a range of strategic transactions to seek to strengthen the Company's financial position and performance.

The strategic transactions include potential change of control transactions, asset divestments and/or capital raisings.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2023

1 Basis of preparation (continued)

Going Concern (continued)

The Company has had discussions with a range of potential investors or counterparties in respect of strategic transactions and certain of those discussions are continuing.

To this end, Two Roads Advisors, a New York-based corporate advisor and investment bank, was appointed in 2H2023 in order to engage with potential investors and acquirers.

The Board intends to continue engaging with potential investors or counterparties to seek to agree a strategic transaction or transactions for the benefit of shareholders.

The Board cautions that, despite the best efforts of the Company, there is no certainty that any strategic transaction will eventuate.

The Company will update the market as to the progress of any strategic transaction as and when required by the Listing Rules.

2 Revenue

	2023 $	2022 $
Revenue		
Revenue from contracts with customers	**10,041,184**	9,099,968
	10,041,184	9,099,968

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

	2023 $	2022 $
US	**4,300,856**	4,500,526
Canada	**5,740,328**	4,599,442
Total	**10,041,184**	9,099,968

3 Cash and cash equivalents

	2023 $	2022 $
Cash at bank and in hand	**1,840,274**	4,688,191
	1,840,274	4,688,191

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2023

4 Trade and other receivables

	2023	2022
	$	$
Trade receivables	**1,783,986**	1,311,855
Provision for doubtful accounts	**(38,987)**	(12,882)
Other receivables	**3,572**	7,424
	1,748,571	1,306,397

5 Inventories

	2023	2022
	$	$
Raw materials and consumables	**372,016**	329,754
Finished goods	**2,340,357**	2,694,368
Goods in transit	**-**	539,405
Writedowns	**(320,291)**	(177,148)
	2,392,082	3,386,379

6 Other assets

	2023	2022
	$	$
Prepayments	**710,492**	1,009,579
	710,492	1,009,579

7 Trade and other payables

	2023	2022
	$	$
Trade payables	**1,059,467**	453,473
Returns and other liabilities	**359,690**	305,915
Accrued expenses	**1,645,179**	1,566,682
	3,064,336	2,326,070

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 (**Facility Agreement**) dated 14 October 2022 (**Facility Date**) together with a General Security Deed between the same parties dated the same date.

8 Borrowings and derivative financial instruments (continued)

Key terms of the funding

Hydralyte North America accessed the first tranche of A$6,500,000 on 10 November 2022 following the execution of the Facility Agreement and subject to satisfaction (or waiver by PURE) of certain conditions.

The repayment date is 48 months after the utilisation date of the first tranche 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 A$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 included a 1.5% establishment fee, which was payable on the utilisation date of the first tranche, and a line fee of 2.0% of the value of the second tranche, payable up to utilisation of the second tranche.

The Facility includes the following covenants:

- from utilisation of the first tranche, a minimum cash covenant at all times of US$750,000;
- from utilisation of the second tranche, a minimum cash covenant at all times of US$1,500,000;
- 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.

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

The Group has complied with the relevant covenants throughout the reporting period.

Conditions to access the second tranche

Access to the second tranche is at the discretion of PURE at the time the Company seeks to draw it, and shareholder approval being obtained (or not required) for the issue of the warrants relating to the second tranche. The Company is currently in advanced negotiations with PURE regarding a potential variation to the Facility Agreement (see details in note 1).

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 are 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).

8 Borrowings and derivative financial instruments (continued)

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).

In H2 2023, PURE exercised 7,471,261 First Tranche Warrants, leaving 14,942,533 First Tranche Warrants remaining. In addition, PURE agreed to amend the floor exercise price of the First Tranche Warrants to A$0.053, as outlined in the anti-dilution formula above.