2023 ANNUAL REPORT

GROWING GENERATION JOY

ASX: BUB
Bubs Australia

Bubs Australia Limited and Controlled Entities | ACN 060 094 742

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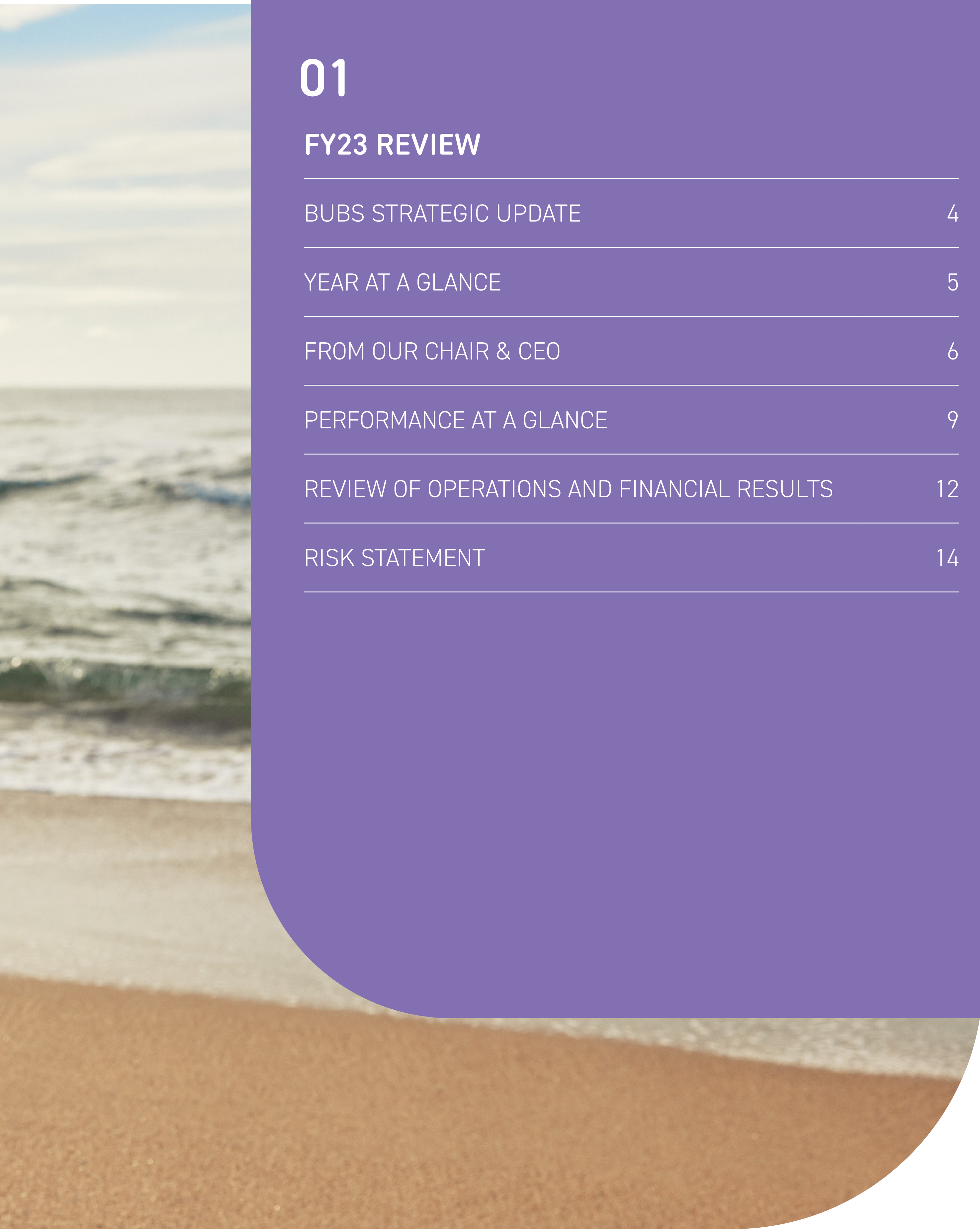
GENERAL INFORMATION

The financial statements cover Bubs Australia Limited for the year ended 30 June 2023. The financial statements are presented in Australian dollars, which is Bubs Australia Limited's functional and presentational currency.

Bubs Australia Limited's principal place of business is:
23 Nina Link, Dandenong South, VIC 3175 Australia



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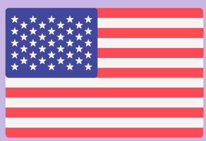
FY23 REVIEW

BUBS STRATEGIC REVIEW

Bub's Strategic Review sets out a 5-point plan to responsibly manage capital and to grow and maximise shareholder value.



USA GROWTH ENGINE

Grow further into the major retailers including Grocery & Pharmacy and increase velocity or sell-through.

Continue to drive growth and scale through E-Commerce platforms, and secure FDA permanent access to the US market.

CHINA RESET

Reset has commenced with a multi-channel go-to-market strategy with new leadership, new trade partners and focused where Bubs has a clear competitive advantage – goat infant milk formula (IMF) and goat adult milk powder.

PORTFOLIO OPTIMISATION

Bubs is a market leader in its hero goat product segment pioneering the IMF category in the USA and China.

Strategic focus will be around premiumisation, repositioning bovine IMF products, product rationalisation, innovation, and investment in core brands.

SWEAT THE ASSETS

Bubs' state of the art manufacturing facility in Victoria is under-utilised, operating at approximately 31% capacity.

Bubs is reviewing opportunities to augment Bubs products via toll manufacturing and selective private label opportunities.

WORKING CAPITAL

Annual operating expenses will be reduced by approximately $10m and we expect that the monthly cash burn will be more than halved from approximately $5m to $2m from Q2 FY24 (excluding EGM and legal expenses). Bubs' current growth plans are fully funded, and plans are in place to liquidate excess inventory. Bubs will continue to support its growth markets and core brands, maintaining its marketing investment at 15% of net sales.

YEAR AT A GLANCE

USA Sales Record Growth

Stable growth

Sales AUD$23.9m

Amazon Net Sales AUD$6.0m

(Sales reflective from commencement of Amazon sales, Nov 2022)

Inventory Write Down

Significant write down in inventory that was related to the China strategy

Overall write down AUD$25.2m

Reset China Strategy

Termination of AZG Supply agreement

Pursuit of AZG related debt recovery

Negotiation of new distribution agreements

USFDA

USFDA Protein efficiency ratio (PER) Study Complete

Clinical Study protocol Approved

USFDA site audit successfully completed

Continued strong position in Domestic Retail Scan Sales and Market Share

Record sales and market share gains

No.1 Goat Formula brand in Australia[1] and the USA[2]

#1 Goat
FASTEST GROWING

[1] Circana Scan Data, Coles, Woolworths and AU My Chemist Group Combined to MAT 30/07/2023

[2] Circana Scan Data, Total US Multi Outlet to MAT to 20/08/2023 (NB. Excludes Online)

FROM OUR CHAIR & CEO

Dear Fellow Shareholders

On behalf of the Board and Group, we present to you the Bubs Annual Report for the financial year ended 30 June 2023. This year was one of significant in-roads to establish the right governance, leadership team and strategic plan to deliver growth and return shareholder value.

We are making steady progress against our strategic plan and are already starting to see green shoots. Despite the challenges of the past 12 months, the core business activities in our key markets of USA and Australia – with the exception of China – have been pleasing overall. The major challenges to the business have included the failed corporate requisition motion for Board control as well as the disappointing performance of the China market and the associated necessity to call in the AZG related debt owed to Bubs.

Alongside the Board, we wish to thank our Bubs shareholders for their support at the recent Extraordinary General Meeting (EGM) on 27 July 2023. The past few months have not been easy, but it is thanks to our loyal and experienced leadership team, employees, suppliers, and consumers that we have been able to stay focussed and build momentum as we enter FY24.

Some of the highlights of the past year included:

- Bubs being named by Austrade as 'Australian Exporter of the Year' in November 2022 acknowledging the remarkable success of 'Operation Fly Formula', as well as Bubs' expedited market entry to the USA in the second half of 2022;
- the Federal Drug Administration's (FDA) June 2023 audit of our exceptional canning facility "Deloraine" located in, Victoria as we move steadily towards our goal of securing permanent market access to the USA, the second largest infant formula market in the world;
- receiving strong feedback and support for the Board's 5-point Strategic Plan to grow and restore shareholder value by growing the USA market, re-setting China, optimising our portfolio, sweating our assets and making more efficient use of our capital to take advantage of our exciting growth opportunities;
- introducing governance changes to put in place a majority independent Board to oversee management and ensure that our corporate governance is consistent with ASX Corporate Governance Principles.

However, there have been a number of setbacks, being:

- the financial performance of the Company for the year ended 30 June 2023, the declining share price and loss of shareholder value under the leadership of the previous executive management team;
- the requisitioning of the EGM by the former Executive Chair, Co-Founder/CEO and their associates in June - July 2023, which together with the media campaign they ran, had a de-stabilizing effect on the reputation and share price of the Company;
- the failure of the AZG relationship servicing the Daigou and CBEC market in China.

There was a considerable amount of misinformation appearing in the media in the lead up to and post the EGM. We wish to set the record straight. At this time last year, our former Executive Chair and Co-Founder/CEO were set KPIs by the Board to deliver a better than breakeven financial result for our shareholders in the financial year ended 30 June 2023. At the half year in February 2023, the Board became aware that losses were being incurred, inventory and expenses were too high, and the business was under-performing against its revenue targets, particularly in China.

This was partly due to border closures and economic issues but the most significant reason for the underperformance could be attributed to the exclusive arrangements that the former executive management team had put in place with Alice Trading Pty Limited and Willis Trading Pty Limited (part of the Alpha and AZG Group) for China, and poor forecasting of consumer demand.

As the China market continued to disappoint on the back of both prolonged China lockdowns and a market strategy that failed to deliver, the business was faced with the need to call in China associated debts, write down inventory and make additional cost savings more broadly.

Fortunately, the Australian and USA businesses were performing well enough to partially offset the disappointing performance in China, but it became clear to the Board that things could deteriorate further without a significant change to the governance, leadership, and strategic vison of the Company.

The Board ultimately made the decision to change the leadership of the Company in April/May 2023, appointing two new independent directors to the Board which allowed for proper oversight of management, access to information and led to the cessation of our relationship with Alice and Willis. as at 30 June 2023.

Pleasingly, the company-wide Strategic Review initiated by the Board has been able to address the clear and immediate challenges in the China market in particular. The Company walked away from some business deals that could have exposed Bubs to significant financial and non-financial risks without corresponding return and further erode shareholder value. High levels of undisciplined spending and cash burn rates needed to be reduced considerably. The financial results delivered by Bubs in the period to 30 June 2023 are disappointing but are largely reflective of the negative impact of the failed strategies put in place by the former executive management team. This has been well addressed by the current Board's Strategic Review

To rectify the governance issues, the Board appointed Mr Paul Jensen as an experienced Chair of the Finance & Audit Committee and engaged the services of an experienced ASX Interim CFO Mr Robin Johnson on an extended contract to help ascertain the root cause of the losses, install proper budgeting systems, start country profit and loss reporting, reduce operational costs, and install a new ERP/fit for purpose financial reporting and risk management system for the Company.

Whilst the EGM and Board requisition process presented an obvious distraction to the Board and senior leadership, these had little impact upon the underlying operational business of the company. It is a testament to the professionalism of Bubs dedicated employees, that the business continued to reset, consolidate, and indeed grow in key areas during this time.

Operationally, the company has now implemented significant ongoing savings from a reset cost-base following the review process. Operational focus areas outside of sales, margin and supply optimisation notably include conversion of some excess inventory to cash, new product development targeted at a China market refresh as well as support for an expected roll-out of refreshed and consolidated USA packaging for the Bubs branded range.

The organisational restructure effected in both China and the USA has been successful in providing increased accountability, clarity and focus to these operations. The company is fortunate in having both high calibre individuals in Chris Lotsaris (USA) and Jackie Lin (China) as capable in-country leads with full P+L responsibility and accountability.

The diversification away from a 'China heavy' strategy has been timely on the back of the Fly Formula operation. It allows the business to now both de-risk and grow revenue in a sustainable manner for the long term, whilst still retaining the ability to work through a more calibrated and considered access process and business model for China.

The superb world-class asset in the "Deloraine" canning facility located in Melbourne remains an important pillar in the ability of Bubs to access and supply both branded and non-branded products of the highest quality to a global market. This outstanding asset and effective management has been instrumental in accessing the USA market – as attested to by the recent and successful USFDA on-site audit. Whilst being designed with China SAMR registration in mind, it is pleasing to note that current operations and plant utilisation is increasing significantly as the demand in the USA, Australia and the rest of the world continues to grow.

Whilst the Australian domestic market continues to grow in a pleasingly sustainable manner, the near- and medium-term overall growth engine for the company will be the USA. Bubs' success in the USA has been crucially important over the past year, with sales accounting for 40% of overall FY23 sales and continued month-on-month growth, with online sales an increasing proportion of revenue. This is expected to increase significantly over coming years. Consumer engagement within the USA is of critical importance, and the Company recognises the need to have in-country expertise. Bubs has therefore re-tuned and revised its USA strategy to one of a more thoughtful and targeted marketing spend that is sharply focussed on supporting in-store velocity and ecommerce as primary objectives.

FROM OUR CHAIR & CEO CONTINUED

Bubs is fortunate to have a refreshed and supportive Board to guide the company through the critical next stages of the company's development – particularly as North America continues to grow at scale. This, combined with the unique market access means that Bubs is well placed to actively look to leverage its position. To this end, early exploratory conversations are active around the potential to supply non-branded infant formula in the USA and Canada. With a large and relatively affluent population, the North American market is one that Bubs is pursuing in line with the Strategic Review, announced in July 2023.

The Strategic Review sets out a 5-point plan to responsibly manage capital and to grow and maximise shareholder value. The key points include:

1. USA Growth Engine
2. China Reset
3. Portfolio Optimisation
4. Sweat Existing Assets
5. Working Capital

Subsequent to the financial year end, Bubs was pleased to announce the appointment of existing Non-Executive Director Reg Weine as Bubs' new CEO on 29 August 2023. This has taken place at a critical stage in Bub's development and Reg has considerable experience leading growth companies.

Under our new leadership team and with Reg's strong commercial and cross border expertise, Bubs is focussed on executing our Strategic Plan with excellence. We are budgeting a loss in the short-term due to a number of significant expenses that we still need to incur, including investing in growth markets and obtaining the highly prized FDA approval for permanent access to the USA market by 2025.

We wish to thank each and every member of the Bubs team for leaning in to support the Company and working tirelessly around the clock in the best interests of shareholders to see us through this period of transformational change for Bubs. They have worked long hours for many months and deserve our deepest thanks for working on the turnaround strategy to ensure that Bubs is able to survive and thrive in the future.

As fellow shareholders, we have enjoyed getting to know our shareholders and consumers. We look forward to meeting more of you at our upcoming Annual General Meeting in November 2023 and beyond as we deepen our connection to our shareholders going forward and ensure greater transparency and communication with you all.

Finally, it is important to acknowledge the Bubs Co-Founder Kristy Carr and the former Executive Chair Dennis Lin for building the Bubs brand over many years, and for the work done to access the USA market in 2022. The team is building on these foundations as we move forward.

On behalf of the Board and leadership team we extend our thanks to all shareholders for your ongoing support of Bubs. We will do our utmost to restore shareholder value and earn your trust and confidence as we move forward under the leadership of our new CEO.

Katrina Rathie

Chair

Richard Paine

Interim CEO &
Chief Operating Officer

"Whilst the Australian domestic market continues to grow in a pleasingly sustainable manner, the near- and medium-term overall growth engine for the company will be the USA."

PERFORMANCE AT A GLANCE

1. FINANCIAL

Bubs overall revenue for FY23 is reflective of both the disappointing performance of the previous management's China strategy as well as the sustained momentum of the USA business. Whilst the USA sales were not able to make up for the drop in China sales during FY23, the previous FY22 China sales were notable for the high level of inventory that AZG continues to hold – specifically Supreme product.

Revenue by region	2023 AUD$	2022 AUD$
Australia	17,343,758	14,467,623
China	13,621,330	49,404,629
USA	23,904,446	8,076,638
Other International	5,241,093	17,348,435
Total	**60,110,627**	**89,297,324**

2. RESETTING CHINA STRATEGY

It is clear that the China strategy pursued by previous management was unsuccessful. The new strategy for the China business relies upon us working closely with our two new Daigou corporate partners as well as our new CBEC Trade Partners. We will continue to pursue the debts owed to the Company by Willis and Alice Trading. Additionally, there has been an organisational restructure of the China team which has brought a necessary renewed focus and accountability.

The key costs associated with the previous China strategy are significant. The Company loss has been in large part due to non-cash items. An additional impairment of $16.2 million of intangible assets brings the full year intangible asset impairment to $36.2 million. Credit losses of $6.8 million have also been provided for which included the full AZG exposure of $5.7 million. Additionally, an inventory provision of $25.2 million has been taken up.

3. RESETTING THE BUSINESS COST BASE

There has been particular focus on actively managing expenses and cash outlay. The non-recurring costs of the USA Regulatory clinical trial process, ERP implementation and EGM Requisition associated legal costs have been significant. The leadership team has reset and implemented robust expense cost targets and review processes around the key controllable costs of trade spend and marketing in particular to ensure an acceptable commercial return.

This has required careful and detailed review – particularly in the USA where marketing cost control has been implemented in a manner that serves to prioritise retention of product range with key retailers. At the same time, it has been an operational priority to support e-commerce at a tactical and sales level. This revised targeted and thoughtful marketing expenditure is both responsible and necessary.

As announced to the market, the Strategic Review process has resulted in a level of cost-out via an optimised organisational structure now fully implemented in China and the USA. It is further noted that some operational improvements are expected to flow following anticipated implementation of the ERP project scheduled for Q1.

Additionally, inventory management and the conversion of excess inventory from the previous China strategy remain important and ongoing areas of focus for management.

4. SUSTAINABLE REVENUE GROWTH

FY23 has seen a dramatic change in global market access for Bubs with the advent of 'Operation Fly Formula' in the USA, which occurred around 12 months ago. This unforeseen opportunity has in turn provided rapid access to the USA market – facilitated with the agility of the management team, employees and key stakeholders. This stands in contrast to the continued disappointment of the China market overall since Covid and the failure of a workable strategy to move China specific inventory Infant Formula in particular.

The year has seen the move to a permanent employee presence in the USA to fully support a retail sales strategy in servicing the USA retail market, with its many retailers, market segments and geographical regions. The business faced many challenges during this period with unprecedented activity ramp-up. This included the delivery of unplanned inventory into the USA – some of which has taken time to digest.

Of note, we have seen strong sales of the Bubs goat infant formula range. This will of course be challenged as additional competitors move on-shelf. However, with increased competition, there is also expected to be increased category awareness generally amongst consumers – an aspect Bubs is well placed to service.

Type of goods and services	2023 AUD$	2022 AUD$
Sale of Infant Formula	48,613,317	53,527,894
Sale of Baby Organic Food	2,517,302	1,796,092
Sale of Adult Powder	5,062,110	17,495,457
Sale of Fresh Dairy Products	1,611,733	1,933,917
Other	2,306,165	14,543,965
Total revenue from contracts with customers	**60,110,627**	**89,297,324**

With 12 months of sales history, there has been opportunity to review product positioning on-shelf as the Company moves to a USA-compliant packaging format. Bubs is currently working through the various process for assortment optimisation at a retail level and will continue to liaise with the US Food and Drug Administration (FDA), consumers and retailers around pack size, label content and category positioning. This coincides with range reviews and some expected SKU consolidation as well as the overall transition to USA compliant labels from the current Australian Enforcement Discretion compliant packaging.

Of interest, for the US market online sales formed over 36% of total sales during FY23. Online purchasing has continued to rise significantly. This mix of online versus bricks-and-mortar sales is viewed as an appropriate go-to-market strategy. In-store presence is important for both revenue and customer brand visibility while catering for consumers whose preference is for the convenience of online IMF purchases/delivery via Prime/D2C .

5. ERP

As Bubs has rapidly evolved its organisation infrastructure over the past few years, the internal business administrative systems have become stretched and challenged. During the course of the past 12 months the Board initiated an ERP project to address this risk. Accordingly, the business has proceeded with an enterprise-wide ERP project which will see SAP By-Design implemented early in the new financial year.

It is anticipated that this project will bring the mandated benefits of more robust reporting, as well as some specific operational in-house efficiencies through the supply chain.

6. REGULATORY PATHWAYS TO FUTURE GROWTH

Bubs' participation in the US 'Fly Formula' program provided a unique opportunity to service American families during the infant formula shortage in 2022. The Company's agility has provided a remarkable first-mover advantage that has translated into an opportunity of global significance.

The ongoing partnership with the FDA and the formal processes associated with following the permanent pathway for regulatory approval has been an operational priority. In line with this focus, Bubs has worked closely with stakeholders Bondi Partners, registered clinical research organisation (CRO) Validcare as well as Bubs' Australian and US based technical teams.

In terms of process, the Protein Efficiency Ratio (PER) study – which evaluates protein quality – has been completed, and the formal clinical trial or Growth Monitoring Study (GMS) is expected to commence in August 2023. Adhering to the regulatory timeline, Bubs plans to submit results from the GMS to the FDA by September 2024. Following this submission, the FDA will evaluate the study outcomes to keep Bubs formulas on shelves beyond the temporary enforcement discretion granted until October 2025.

The clinical trial is a Growth, Tolerance, and Safety study of healthy term infants consuming Bubs' infant formulas. The study evaluates all three Stage 1 formulas including Goats Milk, Cows Milk Organic, Cows Milk Supreme as well as a commercially available formulation as the control. Additionally, the study contains a breast-feeding cohort for reference.

I am pleased to report that this process is currently on track, on time and on budget. It is noteworthy that the timelines established by the FDA are tight. Bubs is therefore managing stakeholders with this in mind and pleased we can serve American consumers in parallel.

7. FY24 OUTLOOK

Whilst there are challenges around China, the past 12 months has been one of remarkable pivot in focus and revenue growth from the USA. The year has progressed with the consolidation of the early 'Operation Fly Formula' flights into a considered and successful retail strategy that in FY24 will be further streamlined now a formal retail planogram, notably absent in the initial 'Fly Formula' rollout, has been implemented. With continued growth expected in the USA during FY24, the focus remains upon both the regulatory pathway to permanent market access and sustainable retail sales growth.

The continued strong performance of Bubs in Australia and Rest of the World, combined with an increase in overall Deloraine asset utilisation, provide further 'demonstrated-demand' based revenue to augment that of the USA.

In terms of China, the Caprilac adult goat product is expected to provide a solid base to revenue, to which IMF sales through reset distribution agreements will provide upside.

The capable Bubs team are well placed to support a new CEO in the delivery and execution of the Board's overall strategy. As one of a few truly global challenger brands with a high level of vertical integration and operations in key markets, Bubs has significant potential to grow both revenue and profitability on the back of strong fundamentals into the future. Careful cash management in the short term in particular will be crucial, and shareholders will be aware that the story and pathway that Bubs is taking is unique within the Australian dairy industry and remains one of significance.

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

REVENUE

The Group achieved gross revenue[1] of $73.8 million (29% down on FY22) and revenue of $60.1 million (33% down on FY22). The rebates recorded against gross revenue[1] is $13.6 million, being 18% of Gross Revenue (FY22:13%). Bubs Infant Formula revenue decreased 7% compared to FY22, contributing 82% of total group revenue in FY23 compared to 60% in FY22.

In the domestic market, Group revenue grew 20% across Australia's leading retailers, Coles, Woolworths, and Chemist Warehouse. Revenue in China decreased by 72% on the back of both prolonged China lockdowns and a market strategy that failed to deliver. USA revenue increased by 196%, noting that FY23 was the first full year of operations in the USA. Revenue elsewhere (Rest of the world) decreased 70%, however in the prior year, $13.5 million related to the sale of bulk powder.

GROSS MARGIN

Group gross profit decreased to (16%) (FY22: 32%). This was driven by a total of $25.2 million in inventory provisions. The amount of inventory that was written off during the year was $1.1 million (2022: $0.9m). Having regard to the significant inventories on hand at 30 June 2023, the expiry dates of the inventory and sales forecasts, management has recognised an inventory obsolescence provision of $25.2 million (2022: Inventory provision reversal $5.9m) was recognised during the year. The cost of inventories recognised as an expense during the year was $42.2 million (2022: $65.5m). Therefore, the underlying gross profit (excluding inventory write offs and provisions) in FY23 was 30%.

OPERATING EXPENSES

Operating expenses to revenue ratio[2] increased to 99% from 32% in FY22. The increased operating expenses were driven by the following:

- Legal costs of $2 million;
- Marketing, promotional and travel costs under previous management of $17 million;
- Consulting fees under previous management of $3.6 million;
- Nonrecurring ERP costs of $1.1 million and $3.5 million in FDA costs;
- $5.4 million increase in salaries and wages (excluding superannuation and share based payments, as a result of opening the USA office, aligning wages with increased inflation and other resourcing decisions to support the Group's growth strategies.

STATUTORY RESULTS

The EBITDA[3] loss was $105.2 million (FY22: $7.8 million) and the reconciliation to the statutory loss before tax is set out in the table below.

	FY23 $	FY22 $
Loss before tax	(107,484,539)	(11,301,122)
Interest income	518,982	58,378
Finance cost	(452,470)	(914,374)
EBIT Loss	**(107,551,051)**	**(10,445,126)**
Depreciation and amortisation	(2,320,272)	(2,693,197)
Impairment	(36,165,080)	—
Underlying EBITDA Loss	**(69,065,698)**	**(7,751,929)**

1 Gross revenue is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review. Gross revenue represents the revenue recognised without rebates and marketing contribution.

2 Operating expenses to revenue ratio excludes Depreciation & Amortisation and Share Based payments expense.

3 Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review.

BALANCE SHEET

The Group continues to maintain a strong balance sheet position with $26.1 million cash and cash equivalents at 30 June 2023 (30 June 2022: $16.3m) and $2.0 million external debt at balance date with $8 million unused.

GOING CONCERN

At 30 June 2023, the Group is in a net current asset position of $35.4 million (2022: $44.3m). At 30 June 2023, the Group has $26.1 million in available cash and cash equivalents and $8.0 million in committed un-drawn bank facilities (note C9). The Group made a FY23 loss after tax of $108.4 million (FY22: $11.4m) which included an impairment of intangibles of $36.2 million, impairment of inventory of $25.2 million, and provisions for expected credit losses of $6.8 million. The Group extended the $10.0 million working capital facility with National Australia Bank, with expiry in September 2024. Net cash outflows from operating activities in FY23 were $46.5 million (FY22: $9.4m).

The Group acknowledges the inherent uncertainty in their earnings forecast, which includes assumptions such as:

- Increased ranging of products in the USA including the introduction on new planograms and increasing the number of stores for each product.
- Attainment of the permanent U.S. Food and Drug Administration approval to continue operating in the USA. The Group is currently operating under discretionary approval until permanent approval is obtained in FY25.
- Improved working capital position and liquidating excess inventory, including the Base powder valued at $25 million prior to provisions.
- Reduced operating expenses by approximately 24% through stringent expense management, and cost optimisation and estimated expenses relating to litigation matters.

The Directors are proactively taking steps to manage and mitigate the risks associated with the required business improvement. The Directors Strategic Review includes incremental opportunities over and above what has been used in the above going concern assessment.

Due to the uncertainty surrounding the above matters, a material uncertainty exists which may cast doubt on the Group's ability to continue as a going concern and therefore whether it may be able to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding the above, based on the current information and actions being taken, the Directors consider that it is appropriate for the financial report to be prepared on a going concern basis. Should the cash flow forecasts not be achieved, there is a material uncertainty as to whether the Group will be able to continue as a going concern and realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report. The Consolidated Financial Statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

RISK STATEMENT

Bubs Australia is committed to the diligent implementation of its enterprise risk framework. The company's Executive Leadership Team has assigned clear ownership for each of the identified risks across the organisation enabling a culture of accountability and proactive risk management. Through consistent reviews and assessments, the company ensures the accurate and timely reporting of pivotal risk matters to the Board via its dedicated Audit and Risk Committee.

The application of our robust risk framework remains integral to our operations, aiding in the prompt identification of potential risks and the formulation of effective mitigation strategies. This proactive approach ensures that risk mitigation plans are swiftly devised, leading to continuous enhancements across all aspects of our business.

Bubs Australia places utmost importance on maintaining operational stability, particularly in areas such as food safety and workplace health and safety. These priorities are meticulously upheld and validated through externally certified management systems, aligned with industry-specific standards.

FINANCIAL AND COMMERCIAL RISKS:

Cash Flow Risk	To minimise the reliance on external debt and capital to support cash flow, we are actively implementing a strategy to ensure we deliver the revenue and expense budget. Our CFO closely monitors operating expenses, aligning them with the internal budget. Additionally, we are committed to maintaining a targeted working capital position and promptly converting excess inventories to cash. Monthly cash flow forecasts and extensions to our bank facility provide us with flexibility.
Execution Risk	We recognise the importance of strategic execution by key management personnel. To ensure effective implementation, we prioritise clear communication and the strategic deployment of our organisational plans. Our key management personnel actively monitor relevant regulatory and compliance standards and promptly escalate concerns to the Board for intervention. Transparency and timely disclosure of any strategy changes are central to our approach.
Shutdown of Deloraine Facility	While acknowledging the potential risk of a major incident at the Deloraine facility leading to closure, we have a proactive plan in place. In the event of disruptions, we will seamlessly transition production to alternative approved canning/packing facilities in Australia. Our 'external disbursement' strategy ensures a consistent supply during any disruptions.
Supply Chain Coordination Breakdown	We have taken steps to proactively address potential supply chain breakdowns due to unpredictable global events. By limiting contractual terms to a maximum of 2 years, we minimise exposure to oversupply situations during uncertain demand periods. Our relationships with bulk powder buyers offer added cushion against oversupply scenarios.
Disruption to Raw Material Suppliers	While acknowledging the risk of raw material supplier disruptions, we've proactively established access to multiple GMP and key ingredient suppliers. This ensures continuity in finished goods production even in the face of supplier insolvency. Our preparedness extends to alternate packaging suppliers, allowing us to swiftly transition without compromising operations.
Customer Concentration Risk	Our proactive approach involves expanding sales with multiple Daigou partners and CBEC customers to reduce reliance on a small number of customers. Our new market development strategy focuses on growth and diversification, thereby minimizing potential disruptions in the market.
Misappropriation of Company Funds	To ensure the integrity of our finances, we proactively implement regular reviews of control measures. Independent accounting services, annual audits, and monthly debit card reviews form part of our ongoing efforts to prevent any fraudulent activities.
Corporate Governance / Compliance	While acknowledging the risk of non-compliance with regulations, we've taken a proactive stance. D&O insurance, regular corporate governance training, a stringent director selection process, a comprehensive compliance checklist, and a focused risk management approach work together to enhance our compliance efforts.
Competition for Core Business	We actively stay ahead of the competitive landscape by consistently reviewing and updating our marketing strategies. Our unwavering commitment to quality standards positions us as a strong competitor in the goat milk infant formula market.
Cybersecurity	Cyber resilience is a top priority. We employ well-established cyber risk management frameworks to continually assess cyber risks and improve the safeguarding of sensitive commercial and personal data.
ESG (Environmental, Social, and Governance)	We are committed to the ongoing enhancement of our ESG practices. We actively incorporate established ESG frameworks to continually assess and enhance our environmental, social, and governance initiatives. This includes addressing sustainability, community engagement, diversity and inclusion, and ethical governance, ensuring a dynamic and responsive approach to these critical aspects of corporate responsibility.

REGULATORY AND COMPLIANCE RISKS:

Privacy Infringement	Our proactive approach involves annual privacy statement updates and strict compliance with the Australian Privacy Principles. A designated Privacy Officer oversees staff training, and we ensure data security through restricted database access.
Food Safety and Quality Issue	To uphold the highest standards of food safety and quality, we proactively adhere to the Hazard Analysis and Critical Control Points (HACCP) Plan. Continuous training for our supply chain and operations teams ensures that compliance is a consistent practice.
Competition and Consumer Act Compliance	We actively manage the risk of breaching consumer laws by subjecting all marketing claims to legal review. Collaboration between Quality and Legal departments ensures compliance, and annual training on Australian Consumer Law keeps our staff informed. Clear guidelines uphold competition law principles.

HUMAN RESOURCES RISKS:

Retention of Competent Employees	Retention of Competent Employees: Recognising the risk of knowledge loss due to employee turnover, we proactively foster a supportive work culture. Cross-skilling, professional development budgets, annual salary reviews, and a dedicated human resources single point of contact (SPOC) demonstrate our commitment to employee satisfaction.
Loss of Key Personnel	To proactively address the potential loss of key personnel, we cultivate a positive work environment with excellent conditions and flexibility. Our management development and succession planning efforts, along with professional development support, and retention plans, ensure our key talent is retained and nurtured.

02

DIRECTORS' REPORT

BOARD OF DIRECTORS

THE BOARD OF DIRECTORS

The directors present their report together with the consolidated financial statements of Bubs Australia Limited as a consolidated entity consisting of Bubs Australia Limited (the "Company") and the entities it controlled ("the Group") for the financial year ended 30 June 2023 and the auditor's report thereon.

DIRECTOR PROFILES

The names of the directors in office at any time during and since the end of the financial year are:

MS KATRINA RATHIE

B Com (Accounting & Financial Management)/LLB UNSW Sydney, FAICD

Non-Executive Director (appointed 21 July 2021)

Non-Executive Chairman from 6 April 2023

Ms Rathie is an experienced Chair and Non-Executive Director who is Chair of our Nominations and Remuneration Committee.

Ms Rathie had a distinguished career in the law and was formerly Partner in Charge, Sydney of King & Wood Mallesons, a top tier global elite law firm where she led the Sydney office. With over 35 years working as a trusted advisor to ASX and Fortune 500 companies particularly in the FMCG, brands, consumer and retail sectors, Ms Rathie brings deep sectorial, governance, regulatory and international experience to the Bubs board which she joined in July 2021. She is admitted to practice law in Australia and New York and has deep cross-border experience in the USA and Asia, including China.

Ms Rathie was named overall winner of the Board & Management category in the AFR 100 Women of Influence Awards 2019. She serves on the Boards of Special Broadcasting Service (SBS), NSW Rugby Union/Waratah's Rugby and Starlight Children's Foundation. She is a member of Chief Executive Women and a Fellow of the Australian Institute of Company Directors.

Ms Rathie has not held any other directorships in publicly listed companies in the past three years.

MR PAUL JENSEN

B Com (Commerce & Administration – University of Victoria, Wellington NZ), FAICD

Non-Executive Director (appointed 20 March 2023)

Mr Jensen is a respected business leader and Non-Executive Director with more than twenty years' Board experience with both private and public corporations across consumer goods, equity capital markets, banking, government, philanthropy, and indigenous affairs.

He is currently a Non-Executive Director, Treasurer and Chair of the Audit, Risk and Technology Committee for the Australia Made Campaign Limited (a federal government owned body responsible for the 'Australian Made' and 'Australia Grown' trademarks), and most recently a Director of Carbon.

Conscious Limited, Monash Absolute Investment Company (ASX: MA1) and earlier Non-Executive Director roles with Hunter Hall Global Value (ASX: HHV), Sandon Capital (ASX: SNC), WAM Capital (ASX: WAM), Foodco Group and Forty Winks, among others.

In his earlier executive career, he worked in the banking and investment management sectors, working internationally with the Lloyds Bank Group in New Zealand, United Kingdom, Australia and was the Managing Director of two ASX listed investment companies.

MR REG WEINE

Non-Executive Director (appointed 11 April 2023)

Reg Weine is a dynamic and trusted executive with over 25 years' experience in agri-food and FMCG businesses, including as Managing Director of SPC Ardmona (Coca Cola Amatil), CEO of Bulla Dairy Foods and Director of Sales & International at Blackmores Limited (ASX: BKL). His FMCG experience includes new market development and international expansion, and Reg has a deep understanding of global food, beverage, vitamin, and wellness markets.

He is currently a Non-Executive Director and Chair of Maggie Beer Holdings (ASX: MBH) and is on the Board of Starlight Children's Foundation. He was previously a Board Member of the Australian Food & Grocery Council (AFGC). Reg has a Bachelor of Business from Monash University, is a Graduate of the Australian Institute of Company Directors (GAICD) and is a Certified Practicing Marketer with the Australian Marketing Institute.

MR STEVE LIN

Non-Executive Director

Mr Lin has over 25 years of investment, operations, and management experience in Asia. He started his career in investment banking at Morgan Stanley in New York. He then joined Goldman Sachs' Merchant Banking Division in Hong Kong and Tokyo and invested in private equity, real estate, and special situations opportunities. Mr Lin became the President and CEO — Asia of GMAC Commercial Holding Corp., managing a multi-billion-dollar portfolio of real estate investments and loans. Thereafter, he co-founded a non-profit organisation, Hands On Tokyo, joined Laureate Education as President and CEO — North Asia and served on the board of two universities in China. Mr Lin has a B.A. in Economics from Harvard College.

Mr Lin has not held any other directorships in publicly listed companies in Australia in the past three years.

MR JAY STEPHENSON

MBA, FCPA, FGIA, MAICD, CPA (Canada), CMA (Canada)

Company Secretary (appointed 1 September 2015)

Mr Stephenson has been involved in business development for over 30 years including approximately 26 years as Director, Chief Financial Officer and Company Secretary for various listed and unlisted entities in resources, IT, manufacturing, food, nutraceuticals wine, hotels and property. Mr Stephenson has been involved in business acquisitions, mergers, initial public offerings, capital raisings, business restructuring as well managing all areas of finance for companies.

MR DENNIS LIN

GradDipAppFin, CA, Solicitor of the Supreme Court of Queensland

Executive Chairman (ceased as Executive Chairman on 6 April 2023 and as a NED on 30 May 2023)

Mr Lin was appointed as a Non-Executive Director of Health and Plant Protein Group Limited on 3 November 2017, executive director from 1 July 2020 and executive chair on 4 August 2021, before retiring on 30 June 2022. He was also appointed Non-Executive Director of Synertec Corporation Limited on 20 August 2019 and Non-Executive Chair from 1 April 2021.

MS KRISTY-LEE NEWLAND CARR

BBus (Bachelor Degree of Business)

Managing Director (ceased 10 May 2023)

Mrs Carr has not held any other directorships in publicly listed companies in the past three years.

All directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

RECORD OF ATTENDANCE AT THE BOARD MEETINGS

Director attendance at Board and Committee meetings during the year is set out below.

	Board Meetings		Remuneration & Nomination Committee		Audit, Risk and Technology Committee	
	Held	Attended	Held	Attended	Held	Attended
D Lin (Executive Chairman) (1)	17	15	2	2		
K Newland Carr (Executive Director) (1)	17	15				
K Rathie (Non-Executive Director) (2)	19	19	2	2		
P Jensen (Non-Executive Director) (3)	9	9				
R Weine (Non-Executive Director) (4)	4	4				
S Lin (Non-Executive Director)	19	19	2	2		

(1) Resigned on 30 May 2023
(2) Chair of Remuneration Committee appointed on 1 February 2022 and Non-Executive Chairman from 6 April 2023
(3) Chairman of the Audit, Risk and Technology Committee, Non-Executive Director, appointed 20 March 2023
(4) Appointed 11 April 2023

DIRECTORS' REPORT

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were Board changes during the year, with the resignation of Dennis Lin, the former Chairman and Kristy Carr, the former Chief Executive Officer / Managing Director.

There was no other significant change in the state of affairs of the Group during the financial year.

PRINCIPAL ACTIVITIES

The Group offers a great range of organic baby food, goat milk infant formula products, adult goat milk powder products and fresh dairy products. The Group also provides canning services of nutritional dairy products.

ENVIRONMENTAL REGULATIONS

The Group is not aware of any matter which requires disclosure with respect to any significant environmental regulation in respect of its operating activities.

CORPORATE GOVERNANCE

The Group's corporate governance statement sets out the key features of the Group's governance framework and practices. The Group has adopted corporate governance policies and practices which are designed to support and promote the responsible management and conduct of the Group. The Group's corporate governance statement can be found at

https://investor.bubsaustralia.com/about/#corporate-governance

EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

In August 2023, the Group renewed its $10 million facility with NAB under the same terms as FY22. The renewed facility expires in September 2024.

On 29 August 2023, the Group announced the appointment of Reginald Weine as CEO and Managing Director. Reg had joined the Group on 11 April 2023 as an independent Non-Executive Director.

There have been no other subsequent events since 30 June 2023 that have significantly affected or could significantly affect the reported results from operations or the Company's financial position for the year then ended.

DIVIDENDS

No dividends have been paid or declared since the start of the financial year (2022: Nil).

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITORS

The Group has paid insurance premiums in respect of Directors' and Officers' liability insurance for current and past Directors and Officers. Insurance does not indemnify the Directors and Officers where there is conduct involving lack of good faith.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer, director or auditor of the Group against a liability incurred as such an officer, director or auditor.

PROCEEDINGS ON BEHALF OF THE GROUP

The Group has several ongoing legal matters. The Group is party to ongoing negotiations to end the Chinese joint venture with Zhitong (Hangzhou) Health Technology Co. Ltd. The Group has ongoing disputes with its former CEO , Executive Chairman, two other former employees as well as its former customers - Alice Trading Ltd and Willis Trading Ltd. The outcome of the currently pending and potential future legal actions, of a legal nature cannot be predicted with certainty. Such matters can raise complex legal issues, and are subject to many uncertainties including but not limited to the facts and circumstances of each matter.

The Group has given consideration to such matters which are or may be subject to claims, penalties and litigation as of the reporting date and are of the opinion that any litigation arising from such action would not have a material effect on the Group's financial performance.

No person has applied for leave of court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

ROUNDING

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar.

GENDER DIVERSITY

The Group has a strong commitment to diversity and recognises the value of attracting and retaining employees with different backgrounds, gender, culture, knowledge, experience, and abilities. Diversity contributes to the Group's business success and benefits individuals, clients, teams, shareholders, and stakeholders. The Group's business policies, practices and behaviours promote diversity and equal opportunity and creates an environment where individual differences are valued, and all employees have the opportunity to realise their potential and contribute to the Group's success.

	As at 30 June 2023				As at 30 June 2022			
	Male	**Percentage Male (%)**	**Female**	**Percentage Female (%)**	**Male**	**Percentage Male (%)**	**Female**	**Percentage Female (%)**
Board	3	75	1	25	2	50	2	50
Senior management	5	83	1	17	1	50	1	50
Employees	40	47	45	53	32	54	27	46
Total	**48**	**51**	**47**	**49**	**35**	**54**	**30**	**46**

UNISSUED SHARES

At the date of this report, unissued shares of the Group under option are:

Expiry Date	Exercise Price	Number of Shares
10 June 2024	0.65	1,200,000

All unissued shares are ordinary shares of the Group.

NON-AUDIT SERVICES

No non-audit services were provided by KPMG during the year ended 30 June 2023.

Details of amounts paid or payable to the auditor during the year are outlined in Note G3 to the financial statements.

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is attached to this financial report

REMUNERATION REPORT (AUDITED)

KEY MANAGEMENT PERSONNEL

The term key management personnel (KMP) refers to those persons having the authority and responsibility for planning, directing, and controlling the activities of the Group, directly or indirectly and includes any Director of the Group. The disclosures in this report have been audited.

The KMP of the Group for the year ended 30 June 2023 were:

- Dennis Lin (Executive Chairman — ceased as Executive Chairman on 6 April 2023 and as a Non-Executive Director on 30 May 2023)
- Kristy-Lee Newland Carr (Chief Executive Officer and Managing Director — ceased on 10 May 2023)
- Katrina Rathie (Non-Executive Director, Chair of Remuneration Committee — appointed on 1 February 2022, Non-Executive Chairman — appointed on 6 April 2023)
- Steve Lin (Non-Executive Director)
- Paul Jensen (Non-Executive Director — appointed on 20 March 2023)
- Reg Weine (Non-Executive Director — appointed on 11 April 2023 and appointed as Chief Executive Officer on 29 August 2023)
- Iris Ren (Chief Financial Officer — resigned on 24 May 2023 with effect on 15 August 2023)
- Robin Johnston (Interim Chief Financial Officer — appointed on 24 May 2023)
- Richard Paine (Chief Operating Officer — appointed Interim Chief Executive Officer on 10 May 2023)

Richard Paine ceased his role as Interim Chief Executive Officer on 28 August 2023 when Reg Weine was appointed as the Company's permanent Chief Executive Officer.

REMUNERATION STRUCTURE

The Remuneration Committee (the Committee) was established on 1 February 2022 and advises the Board on the policies and practices employed in the remuneration of the Group's Directors and other KMP. The Committee is also responsible for reviewing all components of the Group's remuneration practices pertinent to its employees. The Committee makes recommendations to the Board however, all decision-making authority in relation to remuneration remains with the Board.

In consultation with external remuneration consultants, the Board's policy for remunerating executives is to provide market-based remuneration packages comprising a blend of fixed and variable at-risk incentive-based remuneration with clear links between Group and individual employee performance and reward. In FY23, the Remuneration and Nomination Committee engaged Johnston Advisory Pty Ltd to perform a board review at a cost of $38,000 and to search for independent Non–Executive Directors and perform references checks at a cost of $77,138.

The Board seeks to set aggregate compensation at a level that provides the Group with the ability to attract and retain Directors and KMP of the highest calibre, whilst incurring a cost that is acceptable to shareholders. The amount of aggregate compensation sought to be approved by shareholders and the manner in which it is apportioned amongst the Directors and other KMP is reviewed annually. The overall level of other KMP compensation takes into consideration the performance of the Group over multiple years.

The following table provides the summary of Group's earnings and movement in shareholder wealth for the five years to 30 June 2023:

	2023 $	2022 $	2021 $	2020 $	2019 $
Revenue	60,110,627	89,297,324	39,312,738	54,644,952	43,914,853
EBIT[1] Loss	(107,551,051)	(10,445,126)	(76,515,692)	(15,037,949)	(35,144,011)
Share price at year end	0.180	0.595	0.435	0.925	1.13
Basic loss per share	(0.15)	(0.02)	(0.12)	(0.01)	(0.08)
Total dividend (cents per share)	—	—	—	—	—

1 EBIT is a non - IFRS measure. Non-IFRS measures are not subject to audit.

FIXED REMUNERATION

Employee's fixed remuneration is based on a matrix of an individual's skillset and experience, their individual performance and their current level of remuneration relative to the market. Fixed remuneration is reviewed on an annual basis, and where appropriate, is adjusted based on consideration of individual performance and market remuneration movement. The overall level of KMP reward takes into account the performance of the Group over a number of years. This ensures that the Group attracts, motivates, and retains top talent executives so they can deliver on the Group's business strategy and contribute to the Group's ongoing financial performance.

Total fixed remuneration (TFR) comprises of base salary, superannuation in accordance with the statutory rates and allowances. The Board reviews and approves all changes to fixed remuneration.

VARIABLE REMUNERATION

Short term incentive (STI)

The STI focuses on performance goals which align with the Group's direction, driving outcomes, and rewarding high performance over the financial year. STI values are generally calculated as a percentage of fixed remuneration. STI values and performance targets are approved by the Board.

Financial performance is measured against the Group's budget, and achievement of personal objectives is tracked and discussed through the performance period as part of the Group's management process.

STI payments are determined and paid annually following the finalisation of audited Group results and are contingent on the achievement of Group financial targets and specific agreed personal objectives.

STI includes:

Cash bonus

The framework of the approach to the STI cash bonus awards are set based on achievement against a number of financial KPIs which include gross revenue, revenue, gross margin, and Normalised EBITDA[2]. No cash bonuses were granted in FY23 (FY22: $150,000).

Share rights plan

Each share right grant represents a right to receive one fully paid share in the Group once the share right vests.

There have been no share rights or options granted to KMP/Directors in FY23 (FY22: 1,516,255 share rights and 6,770,810 options granted).

The vesting condition of FY22 share rights award is subject to KMP's service conditions, namely, that the KMP's employment is not terminated, before.

- For 50% of the share rights award — the date of release of the Company's FY22 audited financial results to ASX;
- For the other 50% of the share rights award — the date of release of the Company's FY23 audited financial results to ASX.

No financial performance hurdles were applied to the share rights granted in FY22.

Subject to achieving the service condition, each KMP would receive the total number of Share Rights representing an amount equal to 100% of their annual base salary at the time the rights were granted.

The following table provides details of the maximum STI that each KMP (excluding Non-Executive Directors) is entitled to receive in on meeting the service conditions.

KMP	STI Cash bonus FY22 $	STI Share rights FY22	 $
Dennis Lin*	—	606,502	250,000
Kristy Carr*	150,000	1,091,701	450,000
Iris Ren	—	667,152	275,000
Richard Paine	—	667,152	275,000

* The STI share rights were approved by shareholders at the AGM on 28 November 2022.

2 Normalised EBITDA is the group's EBITDA excluding share based payments and equity linked transactions. Normalised EBITDA is a non IFRS measure that is not subject to review or audit.

Dennis Lin and Kristy Carr ceased employment with the Group in FY23, therefore the remaining 50% of their share rights have lapsed without vesting.

The cash bonus paid relates to FY22, however it was paid in September 2022.

Long term incentives (LTI)

The LTI programs provide the potential for KMPs to receive payment over and above fixed remuneration and short-term incentive. These programs are discretionary, appropriate to the results delivered by the Group, and based on the principle of reward for performance.

The purpose of a LTI is to focus the executives' efforts on the achievement of sustainable long-term shareholder value creation and the long-term financial success of the Group.

The provision of a LTI plan awards via options for ordinary shares encourages long-term share exposure for the executives and, therefore, drives behaviours which align with the interests of our shareholders. The Board believes a three-year performance period provides a reasonable period to align reward with shareholder return and also acts as a vehicle to help retain the KMP, align the business planning cycle, and provide sufficient time for the longer-term performance to be achieved.

Each option granted represents a right to receive one fully paid share in the Group once the option vests and is exercised. No LTIs were granted in 2023.

CEO's FY21 grant of options

The FY21 LTI plan awards were divided in two tranches and vest subject to the gross revenue and normalised EBITDA performance hurdle calculation in any of a three-year performance periods and continuing employment:

- Tranche 1 (2,385,405 options) will vest 3 months after issue and on the achievement of $50,000,000 in gross revenue and $2,000,000 in normalised EBITDA2 as at the Company's full year results; and
- Tranche 2 (2,385,405 options) will vest 3 months after issue and on the achievement of $60,000,000 in gross revenue and $4,000,000 in normalised EBITDA2 as at the Company's full year results.

The above options vested in FY22 and had an exercise price of $0.65. The expiry date of these options is 23 November 2023. The options were forfeited on the CEO's cessation of employment in FY23.

KMP's FY21 grant of options

The FY21 LTI plan awards were divided in 2 tranches and vest subject to the gross revenue and normalised EBITDA2 performance hurdle calculation in any of a three-year performance period and continuing employment:

- Tranche 1 (200,000 options) will vest 3 months after issue and on the achievement of $50,000,000 in gross revenue and $2,000,000 in normalised EBITDA2 as at the Company's full year results; and
- Tranche 2 (200,000 options) will vest 3 months after issue and on the achievement of $60,000,000 in gross revenue and $4,000,000 in normalised EBITDA as at the Company's full year results.

The above options were issued to Iris Ren and Richard Paine and vested in FY22. The expiry date of these options is 10 June 2024. The exercise price is $0.10.

EXECUTIVE CONTRACTS

The remuneration and other terms of employment for KMP executives are covered in formal employment contracts. The Group may terminate an executive immediately for cause, in which case the executive is not entitled to any payment other than the value of total fixed remuneration (and accrued entitlements) up to the termination date.

KMP executive	Notice period by the Group	Notice period by Executive	Payment in lieu of notice
Dennis Lin (Executive Chairman) *Ceased on 6 April 2023*	7 months	3 months	Yes
Kristy Carr (Chief Executive Officer and Managing Director) *Ceased on 10 May 2023*	9 months	3 months	Yes
Iris Ren (Chief Financial Officer) *Resigned on 24 May with effect on 15 August*	3 months	3 months	Yes
Robin Johnston (Interim Chief Financial Officer) *Appointed on 24 May 2023*	3 months	3 months	Yes
Richard Paine (Chief Operating Officer), Interim Chief Executive Officer as of 10 May 2023 to 29 August 2023	3 months	3 months	Yes
Reg Weine (Chief Executive Officer and Managing Director) (1) *Appointed on 29 August 2023*	12 months	12 months	Yes

(1) Reg Weine's terms of employment are as follows:

- Fixed Annual Remuneration (FAR) — $730,000 AUD per annum (including superannuation)
- Short Term Incentive (STI) — Subject to shareholder approval at the Company's Annual General Meeting (AGM), Mr Weine's STI will be provided in the form of Performance Rights, which upon vesting will be worth 60% of FAR for Target; and 90% of FAR for Stretch. Performance between Target and Stretch will vest on a straight-line basis.
- Long Term Incentive (LTI) — Subject to shareholder approval at the Company's AGM, Mr Weine's LTI will be provided in the form of Performance Rights, up to 180% of FAR.
- Sign on Incentive — Subject to shareholder approval at the Company's AGM, Mr Weine will receive a sign-on grant of 3 million Performance Rights, which will vest in equal instalments subject to Mr Weine being in employment on 30 June on each of the years 2024, 2025 and 2026.

NON-EXECUTIVE DIRECTORS' REMUNERATION

The Group's remuneration policy for Non-Executive Directors aims to ensure that the Group can attract and retain suitably qualified and experienced Directors having regard to:

- the level of fees paid to Non-Executive Directors of other comparable Australian listed companies;
- the growing size and complexity of the Group's operations;
- the responsibilities and work requirements of Board members; and
- the skills and diversity of Board members.

Under the ASX Listing Rules, the total amount paid to all Non-Executive Directors in any financial year must not exceed the amount fixed in a general meeting of the Group. This amount is currently $500,000 (2022: $300,000) as determined by Shareholders at the AGM held on 28 November 2022. The Board's present policy for Non-Executive Directors, the Chair of Remuneration Committee and the chair of the Audit, Risk and Technology Committee is set out below. The annual remuneration rate is effective from 6 April 2023 and exclusive of superannuation.

Position	Annual remuneration
Chair of the Board	$170,000
Non-Executive Director	$100,000
Chair of Nomination and Remuneration Committee & Chair of the Audit & Risk Committee	$20,000
Committee member	$10,000

COMPANY SECRETARY

Jay Stephenson is contracted on a monthly basis as Company Secretary at a rate of $30,000 per annum.

OTHER RELATED PARTY TRANSACTIONS WITH KMP

No key management personnel or any other related party has entered into any other contracts with the Group since the end of the previous financial year. All of the above transactions were considered to be on an arms' length basis.

DETAILS OF THE NATURE AND AMOUNT OF EACH ELEMENT OF THE REMUNERATION

Table A(1): Remuneration for Executive KMP

		Short Term				Post-Employment	Other Long Term				
	Year	Salary & fees $	Annual leave $	Cash bonus $	Non-monetary (1) $	Super-annuation $	Long service leave $	Share based payments – options $	Share based payments – share rights $ (7)	Total $	Perfor-mance related %
Dennis Lin (2)	2023	406,603	22,436	—	—	44,013	4,469	—	(7,274)	470,246	0%
	2022	242,308	19,231	—	—	24,231	2,974	4,693,525	52,926	5,035,195	93%
Kristy Carr (3)	2023	537,360	46,408	—	90,000	75,632	10,076	—	(13,093)	746,383	0%
	2022	434,423	34,615	150,000	6,000	43,442	9,284	2,925,461	95,266	3,698,491	83%
Iris Ren (4)	2023	339,058	32,657	—	—	27,500	5,829	—	—	405,043	0%
	2022	255,385	20,513	—	—	25,539	6,181	61,640	58,218	427,476	14%
Richard Paine (7)	2023	363,982	26,923	—	—	41,700	5,829	—	—	438,434	0%
	2022	124,932	9,610	—	—	12,493	2,081	61,640	58,218	268,974	23%
Robin Johnston (5)	2023	49,758	—	—	—	—	—	—	—	49,758	0%
	2022	—	—	—	—	—	—	—	—	—	0%
Total	**2023**	1,696,760	128,424	—	90,000	188,845	26,202	—	(20,367)	2,109,864	
	2022	1,057,048	83,969	150,000	6,000	105,705	20,520	7,742,266	264,628	9,430,136	

(1) Non-monetary benefits include motor vehicle lease payments and travel allowances. The $90,000 benefit relates to the Group's portion of continuing car lease payments. Following the cessation of Ms Carr's employment , the lease payments falling due during the remaining term of the lease, after 30 June 2023 have been recognised in FY23.

(2) Dennis Lin ceased to be the executive chairman on 6 April 2023 and resigned as a Non-Executive Director on 30 May 2023. His Non-Executive Director remuneration is disclosed in the following table.

(3) Kristy Carr ceased as Chief Executive Officer & Managing Director on 10 May 2023 and resigned as a Non-Executive Director on 30 May 2023.

(4) Iris Ren resigned as Chief Financial Officer on 24 May 2023, effective on 15 August 2023

(5) Robin Johnson was appointed as Interim Chief Financial Officer on 24 May 2023.

(6) Kristy Carr and Dennis Lin forfeited tranche 2 of their share rights when their employment ceased in FY23.

(7) Richard Paine's remuneration includes remuneration for his period as the Interim Chief Executive Officer from 10 May 2023.

Table A(2): Remuneration for Non-Executive Directors

		Short Term			Post-Employment	Other Long Term			
	Year	Director fees $	Special Exertion fees (7)	Non-monetary $	Super-annuation $	Long service leave $	Share based payments – options $	Total $	Performance related %
Katrina Rathie (1)	2023	122,974	120,000	—	14,290	—	—	257,264	—
	2022	57,500	—	—	5,750	—	—	63,250	—
Matthew Reynolds (2)	2023	—	—	—	—	—	—	—	—
	2022	2,301	—	—	230	—	—	2,531	—
Steve Lin (3)	2023	—	—	—	—	—	—	—	—
	2022	—	—	—	—	—	—	—	—
Dennis Lin (4)	2023	10,382	—	—	1,090	—	—	11,472	—
	2022	—	—	—	—	—	—	—	—
Paul Jensen (5)	2023	37,071	60,000	—	—	—	—	97,071	—
	2022	—	—	—	—	—	—	—	—
Reg Weine (6)	2023	127,846	—	—	2,923	—	—	130,769	—
	2022	—	—	—	—	—	—	—	—
Total	**2023**	298,273	180,000	—	18,303	—	—	496,576	—
	2022	59,801	—	—	5,980	—	—	65,781	—

(1) Katrina Rathie was appointed as a Non-Executive Director on 21 July 2021 and appointed as Non-Executive Chairman on 6 April 2023.
(2) Matthew Reynolds retired as a Non-Executive Director on 21 July 2021.
(3) Steve Lin's services were remunerated by C2 Capital Partners in FY22 and FY23.
(4) Dennis Lin ceased as an executive Director on 6 April 2023 and a Non – executive Director on 30 May 2023.
(5) Paul Jensen was appointed as a Non-Executive Director on 20 March 2023.
(6) Reg Weine was appointed as a Non-Executive Director on 11 April 2023.
(7) In August 2023, the Board approved special exertion fees for Katrina Rathie and Paul Jensen in relation to additional duties performed in FY23 following the removals/resignations of the Executive Chair, CEO and CFO.

FULLY PAID ORDINARY SHARES OF BUBS AUSTRALIA LIMITED

Table B: Movement in the shares of Bubs held, directly, indirectly or beneficially, by each KMP, including their related parties.

		At the beginning of the year	Purchase of shares	Other change	Shares disposed	At the end of the year
Kristy Carr [1]	2023	13,620,600	545,852	(14,166,452)	—	—
	2022	13,620,600	—	—	—	13,620,600
Dennis Lin [2]	2023	—	5,074,061	(5,074,061)	—	—
	2022	—	—	—	—	—
Katrina Rathie [3]	2023	1,000,000	97,970	—	—	1,097,970
	2022	—	1,000,000	—	—	1,000,000
Steve Lin [4]	2023	—	—	—	—	—
	2022	—	—	—	—	—
Paul Jensen [5]	2023	—	100,000	—	—	100,000
	2022	—	—	—	—	—
Reg Weine [5]	2023	—	—	—	—	—
	2022	—	—	—	—	—
Iris Ren	2023	—	333,576	—	—	333,576
	2022	—	—	—	—	—
Robin Johnston	2023	—	—	—	—	—
	2022	—	—	—	—	—
Richard Paine	2023	1,500	333,576	—	(106,685)	228,391
	2022	1,500	—	—	—	1,500

[1] Shares are held under Carr Family Pty Limited. Kristy ceased to be a KMP on 30 May 2023, therefore her shareholding has been removed in "other change".

[2] Dennis Lin ceased as Chairman of the Board on 6 April 2023 and as a Non-Executive Director on 30 May 2023, therefore his shareholding has been removed in "other change". During the year, Dennis received 303,251 shares from the tranche 1 of Share rights/STIs he was granted in FY22. Furthermore, on 22 December 2022, he exercised his 4,770,810 options which were granted in FY20 and vested in FY22 for an exercise price of $0.10.

[3] Katrina Rathie was appointed as a Non-Executive Director on 21 July 2021 and subsequently as Non-Executive Chairman of the Board on 11 April 2023. Shares are held by Rathie Superannuation Pty Limited.

[4] On 30 June 2022 and 30 June 2023, 76,288,510 shares were held by C2 Capital Partners, of which Steve Lin is the Managing Director.

[5] Paul Jensen and Reg Weine were appointed to the board as non-executive Directors on 20 March 2023 and 11 April 2023 respectively.

SHARE BASED PAYMENTS

Table C: Share-based payments granted as remuneration to KMP

STI Share rights

		Number of share rights held at the beginning of the year	Grant date	Number of share rights granted	Fair Value of share rights granted	Vesting date	Number vested	Number exercised	Number expired	Number lapsed	Number of share rights held at the end of the year
Dennis Lin*	2023	606,502	—	—	—	—	303,251	(303,251)	—	(303,251)	—
	2022	—	9/06/2022	303,251	$0.595	31/08/2022	—	—	—	—	303,251
	2022	—	9/06/2022	303,251	$0.595	31/08/2023	—	—	—	—	303,251
Kristy Carr*	2023	1,091,704	—	—	—	—	545,852	(545,251)	—	(545,852)	—
	2022	—	9/06/2022	545,852	$0.595	31/08/2022	—	—	—	—	545,852
	2022	—	9/06/2022	545,852	$0.595	31/08/2023	—	—	—	—	545,852
Iris Ren	2023	667,152	—	—	—	—	333,576	(333,576)	—	—	333.576
	2022	—	9/06/2022	333,576	$0.595	31/08/2022	—	—	—	—	333,576
	2022	—	9/06/2022	333,576	$0.595	31/08/2023	—	—	—	—	333,576
Richard Paine	2023	667,152	—	—	—	—	333,576	(333,576)	—	—	333,576
	2022	—	9/06/2022	333,576	$0.595	31/08/2022	—	—	—	—	333,576
	2022	—	9/06/2022	333,576	$0.595	31/08/2023	—	—	—	—	333,576

* The STI share rights were approved to be issued at the AGM held on 28 November 2022.

LTI OPTIONS

LTI options granted to KMP

No LTI options were granted in FY23.

Movement in the LTI options granted to KMP during the year

		Number of options held at the beginning of the year	Number of options granted	Number exercised	Number expired	Number forfeited	Number cancelled	Number of options held at the end of the year	Number vested and exercisable at the end of the year
Dennis Lin [1]	2023	4,770,810	–	(4,770,810)	–	–	–	–	–
	2022	4,770,810	–	–	–	–	–	4,770,810	4,770,810
Kristy Carr	2023	4,770,810	–	–	–	(4,770,810)	–	–	–
	2022	4,770,810	–	–	–	–	–	4,770,810	4,770,810
Iris Ren	2023	400,000	–	–	–	–	–	400,000	400,000
	2022	400,000	–	–	–	–	–	400,000	400,000
Richard Paine[1]	2023	400,000	–	–	–	–	–	400,000	400,000
	2022	400,000	–	–	–	–	–	400,000	400,000

[1] Dennis Lin exercised his 4,770,810 options which were granted in FY20 and vested in FY22 for an exercise price of $0.10. The fair value of the options was $0.9838

END OF REMUNERATION REPORT (AUDITED)

This Directors' report is signed in accordance with a resolution of the board of Directors:

Katrina Rathie
Non-Executive Chairman

Melbourne
Dated: 07 September 2023

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Bubs Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Bubs Australia Limited for the financial year ended 30 June 2023 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

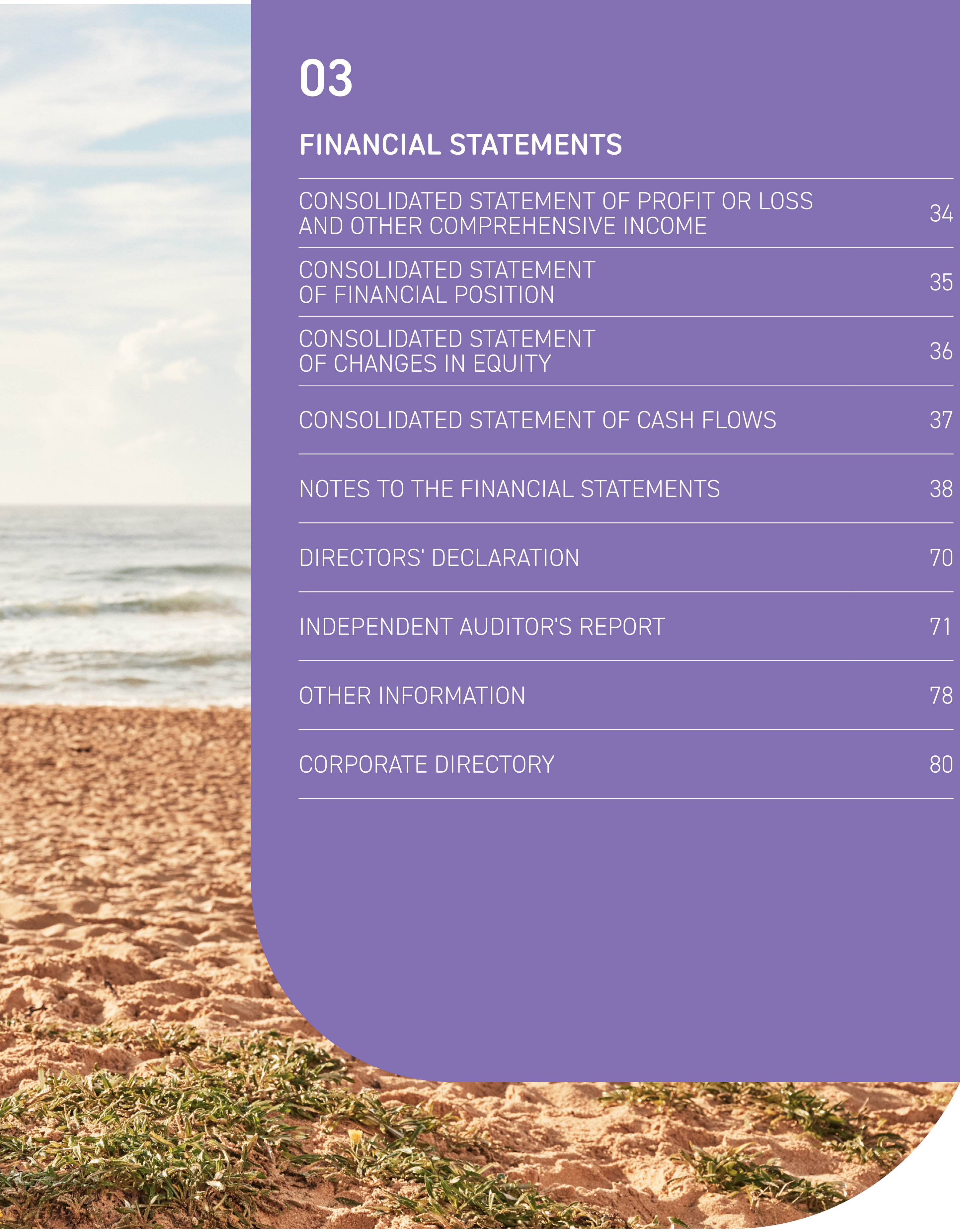
KPMG

J. Carey

Partner

Melbourne

7 September 2023



03

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023 $	2022 $
Revenue	B2	60,110,627	89,297,324
Cost of sales	B3	(69,466,176)	(60,392,016)
Gross (loss)/profit		(9,355,549)	28,905,308
Other Income		199,996	430,096
Distribution and selling costs		(5,512,785)	(3,447,329)
Marketing and promotion costs		(15,873,517)	(10,094,361)
Administrative and other costs	B3	(34,041,328)	(27,041,132)
Credit losses	C1	(6,785,873)	715,099
Impairment	C5	(36,165,080)	—
Operating Profit		**(107,534,137)**	**(10,532,319)**
Interest income		518,982	58,378
Finance cost	B3	(452,470)	(914,374)
Net Finance income/(cost)		**66,512**	**(855,996)**
Share of net profits of joint ventures accounted for using the equity method		(16,914)	87,193
Loss before tax		**(107,484,539)**	**(11,301,122)**
Income tax benefit/(expense)	B5	(868,303)	(76,422)
Loss for the year after tax		**(108,352,842)**	**(11,377,544)**
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of tax)			
Exchange difference on translation of foreign operations		(249,561)	(22,795)
Other comprehensive income/(loss) for the year, net of tax		**(249,561)**	**(22,795)**
Total comprehensive loss for the year		**(108,602,403)**	**(11,400,339)**
Loss per share			
Basic (loss) per share (dollars)	B4	(0.15)	(0.02)
Diluted (loss) per share (dollars)	B4	(0.15)	(0.02)

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 2023

	Note	30/06/2023 $	30/06/2022 $
Assets			
Current Assets			
Cash and cash equivalents	D3	26,052,523	16,311,005
Trade and other receivables	C1	7,914,587	24,850,924
Inventories	C2	20,767,492	28,460,168
Other assets	C3	2,624,480	9,830,295
Total Current Assets		**57,359,082**	**79,452,392**
Non-Current Assets			
Plant and equipment	C4	4,438,440	4,366,855
Right of use assets	C8	1,930,243	2,400,731
Intangible assets	C5	1,204,780	39,044,397
Investment in associates	E	116,907	136,770
Other assets	C3	549,145	539,845
Total Non-Current Assets		**8,239,515**	**46,488,598**
Total Assets		**65,598,597**	**125,940,990**
Liabilities			
Current Liabilities			
Trade and other payables	C6	16,673,764	27,490,328
Contract liabilities	C7	124,307	46,750
Lease liabilities	C8	679,239	615,875
Borrowings	C9	2,000,000	2,000,000
Provisions	C10	2,438,969	1,039,784
Deferred consideration payables	C11	—	4,000,000
Total Current Liabilities		**21,916,279**	**35,192,737**
Non-Current Liabilities			
Lease liabilities	C8	1,726,648	2,302,975
Provisions	C10	275,452	235,727
Total Non-Current Liabilities		**2,002,101**	**2,538,702**
Total Liabilities		**23,918,380**	**37,731,439**
Net Assets		**41,680,218**	**88,209,551**
Equity			
Issued capital	D5	340,568,767	274,851,116
Equity Reserve	D7	—	4,246,021
Share based payments reserve	D6	11,934,065	11,332,626
Foreign currency translation reserve		(294,770)	(45,209)
Accumulated losses		(310,527,844)	(202,175,003)
Total Equity		**41,680,218**	**88,209,551**

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2023

2023		Issued Capital $	Share Based Payments Reserve $	Equity Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total equity $
Balance at 1 July 2022		**274,851,116**	**11,332,626**	**4,246,021**	**(45,209)**	**(202,175,003)**	**88,209,551**
Comprehensive income							
Loss for the year						(108,352,842)	(108,352,842)
Other comprehensive loss					(249,561)		(249,561)
Total comprehensive loss		**–**	**–**	**–**	**(249,561)**	**(108,352,842)**	**(108,602,403)**
Other equity transactions:							
Issue of shares	D5	67,743,690	–	(4,246,021)	–	–	63,497,669
Capital raising costs, net of tax	D5	(2,026,039)	–	–	–	–	(2,026,039)
Share based payment expense	D6	–	601,439	–	–	–	601,439
Equity linked transaction	D7	–	–	–	–	–	–
Balance at 30 June 2023		**340,568,767**	**11,934,065**	**–**	**(294,770)**	**(310,527,844)**	**41,680,218**

2022		Issued Capital $	Share Based Payments Reserve $	Equity Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total equity $
Balance at 1 July 2021		274,851,116	2,988,548	–	(22,414)	(190,797,459)	87,019,791
Comprehensive income							
Loss for the year		–	–	–	–	(11,377,544)	(11,377,544)
Other comprehensive loss		–	–	–	(22,795)	–	(22,795)
Total comprehensive loss		–	–	–	(22,795)	(11,377,544)	(11,400,339)
Other equity transactions:							
Issue of shares	D5	–	–	–	–	–	–
Capital raising costs, net of tax	D5	–	–	–	–	–	–
Share based payment expense/ (benefit)	D6	–	8,344,078	–	–	–	8,344,078
Equity linked transaction	D7	–	–	4,246,021	–	–	4,246,021
Balance at 30 June 2022		274,851,116	11,332,626	4,246,021	(45,209)	(202,175,003)	88,209,551

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2023

	Note	2023 $	2022 $
Cash flows from operating activities			
Receipts from customers		77,286,737	90,549,015
Payments to suppliers and employees		(123,846,485)	(99,712,546)
Interest received		518,982	66,914
Interest paid		(452,470)	(277,220)
Net cash used in operating activities	**D4**	**(46,493,236)**	**(9,373,837)**
Cash flows from investing activities			
Purchases of plant and equipment		(240,227)	(554,093)
Proceeds from disposal of property, plant and equipment		—	1,797
Payments to Deloraine vendors relating to Deloraine acquisition		(4,000,000)	(1,000,000)
Purchases of intangible assets		(6,605)	(2,850)
Net cash used in investing activities		**(4,246,832)**	**(1,555,146)**
Cash flows from financing activities			
Proceeds from share issue		63,020,588	—
Capital raising costs		(2,026,039)	—
Payment of lease liabilities		(512,963)	(643,214)
Net cash from/(used in) financing activities		**60,481,587**	**(643,214)**
Net increase/(decrease) in cash and cash equivalents		**9,741,519**	**(11,572,197)**
Cash and cash equivalents at the beginning of the financial year		16,311,005	27,883,202
Total cash and cash equivalents at the end of the year		**26,052,523**	**16,311,005**

The accompanying notes form part of these financial statements.

A. BASIS OF PREPARATION

CORPORATE INFORMATION

The financial statements cover Bubs Australia Limited as a consolidated entity consisting of Bubs Australia Limited and the entities it controlled ("the Group") for the year ended 30 June 2023. The financial report is presented in Australian dollars, which is Bubs Australia Limited's functional and presentational currency.

The Group is a for-profit entity that is a listed public company limited by shares, incorporated and domiciled in Australia. The Group's principal activity is the manufacturing and sale of organic baby food, infant formula products, adult goat milk powder and fresh dairy products. The group also provides canning services of nutritional dairy products.

The annual report was authorised for issue, in accordance with a resolution of directors, on 7 September 2023.

BASIS OF PREPARATION

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

The financial statements, apart from the cash flow information and deferred consideration payable, have been prepared on an accruals basis and are based on historical costs.

GOING CONCERN BASIS OF ACCOUNTING

The Group have prepared the Consolidated Financial Statements for the year ended 30 June 2023 on a 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.

FINANCIAL RESULTS

At 30 June 2023, the Group is in a net current asset position of $35.4 million (2022: $44.3m). At 30 June 2023, the Group has $26.1 million in available cash and cash equivalents and $8.0 million in committed un-drawn bank facilities (note C9). The Group made a FY23 loss after tax of $108.4 million (FY22: $11.4m) which included an impairment of intangibles of $36.2 million, impairment of inventory of $25.2 million, and provisions for expected credit losses of $6.8 million. Subsequent to the year end, the Group extended the $10.0 million working capital facility with National Australia Bank, with expiry in September 2024.

Net cash outflows from operating activities in FY23 were $46.5 million (FY22: $9.4m) which included the following:

- High inventory levels of base formula powder on hand, $25.4 million (FY22: $10.9m) due to lower opportunities to convert inventory to cash, predominantly from the reduction in sales to the Chinese market (refer to the inventory impairment – note C2 and intangibles impairment – note C5);
- Outstanding receivables of $5.7 million from Alice Trading Limited and Willis Trading Limited, which the Group have taken legal action to recover;
- Legal costs of $2.0 million in relation to ongoing litigation matters;
- Marketing, promotional and travel costs under previous management of $17 million;
- Consulting fees under previous management of $3.6 million; and
- Enterprise resource planning (ERP) costs of $1.1 million and $3.5 million in U.S. Food and Drug Administration (FDA) costs.

FUTURE FINANCIAL PERFORMANCE

The Group undertook a strategic review of the business with a particular focus on growth in the US, a reset to on the existing China strategy, portfolio optimisation, utilisation of existing assets and improving working capital. The Group acknowledges the inherent uncertainty in their earnings forecast, which includes assumptions such as:

- Increased ranging of products in the USA including the introduction on new planograms and increasing the number of stores for each product.
- Attainment of the permanent U.S. Food and Drug Administration approval to continue operating in the USA. The Group is currently operating under discretionary approval until permanent approval is expected to be obtained in FY25.
- Improved working capital position and liquidating excess inventory, including the Base powder valued at $25 million prior to provisions.
- Reduced operating expenses through stringent expense management, and cost optimisation and estimated expenses relating to litigation matters.

The Directors are proactively taking steps to manage and mitigate the risks associated with the required business improvement, including looking at funding alternatives. The Directors Strategic Review includes incremental opportunities over and above what has been used in the above going concern assessment.

Due to the uncertainty surrounding the above matters, a material uncertainty exists which may cast doubt on the Group's ability to continue as a going concern and therefore whether it may be able to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding the above, based on the current information and actions being taken, the Directors consider that it is appropriate for the financial report to be prepared on a going concern basis.

Should the cash flow forecasts not be achieved, there is a material uncertainty as to whether the Group will be able to continue as a going concern and realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report. The Consolidated Financial Statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

NEW, REVISED OR AMENDING ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

Several other amendments and interpretations were applied for the first time in the 2023 financial period, but do not have a material impact on the consolidated financial statements of the Group.

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

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting year ended 30 June 2023.

IFRS 17 Insurance Contracts — This standard introduces a single model for accounting for insurance contracts, providing more transparent and consistent information about an insurer's financial position, performance and risk exposure. The standard is effective for annual periods beginning on or after January 1, 2023.

The impact of these new or amended Accounting Standards to the Group's consolidated financial statements are not expected to be significant.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgements, estimates and assumptions. The most significant use of judgements and estimates has been applied to the following areas. Refer to the respective notes for additional details.

	Reference
Recoverability of trade and other receivables	Note C1
Valuation of inventory	Note C2
Recoverability of goodwill and other intangibles	Note C5

B. GROUP PERFORMANCE

This section explains the results and performance of the Group for the year, including segment information, earnings per share and taxation.

B1. OPERATING SEGMENTS

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the Board) in order to allocate resources to the segment and assess its performance.

In FY22 and FY23, the Group had identified a single operating segment being the sale of nutritional food, adult powder and providing canning services of nutritional dairy products. Accordingly, the financial information presented in the consolidated statement of profit or loss and other comprehensive income, and the consolidated statement of financial position was the same as that presented to the chief operating decision maker.

B2. REVENUE

GEOGRAPHIC INFORMATION

	2023 $	2022 $
Australia	17,343,758	14,467,623
China	13,621,330	49,404,629
USA	23,904,446	8,076,638
Rest of World*	5,241,093	17,348,434
Total	60,110,627	89,297,324

* FY22 includes $13.5m for the sale of raw materials.

The revenue information above is based on the locations of the customers.

The Group had two external customers who generated greater than 10 percent of the Group's revenue at 30 June 2023 amounting to $12,567,897 (2022: three customers amounting to $50,549,774).

The Majority of the Group's assets are located in Australia.

Set out below is the disaggregation of the Group's revenue from contracts with customers:

Type of goods and services	2023 $	2022 $
Sale of Infant Formula	48,613,317	53,527,894
Sale of Nutritional Products	2,939,978	1,895,371
Sale of Adult Goat Dairy Products	6,673,844	19,429,374
Sale of Raw Materials	606,104	13,495,699
Canning services	1,277,384	948,986
Total revenue from contracts with customers	**60,110,627**	**89,297,324**

RECOGNITION AND MEASUREMENT

Under AASB 15 *Revenue from Contracts with Customer*, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Sale of products

The Group has identified the following revenue streams by product type:

- Infant Formula
- Nutritional Products
- Adult Goat Dairy Products
- Raw materials

For all revenue streams, the Group's contracts with customers for the sale of products include one performance obligation. The Group has concluded that revenue from sale of products should be recognised at the point in time when the products are transferred to the customer, generally on delivery of the products or when the goods are picked up at the Group's warehouse. Customers obtain control of products when the goods are delivered to and have been accepted by the customer. If the order is requested for pickup, control passes when the goods are picked up by the customer. Invoices are generated at that point in time and are usually payable within 30 days.

Some contracts contain trade spend terms, early payment discounts and may permit the customer to return an item for replacement or refund.

The Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns, volume rebates and marketing contribution.

For the year ended 30 June 2023, the Group has not recognised any right to recover or refund liability as there is no expectation for goods to be returned.

Rebates and marketing contribution

Rebates and marketing contribution with customers are recognised as a reduction of revenue. Under AASB 15 *Revenue from Contracts with Customer*, marketing contributions give rise to variable consideration. To estimate the variable consideration to which it is entitled, the Group applies the 'most likely amount method' for contracts with marketing contribution. The selected method that best predicts the amount of variable consideration is primarily driven by the marketing contribution agreed with the customers. The Group then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates.

Provision of canning services

The Group provides the canning services for nutritional dairy products. The Group recognises revenue from the canning services measured at the fair value of the consideration received or receivable. The revenue represents the Group's right to an amount of consideration that is unconditional. Where the Group controls the promised goods before transferring them to the customers, the Group is a principal and recognises the full amount of goods and canning services as revenue when the production is complete. Where the Group does not control the promised goods and solely provides canning services to the customers, the Group is an agent and recognises the revenue for the canning services when the production is complete.

Where contracts with customers have minimum volume commitments over the term of the agreement and the customer is not able to fulfil minimum volume commitment, the Group is entitled to charge a penalty fee of the shortfall volume. This gives rise to variable consideration. To estimate the variable consideration to which it is entitled, the Group applies the 'expected value method'.

KEY ESTIMATE AND JUDGEMENT

The Group estimates variable consideration to be included in the transaction price for the sale of products with rebates and market contribution.

The Group estimates variable consideration to be included in the transaction price of the canning service with minimum volume commitments. The Group estimates the expected volume based on customer forecasts and accumulated purchases to date.

B3. EXPENSES

	2023	2022
Cost of sales		
Production costs	42,195,685	65,402,785
Net inventories provision/(reversal)	27,270,491	(5,010,769)
Total	**69,466,176**	**60,392,016**
Included in administrative and other expenses are the following:		
Listing and registry fees	404,723	318,661
Accountancy and legal fees	3,802,567	1,379,960
Insurance	1,050,770	654,768
Travel costs	1,235,747	518,150
Consultancy fee	7,090,641	2,392,867
Occupancy costs	661,680	304,622
Depreciation and amortisation	2,320,272	2,693,197
Implementation of Enterprise resource planning (ERP)	1,079,076	—
Total	**17,645,476**	**8,521,517**
Employee costs		
Wages and salaries	13,130,723	7,697,645
Superannuation	1,171,378	728,284
Share based payments	601,439	8,344,078
Total	**14,903,540**	**16,770,007**
Finance costs		
Interest expense	324,996	296,970
Interest expense on lease liabilities	127,474	127,585
Unwinding of deferred consideration payable	—	489,819
Total	**452,470**	**914,374**

B4. LOSS PER SHARE (LPS)

	2023	2022
Loss attributable to the Group used in calculating basic and diluted LPS	(108,352,842)	(11,377,544)
Weighted average number of ordinary shares for basic LPS	739,265,049	612,775,580
Basic LPS (dollars)	(0.15)	(0.02)
Diluted LPS (dollars)	(0.15)	(0.02)

RECOGNITION AND MEASUREMENT

Basic LPS is calculated as net loss attributable to the group divided by the weighted average number of ordinary shares outstanding during the financial year.

Diluted LPS adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

B5. INCOME TAXES

	2023 $	2022 $
Consolidated profit or loss		
Income tax benefit/(expense)		
Current tax	—	(76,422)
Income tax benefit/(expense) reported in the statement of profit or loss	(868,303)	(76,422)
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Accounting loss before income tax benefit	107,484,539	11,301,122
Income tax benefit calculated at 30% (2022 30%)	32,245,362	3,390,337
Effect of different tax rates of subsidiary operating in other jurisdiction[1]	—	118,121
Tax effect of amounts not taxable in calculating income tax benefit		
Share based payments	(180,432)	(3,777,030)
Non-deductible costs	(98,443)	(94,256)
Impairment	(10,849,524)	—
Deferred consideration payable fair value movement	—	(146,946)
Income tax losses not recognised	(12,038,628)	(1,416,081)
Temporary difference not recognised	(9,946,638)	1,849,434
Income tax benefits/(expense)	**(868,303)**	**(76,422)**

1 New Zealand statutory tax rate is 28%. China statutory tax rate is 2.5% as the taxable income is less than RMB 1 million. USA statutory tax rate is 21%.

Deferred tax assets/(liabilities) arise from the following:

2023	Opening Balance	Recognised in Profit or Loss	Recognised in equity	Closing Balance
Trade and other receivables	420,814	(420,814)	–	–
Inventories	291,427	(291,427)	–	–
Intangible assets	(11,540,569)	11,179,135	–	(361,434)
Plant and equipment	(201,689)	(25,225)	–	(226,914)
Right of use assets	(339,298)	(239,775)	–	(579,073)
Lease Liabilities	494,734	(494,734)	–	–
Trade and other payables	114,387	(114,387)	–	–
Provisions	306,873	115,397	–	422,270
Carried forward tax losses	10,020,424	(10,020,424)	–	–
Capital raising costs	432,897	(556,049)	868,303	745,151
	–	**(868,303)**	**868,303**	–

2022	Opening Balance	Recognised in Profit or Loss	Recognised in equity	Closing Balance
Trade and other receivables	499,051	(78,237)	–	420,814
Inventories	2,178,991	(1,887,564)	–	291,427
Intangible assets	(12,207,973)	667,404	–	(11,540,569)
Plant and equipment	(311,705)	110,016	–	(201,689)
Right of use assets	(486,772)	147,474	–	(339,298)
Lease Liabilities	649,423	(154,689)	–	494,734
Trade and other payables	72,070	42,317	–	114,387
Provisions	213,043	93,830	–	306,873
Carried forward tax losses	8,604,343	1,416,081	–	10,020,424
Capital raising costs	789,529	(356,632)	–	432,897
	–	–	–	–

RECOGNITION AND MEASUREMENT

The income tax expense or benefit for the year is the tax payable on that year's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior years, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Bubs Australia Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group ('TCG') and Bubs Australia Limited is the head entity of the tax consolidated group.

KEY ESTIMATE AND JUDGEMENT

Recovery of deferred tax assets

Judgement is required to be made by the group in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the consolidated statement of financial position. As detailed above, in the year ended 30 June 2023, Bubs has recognised deferred tax assets up to the carrying amount of deferred tax liabilities. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Probable is considered more likely than not.

Judgement is required when deferred tax assets are reviewed at each reporting date. Deferred tax assets may be reduced to the extent that it is no longer probable that future taxable profits will be available.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future sales, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation.

Changes in expectations for the future performance of the business may impact the amount of deferred tax assets recoverable and recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised.

At 30 June 2023, the Group had $39,412,473 (2022: $8,347,931) of unrecognised tax losses.

C. OPERATING ASSETS AND LIABILITIES

This section provides details of the Group's operating assets, and liabilities incurred as a result of trading activities, used to generate the Group's performance.

C1. TRADE AND OTHER RECEIVABLES

	30/06/2023 $	30/06/2022 $
Trade debtors	14,373,217	23,980,727
Allowance for credit losses	(6,776,007)	(21,752)
Other receivables	266,982	840,030
Receivable from associates	50,395	51,919
Total	**7,914,587**	**24,850,924**

During the year $5.7m was provided in relation to debt owed by the Group's customers in China, with whom the Group is in litigation. Furthermore, $0.9m was provided for Buy Buy Baby in the USA following its bankruptcy.

The following table details trade receivables at risk based on the Group's provision matrix.

	Trade receivables — days past due						
30/06/2023	**Not past due**	**<30 days**	**31-60 days**	**61-90 days**	**91-120 days**	**>120 days**	**Total**
Estimated total gross carrying amount at default	127,600	13,455	35,611	850,598	1,066,149	4,682,594	6,776,007
Provision for credit losses							6,776,007
	Trade receivables — days past due						
30/06/2022	**Not past due**	**<30 days**	**31-60 days**	**61-90 days**	**91-120 days**	**>120 days**	**Total**
Estimated total gross carrying amount at default	6,586	1,334	1,504	390	274	11,664	21,752
Provision for credit losses							21,752

The Group's exposure to credit risks related to trade and other receivables are disclosed in Note D2 Financial risk management.

RECOGNITION AND MEASUREMENT

The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables are measured at the transaction price determined under AASB 15 *Revenue from Contracts with Customers*. Further details are disclosed in Note B2 Revenue.

Financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The Group's trade and other receivables and financial assets are measured at amortised cost that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion.

The Group adopted a forward-looking expected credit loss (ECL) approach for impairment losses for ECLs for financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

KEY ESTIMATE AND JUDGEMENT

For trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

C2. INVENTORIES

	30/06/2023 $	30/06/2022 $
Raw materials	13,911,736	17,809,568
Finished goods	6,855,756	10,650,600
Total	**20,767,492**	**28,460,168**

The amount of inventory that was written off during the year was $1,129,736 (2022: $882,084).

Having regard to the significant inventories on hand at 30 June 2023, the expiry dates of the inventory and sales forecasts, management has recognised an inventory obsolescence provision of $25,226,924 (2022: Inventory provision reversal $5,892,852) was recognised during the year. The cost of inventories recognised as an expense during the year was $42,195,685 (2022: $65,450,857).

RECOGNITION AND MEASUREMENT

Inventories are valued at the lower of cost and net realisable value. Cost is calculated using weighted average methods. Net realisable value represents the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

KEY ESTIMATES AND JUDGEMENTS

Recovery of inventory

Estimation of net realisable value includes assessment of expected future turnover of inventory held for sale and the expected future selling price of such inventory. Management assessed the recoverability of inventories based on changes in trading and economic conditions, and changes in country specific regulations that may impact these estimations in future periods. This expected turnover method is also used to determine the realisable use of ingredients, including powder.

C3. OTHER ASSETS

	30/06/2023 $	30/06/2022 $
Current		
Prepayments and other assets	615,777	562,292
Deposits paid	490,656	402,342
Prepayment for purchase of raw materials	1,518,047	8,865,661
	2,624,480	9,830,295
Non-current		
Security bond	549,145	539,845
	549,145	539,845

RECOGNITION AND MEASUREMENT

Prepayment for purchase of raw materials

Prepayment for purchase of raw materials represent payments for purchases of raw materials prior to ownership passing to the Group.

Deposits paid

Deposits paid represent payments to suppliers in relation to goods not received or services not rendered. These deposits are refundable to the Group.

Security bond

Security bond represents payments to the landlord securing the obligations of the Group under the lease contract of the Deloraine Dairy site.

C4. PLANT AND EQUIPMENT

RECOGNITION AND MEASUREMENT

	Building and improvements $	Production equipment $	Motor Vehicle $	Office equipment $	Total $
Cost					
As at 30 June 2021	1,502,807	3,568,600	25,000	191,295	5,287,702
Additions	134,639	277,771	—	162,686	575,095
Disposals	(1,710)	—	—	(33,098)	(34,808)
As at 30 June 2022	1,635,736	3,846,370	25,000	320,882	5,827,989
Additions	71,968	238,546		183,686	494,199
Disposals		(6,557)	(25,000)	(3,150)	(34,707)
As at 30 June 2023	1,707,703	4,078,359	—	501,418	6,287,481
Accumulated depreciation and impairment					
As at 30 June 2021					
Depreciation	(297,422)	(743,725)	(6,383)	(93,411)	(1,140,941)
Impairment	(82,559)	(211,635)	(1,900)	(53,189)	(349,283)
Disposals					
As at 30 June 2022	250	—	—	28,839	29,089
Depreciation	(379,731)	(955,360)	(8,283)	(117,761)	(1,461,134)
Impairment	(90,625)	(232,556)	(264)	(78,540)	(401,985)
Disposals					—
As at 30 June 2023		5,532	8,547		14,079
Net book value	(470,356)	(1,182,384)	—	(196,301)	(1,849,041)
As at 30 June 2022	**1,256,005**	**2,891,011**	**16,717**	**203,122**	**4,366,855**
As at 30 June 2023	**1,237,348**	**2,895,975**	**-**	**305,117**	**4,438,440**

Plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over their expected useful lives as follows:

Building and improvements	15–20 years
Production equipment	12–19 years
Motor Vehicle	10 years
Office equipment	10–20 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

C5. INTANGIBLE ASSETS

	Goodwill $	Brand name $	Licence $	Priority right $	Customer contract /list $	Recipes $	Patents, trademarks and software $	Total $
Cost								
As at 1 July 2021	90,614,673	4,691,634	38,489,095	1,800,000	6,759,764	47,740	104,260	**142,507,166**
Additions	–	–	–	–	–	–	2,850	**2,850**
Disposals	–	–	–	–	–	–	–	**–**
As at 30 June 2022	90,614,673	4,691,634	38,489,095	1,800,000	6,759,764	47,740	107,110	**142,510,016**
Additions	–	–	–	–	–	–	8,970	**8,970**
Disposals	–	–	–	–	–	–	–	**–**
As at 30 June 2023	90,614,673	4,691,634	38,489,095	1,800,000	6,759,764	47,740	116,080	**142,518,986**
Accumulated amortisation and impairment								
As at 1 July 2021	(90,040,602)	–	(6,941,940)	(1,800,000)	(2,359,738)	(47,740)	(49,822)	**(101,239,842)**
Amortisation	–	–	(1,593,420)	–	(620,609)	–	(11,748)	**(2,225,777)**
Impairment	–	–	–	–	–	–	–	**–**
Disposals	–	–	–	–	–	–	–	**–**
As at 30 June 2022	(90,040,602)	–	(8,535,360)	(1,800,000)	(2,980,347)	(47,740)	(61,570)	**(103,465,619)**
Amortisation	–	–	(1,047,473)	–	(620,599)	–	(15,436)	**(1,683,508)**
Impairment	–	(4,100,000)	(28,906,262)	–	(3,158,819)	–	–	**(36,165,080)**
Disposals	–	–	–	–	–	–	–	**–**
As at 30 June 2023	(90,040,602)	(4,100,000)	(38,489,095)	(1,800,000)	(6,759,764)	(47,740)	(77,006)	**(141,314,207)**
Net book value								
As at 30 June 2022	574,071	4,691,634	29,953,735	–	3,779,417	–	45,540	**39,044,397**
As at 30 June 2023	574,071	591,634	–	–	–	–	39,074	**1,204,780**

RECOGNITION AND MEASUREMENT

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

Goodwill

Goodwill is recognised on business acquisitions, representing the excess of the fair value of the consideration transferred over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the business recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is, from the date of acquisition, allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination.

Brand names

Brand names in Infant Food Co and Nulac Foods CGUs are considered to have an indefinite life and are not amortised. As at 30 June 2023, these assets were tested for impairment.

Licence

The licence represents the CNCA (Certification and Accreditation Administration of the People's Republic of China) licence that Deloraine Dairy currently holds. The licence is amortised on a straight-line basis over the period of the expected benefit, being the finite life of 22 years.

Customer contract/list

Customer contract/lists acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being the finite life of 10 years.

IMPAIRMENT TESTING FOR CASH-GENERATING UNITS (CGUS) INCLUDING GOODWILL

Goodwill and brand names allocation

For the purposes of impairment testing, goodwill and other intangible assets are allocated to the Group's CGUs which represent the lowest level within the Group at which goodwill and brand names are monitored by internal management and are no higher than an operating segment. Goodwill and intangible assets are allocated to the Group's CGUs as follows:

	2023 $	2022 $
Infant Food Co	1,165,712	1,165,712
Nulac Foods	—	4,100,000
Deloraine Dairy	—	—
	1,165,712	5,265,712

RECOGNITION AND MEASUREMENT

Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. An asset's recoverable amount is the higher of an assets or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For each CGU tested, the recoverable amount has been calculated based on the value in use, using a discounted cash flow (DCF) approach. The DCF uses post-tax cash flow projections that are based on the most recent budget/forecast and growth through the forecast period of 5 years. Discount rates has been updated to reflect the current market conditions.

In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Key estimates and judgements: This Infant Food Co CGU

The Infant Food Co	30 June 2023	30 June 2022
Compound annual growth rate in revenue (years 1–5)	4.72%	10.67%
Compound annual growth rate in expenses (years 1–5)	(0.98%)	6.78%
Discount rate (post tax)	12.88%	12.77%
Discount rate (pre-tax)	18.40%	18.24%
Terminal growth	2.50%	2.50%
Headroom	$30.3m	$20.2m

The impairment assessment concluded that the recoverable amount exceeds the carrying amount for The Infant Food Co CGU at 30 June 2023. As a result, no impairment of goodwill and intangible assets has been recognised for this CGU.

SENSITIVITY ANALYSIS

The calculation of value in use for the three CGUs is most sensitive to the following assumptions:

- Revenue growth
- Expense growth
- Discount rates
- Terminal growth rates

Revenue Growth

Revenue projections have been constructed with reference to the FY23 results and five-year forward looking plans with the earlier years being estimated through specific volume assumptions based on known opportunities, while years thereafter are adjusted for performance trends across the particular regions. The five year revenue growth focus assumes that full FDA registration will be obtained in FY25 for the US market. Should the registration be unsuccessful and the shortfall in revenue cannot be substantiated by other opportunities, further impairment on intangible and other assets may be required.

Discount rates

Discount rates represent the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying cash flows expected from the CGU being assessed. CGU specific risk is incorporated by applying beta factors. The discount rate calculation is based on the specific circumstances of each CGU and is derived from its weighted average cost of capital (WACC). The WACC considers both debt and equity. The Cost of equity is derived from the expected return on investment by the CGU's investors. The cost of debt is derived from the interest rate of the CGU's working capital facility.

Terminal growth rate

The terminal growth rate was determined based on management's estimate of the long-term compound annual EBITDA growth rate, consistent with the assumptions that a market participant would make. The terminal growth rate has not changed since 30 June 2022.

Expenses

Management forecasts operating costs based on the current structure of the business, adjusting for inflationary increases but not reflecting future restructuring and cost-saving measures.

Having regard to the current business performance, holding all other assumptions constant, the following changes or higher in the key inputs could cause the carrying amount to exceed the recoverable amount.

	Infant Food Co %
Compound annual decrease in Revenue (years 1–5)	8.88
Compound annual increase in expenses (years 1–5)	1.63

Impairment to Deloraine Dairy and Nulac CGUs

The cash flow projections included in the value in use models for these CGUs have been adjusted for the slower-than-expected consumer offtake in the key markets and the transition from previous Management's strategy which was heavily reliant on success in China. As a result, the carrying amounts of these two CGUs was determined to be higher than the recoverable amounts and an impairment loss of $36,165,180 (30 June 2022: Nil) was recognised.

30 June 2023	Deloraine Dairy $	Nulac $
Carrying amount	15,307,829	6,318,567
Recoverable amount	4,762,454	693,995
Impairment loss*	10,545,375	5,624,572

* Impairment loss of $19,999,995 was recognised in the Deloraine CGU on 31 December 2022

The impairment loss has been fully allocated to the following intangible assets and has been included in the consolidated statement of profit or loss and OCI:

- Deloraine CGU — CNCA Licence: $28,906,262 and Customer contract: $1,634,246
- Nulac CGU — Brand name: $4,100,000 and customer lists: $1,524,572

Value in use as at 30 June 2023 was determined similarly to the 30 June 2022 impairment test, and was based on the following key assumptions:

	30 June 2023		30 June 2022	
	Deloraine %	Nulac Foods %	Deloraine %	Nulac Foods %
Compound annual growth rate in revenue (Years 1–5)	2.79	5.39	25.52	9.58
Compound annual growth rate in expenses (years 1–5)	(4.85)	4.41	1.24	6.33
Discount rate (post tax)	14.33	14.33	11.78	11.78
Discount rate (pre-tax)	20.47	20.47	16.86	16.86
Terminal growth	2.50	2.50	2.50	2.50

Following the impairment losses recognised in the Group's Deloraine Dairy and Nulac CGUs, the recoverable amounts equal the carrying amounts. Therefore, any adverse change in a key assumption may result in further impairment.

If there was an increase of 1% to the discount rate, it would result in a further impairment of $0.8m in Deloraine and $0.2m in Nulac. A decrease of 1% to the revenue annual growth rate would result in a further impairment of $2.2m in Deloraine and $0.7m in Nulac and if there was a decrease of 1% to the terminal growth rate, it would result in a further impairment of $0.4m in Deloraine and $0.01m Nulac. A 1% increase in expenses would result in further impairment of $0.4m in Deloraine and $0.2m in Nulac.

C6. TRADE AND OTHER PAYABLES

	30/06/2023 $	30/06/2022 $
Trade payables	11,653,901	15,866,769
Other payables	433,038	3,898,429
Customer deposits	4,545,453	7,709,503
Payable to associates	41,372	15,627
Total	**16,673,764**	**27,490,328**

RECOGNITION AND MEASUREMENT

Trade and other payables

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost due to their short-term nature, and they are not discounted. They represent liabilities recognised when the Group becomes obligated to make future payments resulting from the purchase of goods and services. The amounts are unsecured.

The carrying value of trade and other payables approximates their fair value.

Customer deposits

Customer deposits are cash considerations received from customers, for which the Group has not yet provided goods or services in exchange.

C7. CONTRACT LIABILITIES

	2023 $	2022 $
Contract liabilities	124,307	46,750
Total	**124,307**	**46,750**

RECOGNITION AND MEASUREMENT

Contract liabilities are obligations to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, contract liabilities are recognised when the payment is made, or the payment is due (whichever is earlier). Income received in advance are recognised as revenue when the Group satisfies the performance obligations under the contract.

C8. LEASES

RIGHT OF USE ASSETS

	Buildings $	Equipment $	Total $
Cost			
At 1 July 2021	2,444,996	76,042	2,521,038
Additions	1,269,737	—	1,269,737
At 30 June 2022	3,714,733	76,042	3,790,775
Additions	76,868	39,343	116,211
At 30 June 2023	3,791,601	115,385	3,906,986
Depreciation and impairment			
At 1 July 2021	(862,138)	(36,325)	(898,463)
Depreciation	(473,562)	(18,019)	(491,581)
At 30 June 2022	(1,335,700)	(54,344)	(1,390,044)
Depreciation	(565,818)	(20,880)	(586,698)
At 30 June 2023	(1,901,518)	(75,224)	(1,976,742)
Carrying amount			
At 30 June 2022	2,379,033	21,698	2,400,731
At 30 June 2023	1,890,083	40,161	1,930,244

The Group leases several assets including buildings and IT equipment. The lease terms range from 1.2–10 years (2022: 1.2–10 years).

Extension options are included in a number of leases across the group. These are used to maximise operational flexibility in terms of managing the assets used in the group's operations. The majority of extension options held are exercisable only by the group and not by the respective lessor.

AMOUNTS RECOGNISED IN PROFIT AND LOSS

	30/06/2023 $	30/06/2022 $
Depreciation expense on right-of-use assets	586,699	491,581
Interest expense on lease liabilities	127,474	127,585
Expense relating to short-term leases	70,103	114,723

The total cash outflow for leases amount to $512,963 (2022: $643,214).

LEASE LIABILITIES

	30/06/2023 $	30/06/2022 $
Current	679,239	615,875
Non-current	1,726,648	2,302,975
	2,405,887	**2,918,850**
Maturity analysis		
Year 1	791,602	740,511
Year 2	806,050	752,891
Year 3	681,537	772,529
Year 4	298,515	663,587
Year 5	1,496	280,565
Onwards	–	–
	2,579,200	**3,210,083**
Less interest	173,312	291,233
Total	**2,405,887**	**2,918,850**

The Group does not face a significant liquidity risk with regard to its lease liabilities. All lease obligations are denominated in Australian dollars.

RECOGNITION AND MEASUREMENT

Applying AASB 16 *Leases*, for all leases, the Group:

- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments.
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss.
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.
- Lease incentives (e.g., rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 117 *Leases* they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136 *Impairment of Assets*.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within 'Administrative and other costs' in the Consolidated Statement of Profit or Loss and Other Comprehensive Income

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying AASB 16:

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.

C9. BORROWINGS

	2023 $	2022 $
Current	2,000,000	2,000,000
	2,000,000	2,000,000

The Group has a working capital facility with National Australia Bank. Total limit of the facility is $10 million (2022: $10 million) with $2 million drawn as at 30 June 2023 (2022: $2 million). This security is categorised as a level 2 security within the fair value hierarchy. Post 30 June 2023, the facility has been renewed for a further 12 months to September 2024, refer to Going concern disclosures in Note A.

RECOGNITION AND MEASUREMENT

Borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The carrying value of borrowings approximates their fair value due to relatively short-term maturity.

C10. PROVISIONS

	30/06/2023 $	30/06/2022 $
Current		
Annual leave and long service leave	951,796	804,169
Other provision	1,487,173	235,616
	2,438,969	1,039,784
Non-Current		
Long service leave	162,176	116,630
Make good provision	113,276	119,097
	275,452	235,727

RECOGNITION AND MEASUREMENT

Annual leave and long service leave

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required, and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

Other provision

Provision made for employee retention and other employee bonuses.

C12. DEFERRED CONSIDERATION

As part of the acquisition of Deloraine Dairy in FY19, a deferred consideration of $15 million was payable in cash over the three year period. The fair value of the deferred consideration was estimated by calculating the present value of future expected cash flow.

A reconciliation of fair value measurement of the deferred consideration payable is provided below:

	Deferred consideration payable
Balance at 30 June 2021	$4,510,181
Unwinding of the deferred consideration payable recognised in profit or loss in the current period	$489,819
Deferred consideration paid in FY22	($1,000,000)
Balance at 30 June 2022	$4,000,000
Deferred consideration paid in FY23	($4,000,000)
Balance at 30 June 2023	–

The payable balance of $4,000,000 as at 30 June 2022 was paid in July 2022.

D. CAPITAL AND FINANCIAL RISK MANAGEMENT

This section outlines how the Group manages its capital structure and its exposure to financial risk and provides details of its balance sheet liquidity and access to financing facilities.

D1. CAPITAL MANAGEMENT

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern so that in due course it can provide returns for stakeholders and maintain an optimum capital structure.

In order to maintain or adjust the capital structure, the Group manages the level of debt such that it remains prudent and facilitates the execution of the operational plan and provides flexibility for growth.

D2. FINANCIAL RISK MANAGEMENT

Exposure to credit risk, foreign currency risk and liquidity risk arises in the normal course of the Group's business.

The Group's financial risk management processes and procedures seek to minimise the potential adverse impacts that may arise from the unpredictability of financial markets.

Policies and procedures are reviewed periodically to reflect both changes in market conditions and changes in the nature and volume of Group activities.

As at 30 June 2023 there were no derivative financial instruments in place. Specific risk management objectives and policies are set out below.

The Group uses various methods to measure different types of risk exposures. These methods include ageing analysis for credit risk, and sensitivity analysis in the case of foreign exchange risks and equity price risk.

CREDIT RISK MANAGEMENT

Credit risk is the risk of financial loss to the Group if a customer or the counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

Maximum exposures to credit risk at balance date:	**2023 $**	**2022 $**
Cash and cash equivalent (counterparty risk)	26,052,523	16,311,005
Trade receivables (customer credit risk)	7,647,604	24,010,894
Other receivables	266,983	840,030
Prepayment for purchase of raw materials	1,518,047	8,865,661
Deposits paid	1,039,801	402,342
	36,524,958	50,429,932

Counterparty risk

At balance date, the Group's bank accounts were held with National Australia Bank Limited, Australia and New Zealand Bank Limited, Commonwealth Bank of Australia and Bank of the West. The Group does not have any other concentrations of counterparty credit risk.

Customer credit risk

The Group's exposure to customer credit risk is influenced mainly by the individual characteristics of each customer. The majority of sales are to major retailers with established creditworthiness and minimum levels of default.

New customers are analysed individually for creditworthiness, taking into account credit ratings where available, financial position, previous trading experience and other factors.

In monitoring customer credit risk, customers are assessed individually by their debtor ageing profile. Monitoring of receivable balances on an ongoing basis minimises the exposure to bad debts.

For trade receivables and contract assets, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses.

The Group considers a financial asset in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before considering any credit enhancements held by the Group.

Other credit risk

The Group is exposed to related party credit risk and other credit risk. In monitoring related party credit risk and other credit risk, the related parties and counterparties are analysed individually for creditworthiness, taking into account credit ratings where available, financial position and other factors.

Ageing of trade receivables at the reporting date:

	2023 $	2022 $
Neither past due nor default	5,130,004	21,998,554
Past due but not impaired		—
Past due up to 30 days	550,358	1,991,508
Past due 31 to 60 days	1,881,310	8,866
Past due 61 to 90 days	85,932	1,099
Past due more than 90 days	—	10,867
	7,647,604	24,010,894

Movement in allowance for doubtful debts

	2023 $	2022 $
Allowance of doubtful debts		
Balance at beginning of the year	21,752	717,691
Amount charged to the statement of profit or loss and other comprehensive income	(21,752)	(715,099)
Provision provided/(utilised)	6,776,007	19,160
Balance at the end of year	6,776,007	21,752

Market risk

Market risk is the risk that changes in market prices will affect the Group's income or the value of its holdings in financial instruments. The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates to the AUD dollar.

Market risk exposures are monitored by management on an ongoing basis and there has been no change during the year to the Group's exposure to market risks or the manner in which it manages and measures risk.

FOREIGN CURRENCY RISK MANAGEMENT

The Group enters into the transactions in Australia, New Zealand, China, USA and Europe and is exposed to currency risk arising from movements in the currencies of those countries against the AUD dollar. Expressed in AUD dollars, the table below indicates material exposure and sensitivity to movements in exchange rates on the profit or loss of the Group based on closing exchange rates as at 30 June, applied to the Group's financial assets/(liabilities) at 30 June.

Exchange rates and assets and liabilities held in foreign currencies will fluctuate over the course of normal operations. The analysis is performed consistently from year to year.

2023	Net exposure on reporting date (Payable)/Receivable	Impact on pre-tax profit/(loss)	
Movement on exchange rate	$	+10% $	-10% $
NZ Dollar	121,606	(11,055)	13,512
USD Dollar	668,542	(60,777)	74,282
RMB Dollar	(109,388)	9,944	(12,154)
Euro Dollar	(43,407)	3,946	(4,823)
Net exposure	637,353	(57,942)	70,817

2022	Net exposure on reporting date (Payable)/Receivable	Impact on pre-tax profit/(loss)	
Movement on exchange rate	**$**	**+10% $**	**-10% $**
NZ Dollar	(914,780)	83,162	(101,642)
USD Dollar	8,003,371	(727,579)	889,263
RMB Dollar	(197,846)	17,986	(21,983)
Euro Dollar	(38,310)	3,483	(4,257)
Net exposure	6,852,435	(622,948)	761,381

INTEREST RISK MANAGEMENT

The Group's main interest rate risk arises from borrowings, which expose the Group to cash flow interest rate risk. The risk is considered immaterial.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due. This risk is managed by establishing a target minimum liquidity level, ensuring that ongoing commitments are managed with respect to forecast available cash inflows.

The Group holds significant cash reserves which enable it to meet its obligations as they fall due, and to support operations in the event of unanticipated external events.

The Group has one working capital facility with $2,000,000 (2022: $2,000,000) drawn at 30 June 2023. Total limit of facility is $10,000,000. Post 30 June 2023, the facility has been renewed for a further 12 months to September 2024, refer to Going concern disclosures in Note A.

Contractual undiscounted maturities of financial liabilities:

		Contractual cash flows					
2023	**Carrying amount**	**Total**	**2 months or less**	**2–12 months**	**1–2 years**	**3–5 years**	**More than 5 years**
Non-derivative financial liabilities							
Lease liability	2,458,889	2,579,199	131,933	659,668	806,050	981,548	—
Deferred consideration payable	—	—	—	—	—	—	—
Trade and other payables	16,632,392	16,632,392	16,632,392	—	—	—	—
Borrowings	2,000,000	2,000,000	—	2,000,000	—	—	—
Payable to associates	41,372	41,372	—	41,372	—	—	—
	21,132,653	**21,252,963**	**16,764,325**	**2,701,040**	**806,050**	**981,548**	**—**

		Contractual cash flows					
2022	**Carrying amount**	**Total**	**2 months or less**	**2–12 months**	**1–2 years**	**2–5 years**	**More than 5 years**
Non-derivative financial liabilities							
Lease liability	2,918,850	3,210,081	123,417	617,092	752,891	1,716,681	—
Deferred consideration payable	4,000,000	4,000,000	4,000,000	—	—	—	—
Trade and other payables	27,474,701	27,474,701	27,474,701	—	—	—	—
Borrowings	2,000,000	2,000,000	2,000,000	—	—	—	—
Payable to associates	15,627	15,627	—	15,627	—	—	—
	36,409,178	36,700,409	33,598,118	632,719	752,891	1,716,681	—

D3. CASH AND CASH EQUIVALENTS

	2023 $	2022 $
Cash at bank and on hand	26,052,523	16,311,005
	26,052,523	16,311,005

Interest is earned at floating rates based on daily bank deposit rates.

RECOGNITION AND MEASUREMENT

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value.

The carrying value of cash and cash equivalents approximates their fair value.

D4. CASH FLOW INFORMATION

Reconciliation of after tax profit with net cash flows from operating activities

	2023 $	2022 $
(Loss) after income tax expense for the year	(108,352,842)	(11,377,544)
Income tax benefit/(expense)	868,303	76,422
Share-based payments	601,439	8,344,078
Equity Linked transaction		4,246,021
Unwinding of deferred consideration payable	—	489,819
Impairment	36,165,080	—
Depreciation and amortisation	2,721,938	3,066,910
Equity accounting profit		(87,193)
Net foreign exchange loss	(249,561)	(26,489)
Loss on disposal of plant and equipment	—	3,650
Decrease/(increase) in trade and other receivables	16,564,978	(8,821,086)
Decrease/(increase) in inventories	7,291,010	(7,913,563)
Decrease/(increase) in other assets	7,196,515	(9,292,160)
Increase/(decrease) in trade and other payables	(10,739,006)	12,141,878
Increase/ (decrease) in provisions	1,438,910	(224,580)
Net cash outflow from operating activities	**(46,493,236)**	**(9,373,837)**

D5. SHARE CAPITAL

	30 /06/2023		30/06/2022	
	Shares	$	Shares	$
Movement in share capital				
Balance at the beginning of the year	612,775,580	274,851,116	612,775,580	274,851,116
Exercise of options	4,770,810	477,081	—	—
Placement of Shares	121,193,439	63,020,588	—	—
Share Issue transaction costs (net of tax)	—	(2,026,039)	—	—
Share issue to employees	3,075,959	—	—	—
Share issue to Willis Trading Limited	9,541,620	4,246,021	—	—
Balance at the end of the period	**751,357,408**	**340,568,767**	**612,775,580**	**274,851,116**

Fully paid ordinary shares carry one vote per share and carry right to dividends. Fully paid ordinary shares have no par value.

Placement of shares

On 6 July 2022, The Group completed the underwritten institutional component of the $63million (before costs) equity raise at $0.52 per fully paid ordinary share. The institutional component consisted of a placement of 62.4 million new shares to institutional investors ("Institutional placement"), raising $32.4million and 14.8 million shares in an accelerated non-renounceable entitlement offer (Institutional Entitlement Offer") raising $7.7million at $0.52 per share.

On 28 July 2022, The Group completed the retail component ("Retail Entitlement Offer") which raised $22.8million at $0.52 per fully paid ordinary share in the Company. The company issues 44 million shares in this offer.

Exercise of options

Share options issued in prior years and vested in FY22 that have been exercised in the current year. No options were issued or vested in during the year ended 30 June 2023.

Share issue to employees

Exercise of share rights granted to employees and key management personnel in FY22 and valued at $0.595 per right. 2,226,856 share rights remain on 30 June 2023, and they vest at the date of release of the Group's FY23 audited results to ASX. These rights do not have a performance hurdle.

Share issue to Willis Trading

In FY22, the Group entered into a share subscription agreement with Willis Trading Limited, a wholly owned subsidiary of Alpha Professional Holdings Limited ('Alpha Group'), a company listed on the Hong Kong Stock Exchange.

The Group conditionally agreed to issue ordinary shares to Willis Trading Limited as rebates for the Alpha Group meeting product purchase milestones in of at least $44m in FY22 and $120m in FY23. Alpha Group met the product purchase milestones for FY22 entitling them to the 9,541,620 ordinary shares but did not meet the FY23 milestones for further share issues. The Group therefore recognised the fair value of 9,541,260 shares on the grant date as rebates netting off revenue recognised in FY22, being $4,246,021.

D6. SHARE BASED PAYMENTS RESERVE

	30/06/2023 $	30/06/2022 $
Balance at the beginning of the year	11,332,626	2,988,548
Share based payment	601,439	8,344,078
Balance at the end of the period	11,934,065	11,332,626

SHARE BASED PAYMENTS RESERVE

The equity settled payments reserve is used to record the value of share-based payments.

D7. EQUITY RESERVE

	30/06/2023 $	30/06/2022 $
Balance at the beginning of the year	4,246,021	—
Equity linked transaction	—	4,246,021
Shares issued to Willis Trading Limited	(4,246,021)	—
Balance at the end of the period	—	4,246,021

EQUITY RESERVE

The equity reserve is used to record the value of equity linked transaction with Corporate Daigou partner Willis Trading Limited.

The value of the shares has been transferred to the issued capital with a reduction in the equity reserve in FY23.

D8. CONTINGENT LIABILITIES

From time-to-time entities within the Group are party to various legal actions as well as enquiries from regulators and government bodies that have arisen in the normal course of business.

The Group has several ongoing legal matters. The Group is party to ongoing negotiations to end the Chinese joint venture with Zhitong (Hangzhou) Health Technology Co. Ltd. The Group has ongoing disputes with its former CEO, Executive Chairman, two other former employees as well as its former customers - Alice Trading Ltd and Willis Trading Ltd.

The outcome of the currently pending and potential future legal actions, of a legal nature cannot be predicted with certainty. Such matters can raise complex legal issues, and are subject to many uncertainties including but not limited to the facts and circumstances of each matter.

The Group has given consideration to such matters which are or may be subject to claims, penalties and litigation as of the reporting date and are of the opinion that any litigation arising from such action would not have a material effect on the Group's financial performance.

E. ASSOCIATES

On 6 May 2019, the Group and Beingmate Baby & Child Food Co., Ltd ('Beingmate') established a joint venture company Bubs Brand Management Shanghai Co. Ltd ('Bubs Brand Management'). The Group contributed 49% of registered capital RMB 4,900,000 in FY20. In April 2021, the Group and the Beingmate reached an agreement to wind up Bubs Brand Management. As at 30 June 2023, the liquidation process of Bubs Brand Management was yet to be finalised.

Summarised financial information of the associate is set out below:

	30/06/2023	**30/06/2022**
Current assets	253,704	297,617
Non-current assets	—	—
Current liabilities	(8,354)	(18,598)
Non-current liabilities	—	—
Net assets	245,350	279,019
Loss for the year		
Revenue	—	74,454
Profit/(Loss) before tax	(32,653)	160,842
Income tax benefit	—	17,103
Profit/(Loss) for the year	(32,653)	177,945
Other comprehensive income	—	—
Total comprehensive profit/(loss) for the year	(32,653)	177,945

Reconciliation of the above summarised financial information to the carrying amount of the investment in Associate recognised in the consolidated financial statements.

Net assets of associate	245,350	279,019
Proportion of the Groups ownership interest in the associate (49%)	120,171	136,770
Carrying amount of the investment in the associate	120,171	136,770

On 19 June 2020, Capela Dairy Nutrition Co. Pty Ltd ('Capela Dairy') was established and was a wholly owned subsidiary of the Group. On 1 March 2021, 80% interest in Capela Dairy was transferred to Grand Products Investment Pty Ltd ('Grand Products') at a price of $80. The Group is not required to contribute any working capital.

The Group has determined that it does not have joint control of Capela Dairy and is therefore outside the scope of AASB 11 *Joint Arrangements*. As such, The Group's investment in Capela Dairy will be accounted for as an associate under AASB 128 *Investments in Associates and Joint Ventures*.

Summarised financial information of the associate is set out below:

	30/06/2023	30/06/2022
Current assets	4,122	4,122
Non-current assets	–	–
Current liabilities	(51,300)	(51,300)
Non-current liabilities	–	–
Net assets	(47,178)	(47,178)
Loss for the year	–	
Revenue	–	–
Loss before tax	–	(5,323)
Income tax expense	–	–
Loss for the year	–	(5,323)
Other comprehensive income	–	–
Total comprehensive loss for the year	–	(5,323)

Reconciliation of the above summarised financial information to the carrying amount of the investment in Associate recognised in the consolidated financial statements.

Net assets of associate	(47,178)	(47,178)
Proportion of the Groups ownership interest in the associate (20%)	(9,436)	(9,436)
Carrying amount of the investment in the associate	–	–

RECOGNITION AND MEASUREMENT

The Group has determined that it does not have joint control of Bubs Brand Management and is therefore outside the scope of AASB 11 *Joint Arrangements*. As such, The Group's investment in Bubs Brand Management will be accounted for as an associate under AASB 128 *Investments in Associates and Joint Ventures*.

The financial results of the associate are used by the Group to apply the equity method. Where associates apply different accounting policies to the Group, adjustment are made upon application of the equity method.

Investments in associates are carried in the consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associates, less impairment in value. The consolidated Statement of Profit or Loss reflects the Group's share of the results of operations of the associate.

Where there has been a change in the associates OCI or equity, the Group recognises its share of any changes and discloses this, when applicable in the consolidated Statement of Other Comprehensive Income.

When the Group's share of losses in an associate equal or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

F. GROUP STRUCTURE

F1. PARENT ENTITY

Bubs Australia Limited is the ultimate parent of the Group.

F2. SUBSIDIARIES

	Country of incorporation	Principal Activity	Class or Shares	% Owned 2023	% Owned 2022
The Infant Food Holding Co. Pty Limited	Australia	Non-trading	Ordinary	100%	100%
The Infant Food Co. Pty Limited	Australia	Trading Company	Ordinary	100%	100%
Bubs IP Pty Ltd (formerly Bubs Australia Pty Limited)	Australia	Holder of IP and trademarks	Ordinary	100%	100%
Nulac Foods Pty Ltd	Australia	Trading Company	Ordinary	100%	100%
Bubs New Zealand Pty Limited	New Zealand	Trading Company	Ordinary	100%	100%
Australia Deloraine Dairy Pty Ltd	Australia	Trading Company	Ordinary	100%	100%
Aussie Bubs Inc	USA	Trading Company	Ordinary	100%	100%
Bubs (Shanghai) Trading Co. Ltd	China	Non-trading	Ordinary	100%	100%

F3. PARENT ENTITY INFORMATION

Set out below is the supplementary information of the legal parent entity.

	2023 $	2022 $
Result of parent entity		
Profit/(Loss) for the year	(41,851,677)	13,219,819
Other comprehensive income	–	–
Total comprehensive loss for the year	(41,851,677)	13,219,819
Financial position of parent entity at year end		
Current assets	12,609,784	233,086
Total assets	84,994,639	92,284,210
Current liabilities	380,722	4,335,430
Total liabilities	380,722	4,335,430
Net assets	84,613,918	87,948,780
Issued share capital	364,321,539	302,849,909
Reserves	13,287,041	12,698,156
Accumulated losses	(292,994,662)	(227,599,285)
Total Equity	84,613 ,918	87,948,780

OTHER DISCLOSURES

G1. RELATED PARTY TRANSACTIONS

KEY MANAGEMENT PERSONNEL

Key management personnel are defined as those persons having significant authority and responsibility for planning, directing and controlling the activities of the Group.

Key management personnel compensation:

Key management personnel disclosures	2023 $	2022 $
Short-term employee benefits	2,393,457	1,729,113
Post-employment benefits	207,148	141,297
Long-term benefits	26,202	20,520
Share-based payments	(20,367)	8,006,894
Key management personnel disclosures	2,606,440	9,897,824

TRANSACTIONS WITH RELATED PARTIES

The following table provides details of transactions that were entered into for the relevant financial year.

	Sales to related parties		Purchases from related parties		Amounts owed to related parties		Amounts owed by related parties	
	2023 $	2022 $	2023 $	2022 $	2023 $	2022 $	2023 $	2022 $
Joint venture in which the parent is a venturer:								
Capela Dairy Nutrition Co Pty Ltd	–	53,544	–	–	–	–	–	–
Bubs Brand Management Shanghai Co. Ltd	–	50,908	–	–	42,402	15,627	50,939	50,908
Total	**–**	**104,452**	**–**	**–**	**42,402**	**15,627**	**50,939**	**50,908**

All of the above transactions were considered to be on an arms' length basis.

G2. SHARE BASED PAYMENTS

OPTIONS

Share based payments expense in relation to options exercisable is as follows :

	2023 $	2022 $
Options issued to the CEO	—	2,925,461
Options issued to the Executive Chairman	—	4,693,525
Options issued to the KMP[2]	—	123,280
Options issued to the employees	—	61,640
	—	7,803,906

The movements in the options are as follows:

	Number of options
Balance at 1 July 2021	11,541,620
Options granted to employees during the year (Exercisable at $0.65)	400,000
Options cancelled during the year (Exercisable at $0.65)	(800,000)
Options forfeited during the year (Exercisable at $0.65)	(400,000)
Balance at 30 June 2022	10,741,620
Options granted to the employees during the year	—
Options exercised during the year (Exercised at $0.10)	(4,770,810)
Options forfeited during the year (Exercisable at $0.65)	(4,770,810)
Balance at 30 June 2023	1,200,000

Options on issue and exercisable at 30 June 2023 are as follows:

Options issued to the individual KMP in FY21:

Tranche 1

— 200,000: vest 3 months after issue and on the achievement of $50m in gross revenue $2m in normalised EBITDA as at the Company's full year results and expire on termination of employment.

Tranche 2

— 200,000: vest 3 months after issue and on the achievement of $60m in gross revenue and $4m in normalised EBITDA as at the Company's full year results and expire on termination of employment.

The above options vested in FY22. These options expire on 10 June 2024.The exercise price is $0.65.

No options that were granted or vested in FY23.

SHARE RIGHTS

Share based payments expense in relation to the share rights granted in FY22 is as follows:

	2023 $	2022 $
Share rights issued to the CEO	(13,093)	95,266
Share rights issued to the Executive Chairman	(7,274)	52,926
Share rights issued to the KMP	326,017	116,436
Share rights issued to the employees	295,789	275,544
	601,439	540,172

2 The term key management personnel (KMP) refers to those persons having the authority and responsibility for planning, directing, and controlling the activities of the Group, directly or indirectly and includes any Director of the Group

The vesting condition of FY22 share rights is subject to service conditions, namely, that the employment not to terminated, before.

- For 50% of the share rights – the date of release of the Company's FY22 audited financial results to ASX;
- For the other 50% of the share rights – the date of release of the Company's FY23 audited financial results to ASX.

No financial performance hurdles are applied to the share rights granted in FY22.In FY23, tranche 2 2 of the Group's former Chairman's share rights (303,251) and former CEO's share rights (545,852) lapsed as they did not meet the FY23 service condition.

No share rights were granted in FY23 (FY22 6,185,735). At 30 June 2023 2,226,856 share rights were outstanding (FY22 6,185,735).

RECOGNITION AND MEASUREMENT

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted over the period to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met but is not adjusted when market performance conditions are not met.

Expected volatility has been based on an evaluation of the historical volatility of the Group's share price, particularly over the historical period commensurate with the expected term. The expected term of the instruments has been based on historical experience and general option holder behaviour.

The fair value of share rights granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at share price on the grant date. The amount recognised as an expense is adjusted over the period to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met but is not adjusted when market performance conditions are not met.

KEY ESTIMATE AND JUDGEMENT

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them.

G3. AUDITORS REMUNERATION

During the financial year the following fees were paid or payable for services provided by the auditor of the Group:

	2023 $	2022 $
Audit services		
Audit or review of the financial statements	963,915	326,200
Non audit services		
Custom duty advisory services	—	33,625
	963,915	359,825

G4. SUBSEQUENT EVENTS

In August 2023, the Group renewed its $10m facility with NAB under the same terms as FY22. The renewed facility expires in September 2024.

On 29 August 2023, the Group announced the appointment of Reginald Weine as CEO and Managing Director. Reg had joined the Group in April 2023 as an independent Non-Executive Director.

There have been no other subsequent events since 30 June 2023 that have significantly affected or could significantly affect the reported results from operations or financial position for the year then ended.

G5. ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bubs Australia Limited ('company' or 'parent entity') as at 30 June 2023 and the results of all subsidiaries for the year then ended. Bubs Australia Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances, and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2023

1. In the opinion of the directors of Bubs Australia Limited (the 'Company'):
   (a) The consolidated financial statements and notes that are set out on pages 34 to 69 and the Remuneration report on pages 22 to 30 in the Directors' report, are in accordance with the *Corporations Act 2001*, including:
      i. Giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the financial year ended on that date; and
      ii. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
   (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the interim CEO/COO and interim CFO.

for the financial year ended 30 June 2023.

3. The directors draw attention to Note A to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Melbourne this 7th day of September 2023.

Katrina Rathie
Non-Executive Chairman

Independent Auditor's Report

To the shareholders of Bubs Australia Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Bubs Australia Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2023 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated Statement of Financial Position as at 30 June 2023
- Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statement of Cash Flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with these requirements.

KPMG

Material uncertainty related to going concern

We draw attention to Note A. Basis of preparation, "Going Concern basis of accounting" in the financial report. The conditions disclosed in Note A. Basis of preparation, indicate a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

In concluding there is a material uncertainty related to going concern we evaluated the extent of uncertainty regarding events or conditions casting significant doubt in the Group's assessment of going concern. This included:

- Analysing the cash flow projections by:
  - Evaluating the underlying data used to generate the projections for consistency with other information tested by us, our understanding of the Group's intentions, and past results and practices;
  - Assessing the planned levels of operating cash inflows and outflows, including capital expenditures, for feasibility, timing and consistency of relationships to the Group's historical results, particularly in light of recent loss making operations, results since year end, assumptions around attainment of the permanent U.S. Food and Drug Administration approval, and our understanding of the business, industry and economic conditions of the Group;
- Assessing significant non-routine forecast cash inflows and outflows including the impact of new product development in key markets for feasibility, quantum and timing. We used our knowledge of the client, its industry and current status of those initiatives to assess the level of associated uncertainty;
- Reading correspondence with existing financiers to understand the terms of current financing arrangements and assessing the level of associated uncertainty; and
- Evaluating the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standard requirements. We specifically focused on the principal matters giving rise to the material uncertainty.

KPMG

Key Audit Matters

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the ***Key Audit Matters***:

- Valuation of intangible assets
- Valuation of inventory

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of intangible assets ($1.2m)

Refer to Note C5 Intangible assets to the Financial Report

The key audit matter	How the matter was addressed in our audit
The valuation of intangible assets is a key audit matter due to the inherent complexity associated with auditing the forward-looking assumptions incorporated in the Group's "value in use" (VIU) models. The Group's VIU models are internally developed and use a range of internal and external data as inputs. The key assumptions in the Group's VIU models include forecast cash flows, forecast growth rates, terminal growth rates and discount rates. These forward-looking assumptions may be prone to greater risk for potential bias, error and inconsistent application, therefore necessitating additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application. Where the Group has not met prior year forecasts in relation to a specific CGU, we factor this into our assessment of key assumptions as it raises our concern for reliability of current forecasts. We involved valuation specialists to supplement the senior audit team members in assessing this key audit matter. In addition to the above, the Group recorded an impairment charge of $36.2m against intangible assets, resulting from declining business performance due to slower consumer offtake and a shift in management's strategy in key markets from those expected, increasing the	Our procedures included: • assessing the Group's VIU models and key assumptions by: - evaluating the appropriateness of the VIU models against accounting standard requirements; - assessing the integrity of the models used, including the accuracy of the underlying calculation formulas; - comparing significant inputs into the relevant cash flow forecasts to the Board approved budgets and projections; - assessing the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models, including assessing the impact of business changes; - comparing forecast growth rates during the forecast period and terminal growth rates to published studies of industry trends and expectations, and considered differences for the Group's operations, stated plans and strategy. We used our knowledge of the Group, their past performance, business and customers, and our industry experience regarding the feasibility of these in the economic environment in which the CGUs operate; and

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sensitivity of the model to small changes. This further increased our audit effort in this key audit area.	- working with our valuation specialists, we independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group. • considering the sensitivity of the models by varying key assumptions, such as forecast growth rates, terminal growth rates and discount rates, within a reasonably possible range, to identify those assumptions at higher risk of bias or inconsistency in application. We also assessed the related impairment breakeven points for these assumptions in order to identify those assets at higher risk of impairment and to focus our further procedures; • working with our valuation specialists we compared the implied multiples from the Group's models to multiples derived from comparable companies; • recalculating the impairment charge against the recorded amount disclosed; • assessing the disclosures in the financial report using our understanding from our testing and against the requirements of accounting standards.

<table>
<tr><th colspan="2">Valuation of inventory ($20.8m)</th></tr>
<tr><td colspan="2">Refer to Note C2 Inventories to the Financial Report</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Valuation of inventory is a key audit matter due to the:
• size of the inventory balance relative to the Group's financial position (32% of total assets);
• current year inventory write off recognised of $25.2 million increasing our focus in this area;
• challenging market conditions for the Group's products in their key growth markets including a reduction in sales in the Chinese market; and
• extent of judgement involved by the Group in determining the net recoverable value, particularly in relation to slow moving and obsolete inventory. Such judgements may have a significant impact on the Group's provision and therefore the overall carrying value of inventories, necessitating additional audit effort.
The most significant areas of judgement we focused on was in assessing the Group's:
• expected selling price of inventory;
• ageing of inventory; and
• future usage of inventory.
We involved our senior audit team members in assessing this key audit matter.</td><td>Our procedures included:
• assessing the appropriateness of inventory valuation accounting policies applied by the Group against the requirements of accounting standards and our understanding of the business;
• obtaining an understanding of the Group's processes relating to inventory provisioning, standard costing, weighted average costing and valuation;
• attending a sample of year-end inventory counts across the Group including inventory held at third-party locations. We observed the Group's process which included identifying slow moving and potentially obsolete inventory, and performed sample counts ourselves comparing count results to the Group's testing the existence and condition of inventory;
• obtaining a sample of inventory confirmations for quantity and condition held at third-party locations at period end;
• assessing the integrity of the inventory valuation models used, including the mathematical accuracy of the underlying calculations;
• evaluating the completeness of at-risk slow moving or excess stock items identified by the Group, by comparing the Group's inventory listings against recent sales information to identify any additional at-risk items;
• comparing a sample of individual inventory carrying values against current selling prices (as a proxy for expected selling price of inventory and net realisable value) to identify individual products at risk of being recorded in excess of their net realisable value;
• challenging the Group's judgements relating to the provision for slow moving inventory (including excess stock), specifically the expected future usage of inventory. We</td></tr>
</table>

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	assessed recent demand for the Group's products in comparison to forecast demand, ageing inventory and our knowledge of the Group's business strategy; • assessing the disclosures in the Group's financial report against the requirements of accounting standards.

Other Information

Other Information is financial and non-financial information in Bubs Australia Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

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Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf.This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Bubs Australia Limited for the year ended 30 June 2023, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 22 to 30 of the Directors' report for the year ended 30 June 2023.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

J. Carey

KPMG

J. Carey

Partner

Melbourne

7 September 2023

OTHER INFORMATION

The following additional information is required by the Australian Securities Exchange in respect of listed public companies.

1. SHAREHOLDING AS AT 25 AUGUST 2023

(a) Distribution of shareholders

Range	Total holders	Units	% Units
1–10,000	20,265	63,924,384	8.51
10,001–20,000	3,037	45,515,915	6.06
20,001–30,000	1,253	31,773,674	4.23
30,001–40,000	681	24,462,092	3.26
40,001–50,000	489	22,925,309	3.05
50,001 Over	1,943	562,756,034	74.90
Rounding			**-0.01**
Total	**27,668**	**751,357,408**	**100.00**

(b) Unmarketable parcels

	Minimum Parcel Size	Holders	Units
Minimum $500.00 parcel at $0.1800 per unit	2,778	11,757	14,657,218

(c) Voting rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares: each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

(d) Top 20 shareholders — Ordinary Shares

Rank	Name	Units	%Units
1	C2 CAPITAL GLOBAL EXPORT-TO-CHINA FUND	76,288,510	10.15
2	CITICORP NOMINEES PTY LIMITED	25,454,482	3.39
3	CW RETAIL HOLDINGS PTY LTD	24,713,254	3.29
4	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	12,244,838	1.63
5	ALPHA OVERSEAS LIMITED	9,541,620	1.27
6	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	8,458,697	1.13
7	CARR FAMILY PTY LIMITED <CARR FAMILY A/C>	7,128,673	0.95
8	MR JIANLIN ZHOU	6,658,000	0.89
9	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAIL CLIENT DRP>	5,795,941	0.77
10	SUPERHERO SECURITIES LIMITED <CLIENT A/C>	5,584,782	0.74
11	MR BENJAMIN PAUL LANDON	5,141,271	0.68
12	INFANT FOOD BUSINESS PTY LIMITED <INFANT FOOD BUSINESS A/C>	5,000,000	0.67
13	BNP PARIBAS NOMINEES PTY LIMITED ACF CLEARSTREAM	4,825,352	0.64
14	STABLE CHARTER LIMITED	4,615,385	0.61
15	A Z GLOBAL CORPORATION PTY LTD	4,097,911	0.55
16	INTERCONTINENTAL PTY LIMITED	4,000,000	0.53
17	MR JUN HUA CHEN	3,400,000	0.45
18	MS SHENGYAN HU + MY XIANGJUN ZHAO	3,300,000	0.44
19	ATATURK INVESTMENTS PTY LTD	3,211,266	0.43
20	KEONG LIM PTY LIMITED <SK LIM FAMILY A/C>	3,153,000	0.42
Totals: Top 20 Shareholders of ORDINARY FULLY PAID SHARES (Total)		**222,612,982**	**29.63**
Total Remaining Holders Balance		**528,744,426**	**70.37**

2. CORPORATE DIRECTORY

(a) The name of the Company Secretary is Jay Stephenson

(b) Registered office

23 Nina Link, Dandenong South, VIC 3175 Australia

(c) Principal office

23 Nina Link, Dandenong South, VIC 3175 Australia

(d) Registers of securities

Computer Investor Services Pty Ltd

(e) Stock exchange listing

Quotation has been granted for all the ordinary shares of the Company on all member exchanges of the Australian Securities Exchange Limited

(f) Unquoted securities

- Options over unissued shares —
  The Group has 1,200,000 options on issue.
- Share rights over unissued shares —
  The Group has 2,226,856 share rights.

CORPORATE DIRECTORY

DIRECTORS

Dennis Lin (ceased 30th May 2023)

Kristy-Lee Newland Carr (ceased 10th May 2023)

Steve Lin

Katrina Rathie

Paul Jensen (appointed 20 March 2023)

Reg Weine (appointed 11 April 2023)

COMPANY SECRETARY

Jay Stephenson

REGISTERED OFFICE AND DOMICILE

Bubs Australia Limited is a company limited by shares, incorporated and domiciled in Australia.

Its registered office is:
23 Nina Link, Dandenong South
VIC 3175 Australia

SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 2
Reserve Bank Building
45 St George's Terrace
Perth WA 6000

AUDITORS

KPMG
Tower Two, Collins Square
727 Collins Street
Melbourne VIC 3008

AUSTRALIAN STOCK EXCHANGE

ASX Code: BUB

INVESTOR RESOURCE CENTRE

www.investor.bubsaustralia.com