

11 March 2024

Sean Maloney  
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Perth WA 6000

By email: [Sean.Maloney@asx.com.au](mailto:Sean.Maloney@asx.com.au)

Dear Mr Maloney

**Melodiol Global Health Limited (ASX: ME1) – Financial Condition Query**

We refer to your letter dated 6 March 2024 (“Letter”). Melodiol Global Health Limited (the “Company” or “ME1”) provides the following responses to your questions.

- 1. Does ME1 consider that the financial condition of ME1 is sufficient to warrant its continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion and specifically comment on:**

*ME1 notes that Listing Rule 12.2 does not set out specific metrics that must be met to form the ASX’s view on a Company’s financial condition. Nevertheless, ME1’s considers its financial condition is sufficient to warrant continued quotation of its securities and its continued listing on ASX under Listing Rule 12.2. This is demonstrated by its track record of ongoing improvement in operating cash outflows and its historical track record to raise additional capital as and when required. Furthermore, ME1 has provided additional information to provide context to the Appendix 4C financial metrics and Appendix 4E financial metrics, which when considered without context, are limited for assessing ME1’s financial condition.*

**1.1 each of the Appendix 4C Financial Metrics**

*Negative net operating cash flows for the quarter of \$2,206,000*

*With reference to paragraph A(v)(A1) of the Letter, the Company notes that it has consistently improved its net operating cash flows since January 2022 as demonstrated by the net operating outflows improving by 32% from FY21 to FY22, and 37% from FY22 to FY23. These improvements have been consistent year on year. The Company has an objective to continue this trend in FY24 by driving further revenue growth, assessing opportunities for reductions in corporate costs, and the rationalisation of business units whose stage of life cycle resulted in significant cash outflows. Further improvements in the net operating outflows, if achieved, would affect the nature of the query by reducing additional cash required by the Company to support its operations.*

*Cash and cash equivalents at quarter end of \$692,000*

*There is limited ability to comment on this figure, other than to state that it is factually correct.*

Unused finance facilities available at quarter end of \$111,000

*There is limited ability to comment on this figure, other than to state that it is factually correct.*

Estimated quarters of funding available at quarter end of 0.36

*There is limited ability to comment on this figure, other than to state that it is factually correct.*

*The Company reiterates the Appendix 4C Responses are responses to template questions which do not allow for in-depth responses as set out above. In summary, the Appendix 4C Responses demonstrate that ME1's financial condition is sufficient to warrant continued quotation of its securities and its continued listing on ASX under Listing Rule 12.2, when considered in conjunction with the significant trend of operating cash outflow improvement that has been historically demonstrated. Additionally, the Company has a strong track record of raising capital since its listing on the ASX in 2016. Since June 2020, the Company has raised >\$48m in debt and equity capital, 22x the quarterly outflow provided in the Appendix 4C, not counting for any improvements in cash flows in FY24.*

**1.2 each of the Appendix 4E Financial Metrics**

Cash and cash equivalents at year end of \$692,000

*There is limited ability to comment on this figure, other than to state that it is factually correct.*

Net liabilities of approximately \$4,058,000

*The Company assumes that ASX has calculated this as total assets less total liabilities. There are several limitations to assessing the health of a company, and ME1 specifically, based on its net liabilities.:*

- a) ME1 has announced the rationalisation of several non-core assets from the portfolio. As such, the Company expects the net liability position of these business units to be significantly reduced over the course of FY24.*
- b) The Company has a track record of converting existing debts to equity and further conversions would reduce the Company's liability position, while having no effect on the asset side of the balance sheet. The Company will endeavour to complete further debt to equity conversions over the course of FY24.*
- c) Borrowings are factually correct, numerically, however, the Company has a track record of achieving maturity extensions on these borrowings. The Company will attempt to achieve further maturity extensions of these borrowings during FY24, which would push the maturity dates of these liabilities into the future. Furthermore, the SBC Global component of the borrowings section has been repaid almost exclusively in equity to date, and the Company will endeavour to make further equity based payments on this facility and reduce the liability position without affecting the assets section of the balance sheet.*

Net working capital deficiency of approximately \$17,498,000

*The Company assumes that ASX has calculated this as current assets less current liabilities.*

*Several of the comments set out directly above are relevant to this discussion. In particular, liabilities associated with rationalised business units are expected to be reduced in FY24. Furthermore, the Company will attempt to negotiate new maturity dates for borrowings that are considered current liabilities. If successful in these negotiations, the combination of these factors results in a net working capital deficiency which is distorted when viewed without the background information provided above.*

*Total comprehensive loss for the year of approximately \$51,419,000*

*The Company notes that this figure, while correct, is largely irrelevant in determining the Company's ongoing operating cash flows. The net loss figure includes a series of non-cash items, including, but not limited to: loss on fair value adjustments, depreciation and amortisation, and impairment charges. There are also significant finance costs that drive this figure, which have been largely share based. If the Company successfully achieves its objective of improving cash flows, less external capital may be required, which would serve to reduce finance costs.*

*As noted in the ASX's request for information, the Company's operating cash outflow for the year was \$9.1m. Further, adjusted EBITDA loss from continuing operations, which management defines as net earnings before interest, taxes, depreciation, amortisation, impairment charges, finance costs, and losses attributable to businesses that were paused or discontinued during the year of measurement was \$13.8m. These discontinued businesses consisted of Sierra Sage Herbs LLC, impACTIVE and Halucenex in FY23, however, none of these business were discontinued during FY22.*

*Consequently, the Company considers the total comprehensive loss for the year an inappropriate measure for assessing the Company's current financial condition in this context.*

**1.3 the Placement and the Facility and how these are expected to affect the Appendix 4C financial metrics and the Appendix 4E financial metrics; and**

*The inflow of cash from the Placement, and the expected inflow of cash from the Facility are expected to provide the Company with further funding which is important for it to pursue its strategic objectives. Please refer to 1.4 for further information on this information request.*

**1.4 Whether the Appendix 4C Responses need to be updated in light of the Placement and the Facility**

*The Placement and the Facility were announced on 2 February 2024 (as noted in paragraph B of the Letter) and the Appendix 4C Responses provide a financial snapshot of the Company as of the reporting date, being 31 December 2023 ("Reporting Date"). As such, the Appendix 4C Responses should not be updated in light of the Placement and the Facility because they do not affect the Company's accounts as of 31 December 2023.*

**2 If the answer to question 1 is "No", please explain what steps ME1 has taken, or proposes to take, to warrant its continued listing on ASX under the requirements of Listing Rules 12.2.**

*Not applicable given the response to question 1.*

- 3 Given ME1 expects its audit report for its consolidated financial statements for the year ended 31 December 2023 to contain an emphasis of matter with respect to a material uncertainty over going concern and ME1 has a net working capital deficiency of \$17,498,000, on what basis do the directors consider that ME1 is a going concern?**

*The Company notes that it is not uncommon for public companies to have disclosures with respect to material uncertainty over going concern and the Company has had this disclosure in its annual reports previously. The Company has continued to grow revenues and reduce outflows. The Company has demonstrated that the net working capital deficiency referenced in this question is inappropriate for evaluating the Company's current financial condition without considering the context provided in Section 1.2 of this response. As such, the basis for which the board considers that ME1 is a going concern is summarised in response to ASX's question 1 (above).*

- 4 Please confirm that ME1 is complying with the Listing Rules and, in particular, Listing Rule 3.1, and that there is no information about its financial condition that should be given to ASX in accordance with that rule that has not already been released to the market**

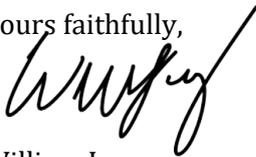
*ME1 confirms it is compliant with the Listing Rules, in particular Listing Rule 3.1, and that there is no information about its financial condition that should be given to ASX in accordance with that rule that has not already been released to the market.*

- 5 Please confirm that ME1's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of ME1 with delegated authority from the board to respond to ASX on disclosure matters.**

*The Company confirms that its response has been authorised by its board of directors.*

Should you require any further information in relation to this matter, please do not hesitate to contact me.

Yours faithfully,



William Lay  
Managing Director



6 March 2024

Reference: 90132

Mr Winton Willesee  
Company Secretary  
Melodiol Global Health Limited

By email:

Dear Mr Willesee

**Melodiol Global Health Limited ('ME1'): Financial Condition - Query**

ASX refers to the following:

A. ME1's Appendix 4C quarterly report for the period ended 31 December 2023 lodged with ASX's Market Announcements Platform ('MAP') on 31 January 2024 (the 'Appendix 4C'), disclosing the following, among other things:

- (i) negative net operating cash flows for the quarter of \$2,206,000;
- (ii) cash and cash equivalents at quarter end of \$692,000;
- (iii) unused finance facilities available at quarter end of \$111,000;
- (iv) estimated quarters of funding available of 0.36,  
(together, the "Appendix 4C financial metrics"); and

(v) the following responses to the questions in section 8.6 of the Appendix 4C:

Q1 – Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

A1 – *"The Company has clearly indicated a downwards trend in its operating outflows over the last two fiscal years (FY 21: \$21.3m, FY22: \$14.4m, FY23: \$9.1m). The Company expects this trend to continue as revenue growth continues and further steps are taken to rationalize costs and non-performing business units from the portfolio."*

Q2 – Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

A2 – *"The Company has consistently demonstrated that it has various avenues by which it can draw down further capital, and a track record of utilising these various avenues when required. In the near term, the Company will consider and take steps to secure additional funding with the goal of maximising shareholder value. Following shareholder approval, at the EGM on 23rd January 2024, for the Company to raise up to \$3 million, the Company is currently engaged in raising capital."*

Q3 – Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

A3 – *"Yes, through a combination of actions 1 and 2 noted above"*.

(together, the 'Appendix 4C Responses').

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- B. ME1's announcement titled "Capital Raising & Corporate Update" lodged on MAP on 21 February 2024 disclosing the following, among other things:
- (i) ME1 has received firm commitments to raise approximately \$1.08 million (before costs) through the issue of approximately 106,415,113 new fully paid ordinary shares at an issue price of \$0.01019 per share (the "Placement");
  - (ii) ME1 has entered into a non-binding term sheet with 10 Bay Street Pty Limited for an investment of up to \$5 million via a Convertible Note facility (the "Facility");
  - (iii) the Facility will be invested in five equal tranches of \$1m; and
  - (iv) the Facility is subject to entry into a definitive agreement, ASX approval and shareholder approval.
- C. ME1's Appendix 4E (preliminary final report) for the year ended 31 December 2023 lodged with MAP on 29 February 2024 ('Appendix 4E'), disclosing the following, among other things:
- (i) cash and cash equivalents of approximately \$692,000;
  - (ii) net liabilities of approximately \$4,058,000;
  - (iii) a net working capital deficiency of approximately \$17,498,000;
  - (iv) total comprehensive loss for the year of approximately \$51,419,000, (together, the "Appendix 4E financial metrics"); and
  - (v) that ME1's consolidated financial statements for the year ended 31 December 2023 are in the process of being audited and that the audit report is expected to contain an emphasis of matter with respect to a material uncertainty over going concern.
- D. Listing Rule 12.2 which states:
- 12.2 An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.*

### **Request for information**

In light of the information contained in the Appendix 4C, Appendix 4E and the application of the Listing Rules stated above, please respond to each of the following questions:

1. Does ME1 consider that the financial condition of ME1 is sufficient to warrant its continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion and specifically comment on:
  - 1.1 each of the Appendix 4C financial metrics;
  - 1.2 each of the Appendix 4E financial metrics;
  - 1.3 the Placement and the Facility and how these are expected to affect the Appendix 4C financial metrics and the Appendix 4E financial metrics; and
  - 1.4 whether the Appendix 4C Responses need to be updated in light of the Placement and the Facility.
2. If the answer to questions 1 is "No", please explain what steps ME1 has taken, or proposes to take, to warrant its continued listing on ASX under the requirements of Listing Rules 12.2.
3. Given ME1 expects its audit report for its consolidated financial statements for the year ended 31 December 2023 to contain an emphasis of matter with respect to a material uncertainty over going concern and ME1

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has a net working capital deficiency of \$17,498,000, on what basis do the directors consider that ME1 is a going concern?

4. Please confirm that ME1 is complying with the Listing Rules and, in particular, Listing Rule 3.1, and that there is no information about its financial condition that should be given to ASX in accordance with that rule that has not already been released to the market.
18. Please confirm that ME1's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of ME1 with delegated authority from the board to respond to ASX on disclosure matters.

### **When and where to send your response**

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **2:00 PM AWST Monday, 11 March 2024**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, ME1's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require ME1 to request a trading halt immediately.

Your response should be sent to me by e-mail at [ListingsCompliancePerth@asx.com.au](mailto:ListingsCompliancePerth@asx.com.au). It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

### **Trading halt**

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in ME1's securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

### **Suspension**

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in ME1's securities under Listing Rule 17.3.

### **Listing Rules 3.1 and 3.1A**

In responding to this letter, you should have regard to ME1's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*. It should be noted that ME1's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

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**Release of correspondence between ASX and entity**

ASX reserves the right to release all or any part of this letter, your reply and any other related correspondence between us to the market under Listing Rule 18.7A.

Yours sincerely

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ASX Compliance