Hydralyte®

Prospectus

The Hydration Pharmaceuticals Company Limited
ACN 620 385 677

Initial Public Offering of Shares

Lead Manager

BW EQUITIES

Australian Legal Adviser

BECKETTS LAWYERS

Important notices

The Offer

This Prospectus is issued by The Hydration Pharmaceuticals Company Limited (ACN 620 385 677) (**Company** or **Hydralyte North America**) for the purposes of Chapter 6D of the *Corporations Act 2001* (Cth) (**Corporations Act**). The offer contained in this Prospectus is an initial public offering to acquire fully paid ordinary shares (**Shares**) in the Company (**Offer**).

Lodgement and Listing

This Prospectus is dated 3 November 2021 (**Prospectus Date**) and was lodged with the Australian Securities and Investments Commission (**ASIC**) on that date.

The Company will apply to the Australian Securities Exchange (**ASX**) for admission of the Company to the Official List and quotation of its Shares on the ASX within seven days of the Prospectus Date. None of ASIC, ASX or their respective officers take any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

The Company, the Share Registry and the Lead Manager disclaim all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statement.

Restructure

Hydralyte North America currently has multiple classes of shares on issue, being Ordinary Shares and Class A Shares.

In connection with the Offer, Hydralyte North America is undertaking a restructure (the **Restructure**), through which:

- all existing Ordinary Shares of the Company will be cancelled for nil consideration;
- all Class A Shares of the Company will be converted into Ordinary Shares (thereby becoming the issued share capital of the Company); and
- all options over Class A Shares will be varied such that they become options over Ordinary Shares.

The conversion of Class A Shares will be done on a proportional basis, such that following the Restructure all Class A Shareholders will hold Ordinary Shares in the same proportion as their current Class A Shares in the Company. Completion of the Restructure will occur shortly before Completion of the Offer and admission to the Official List will be conditional on completion of the Restructure.

Accordingly, the Ordinary Shares on issue at the Prospectus Date will be cancelled and the Class A Shares on issue on the Prospectus Date will be converted to Ordinary Shares by the time of Completion of the Offer. These Ordinary Shares have not been issued as at the Prospectus Date and will only be on issue on completion of the Restructure.

Unless otherwise specified, this Prospectus is prepared as if the Restructure had occurred.

If the Restructure does not complete, the Offer will not proceed.

Please refer to Section 9.3.1 for more information on the Restructure.

Expiry Date

This Prospectus expires on the date that is 13 months after the Prospectus Date (**Expiry Date**) and no Shares will be issued on the basis of this Prospectus after the Expiry Date.

Note to Applicants

The information in this Prospectus is not investment or financial product advice and does not take into account your investment objectives, financial circumstances, tax position or particular needs. This Prospectus should not be construed as financial, taxation, legal or other advice. It is important that you read this Prospectus carefully and in its entirety before deciding whether to invest in the Company. There are risks associated with an investment in the Shares and the Shares offered under this Prospectus should be regarded as a speculative investment.

In particular, you should consider the risk factors that could affect the performance of the Company and other information in this Prospectus. You should carefully consider these risks in light of your personal circumstances (including your investment objectives, financial circumstances and tax position) and seek professional guidance from your stockbroker, accountant, lawyer or other professional adviser before deciding whether to invest in the Company. Some of the key risk factors that should be considered by prospective investors are set out in Section 5. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

No person named in this Prospectus, nor any other person, warrants or guarantees the performance of the Company or the repayment of capital by the Company or any return on investment made pursuant to this Prospectus.

This Prospectus includes information regarding the past performance of the Company. Investors should be aware that past performance is not indicative of future performance.

No person is authorised to give any information or to make any representation in connection with the Offer that is not contained in this Prospectus. Any information or representation not so contained may not be relied upon as having been authorised by the Company, the Lead Manager or any other person in connection with the Offer. You should rely only on information contained in this Prospectus when deciding whether to invest in the Company.

Financial Information presentation

Section 4 sets out in detail the Financial Information referred to in this Prospectus and the basis of preparation of that information.

The Financial Information included in Section 4 has been prepared in accordance with the recognition and measurement principles prescribed in the Australian Accounting Standards issued by the Australian Accounting Standards Board (**AASB**), which are consistent with the International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board and the accounting policies of the Company.

All financial amounts contained in this Prospectus are expressed in United States currency (USD) and are rounded to the nearest $1,000 (unless otherwise stated). Any discrepancies between totals and sums of components in tables and figures contained in this Prospectus are due to rounding. Tables and figures contained in this Prospectus have not been amended by the Company to correct immaterial summation differences that may arise from this rounding convention.

All references to FY19 and FY20 appearing in this Prospectus are to the financial years ending 31 December 2019 and 31 December 2020 respectively, unless otherwise indicated. The Prospectus also includes references to LTM Sep20 and LTM Sep21F which refer to the historical period of 12 months ended 30 September 2020 and the forecast period of 12 months ending 30 September 2021 respectively.

The Financial Information in this Prospectus should be read in conjunction with, and is qualified by reference to the information in Section 4, the risk factors in Section 5 and the Independent Limited Assurance Report in Section 8. Where Financial Information and metrics represent pro forma amounts, they have been labelled pro forma.

Forward-looking statements

This Prospectus contains forward-looking statements, including the Forecast Financial Information in Section 4, which may be identified by words such as forecasts, may, could, believes, estimates, expects, intends, considers and other similar words that involve known or unknown risks and uncertainties.

Any forward-looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause actual results, performance, events or outcomes to differ materially from the results, performance, events or outcomes expressed or anticipated in these statements, many of which are beyond the control of the Company and the Directors. Such forward-looking statements are based on an assessment of present economic and operating conditions and a number of best estimate assumptions regarding future events and actions that, at the Prospectus Date, are expected to take place. The forward-looking statements should be read in conjunction with, and are qualified by reference to the assumptions contained in the Forecast Financial Information, the risk factors as set out in Section 5 and other information contained in this Prospectus.

The Directors cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on such forward-looking statements.
Except where required by law, the Company

does not intend to update or revise forward-looking statements, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus.

Market and industry data

This Prospectus uses market data and third-party estimates and projections. The Company has obtained significant portions of this information from market research prepared by third parties. There is no assurance that any of the third-party estimates or projections contained in this information will be achieved. The Company has not independently verified this information. Estimates and projections involve risks and uncertainties and are subject to change based on various factors, including those discussed in the risk factors set out in Section 5.

Statements of past performance

This Prospectus includes information regarding past performance of the Company. Investors should be aware that past performance is not, and should not be relied upon as being, indicative of future performance.

Disclaimers

BW Equities Pty Ltd (ACN 146 642 462) (**BW Equities**) is acting as Lead Manager to the Offer. BW Equities has not authorised, permitted or caused the issue or lodgement, submission, despatch or provision of this Prospectus and there is no statement in this Prospectus which is based on any statement made by it or by any of its affiliates, officers or employees. To the maximum extent permitted by law, BW Equities and its affiliates, officers, employees and advisers expressly disclaim all liabilities in respect of, make no representations regarding, and take no responsibility for, any part of this Prospectus other than references to its name and make no representation or warranty as to the currency, accuracy, reliability or completeness of this Prospectus.

No offering where offering would be illegal

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia. The distribution of this Prospectus outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Prospectus may not be distributed to, or relied upon by, any person in the United States. In particular, the Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended (**US Securities Act**), or the securities laws of any state of the United States and may not be offered or sold in the United States unless the Shares are registered under the US Securities Act, or an exemption from the registration requirements of the US Securities Act and applicable US state securities laws is available. See Section 7.9 for more details on the selling restrictions that apply to the Offer and sale of Shares in jurisdictions outside Australia.

Exposure Period

The Corporations Act prohibits the Company from processing Applications in the seven-day period after the Prospectus Date (**Exposure Period**). ASIC may extend this period by up to a further seven days (that is, up to a total of 14 days). The Exposure Period enables the Prospectus to be examined by market participants prior to the processing of Applications. The Exposure Period will expire on 10 November 2021 unless extended by ASIC. Applications received during the Exposure Period will not be processed by the Company until after the expiry of the Exposure Period and will not receive any preference.

Prospectus availability

During the Offer Period, a paper copy of this Prospectus is available free of charge to Australian resident investors by calling the Hydralyte North America Offer Information Line on 1300 288 664 (within Australia) or +61 (2) 9698 5414 (outside Australia) from 9:00 am to 5:00 pm (Melbourne time), Monday to Friday (excluding public holidays). This Prospectus is also available to Australian resident investors in electronic form at the Company Website, www.hydralyte.com.

The Offer constituted by this Prospectus in electronic form is available only to persons downloading or printing it within Australia and is not available to persons in any other jurisdiction, except Institutional Investors in certain other jurisdictions. Persons who access the electronic version of this Prospectus must ensure that they download and read the entire Prospectus.

Applications

Applications may only be made during the Offer Period by completing an Application Form attached to, or accompanying, this Prospectus in its paper copy form, or in its electronic form, which must be downloaded in its entirety from the Offer Website. By making an Application, you represent and warrant that you were given access to the Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing on to another person an Application Form unless it is attached to, or accompanied by, the complete and unaltered version of this Prospectus.

Offer management

The Offer is being arranged and lead managed by BW Equities. The Offer is not underwritten.

No cooling-off rights

Cooling-off rights do not apply to an investment in Shares issued under the Prospectus. This means that, in most circumstances, you cannot withdraw your Application once it has been accepted.

Definitions

Defined terms and expressions used in this Prospectus are explained in the Glossary at Appendix B. Unless otherwise stated or implied, references to times in this Prospectus are to the time in Melbourne, Victoria (**Melbourne time**).

Privacy

By filling out an Application Form to apply for Shares, you are providing personal information to the Company and the Share Registry, which is contracted by the Company to manage Applications. The Company, and the Share Registry on its behalf, may collect, hold and use that personal information in order to process your Application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration. Some of this personal information is collected as required or authorised by certain laws including the *Income Tax Assessment Act 1997* (Cth) and the Corporations Act. If you do not provide the information requested in an Application Form, the Company and the Share Registry may not be able to process or accept your Application.

Your personal information may also be used from time to time to inform you about other products and services offered by the Company, that it considers may be of interest to you. Your personal information may also be provided to the Company's agents and service providers on the basis that they deal with such information in accordance with applicable laws. The agents and service providers of the Company may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the register of members;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

If an Applicant becomes a Shareholder, the Corporations Act requires the Company to include information about the Shareholder (including name, address and details of the Shares held) in its public register of members. If you do not provide all the information requested, your Application Form may not be able to be processed.

The information contained in the Company's register of members must remain there even if a person ceases to be a Shareholder. Information contained in the Company's register of members is also used to facilitate dividend payments (if applicable) and corporate communications (including financial results, annual reports and other information that the Company may wish to communicate to its Shareholders) and compliance by the Company with legal and regulatory requirements. An Applicant has a right to access and correct the information that the Company and the Share Registry hold about that person, subject to certain exemptions under law.

The Share Registry's complete privacy policy is available at the Share Registry's website https://www.automicgroup.com.au/privacy-policy/. Queries regarding the Share Registry's privacy policy may also be raised with the Share Registry on 1300 288 664 (within Australia) or +61 (2) 9698 5414 (outside Australia).

Photographs and diagrams

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by the Company. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the Prospectus Date.

Independent Limited Assurance Report

The Investigating Accountant has prepared the Independent Limited Assurance Report in relation to the Financial Information. The Independent Limited Assurance Report is provided in Section 8.

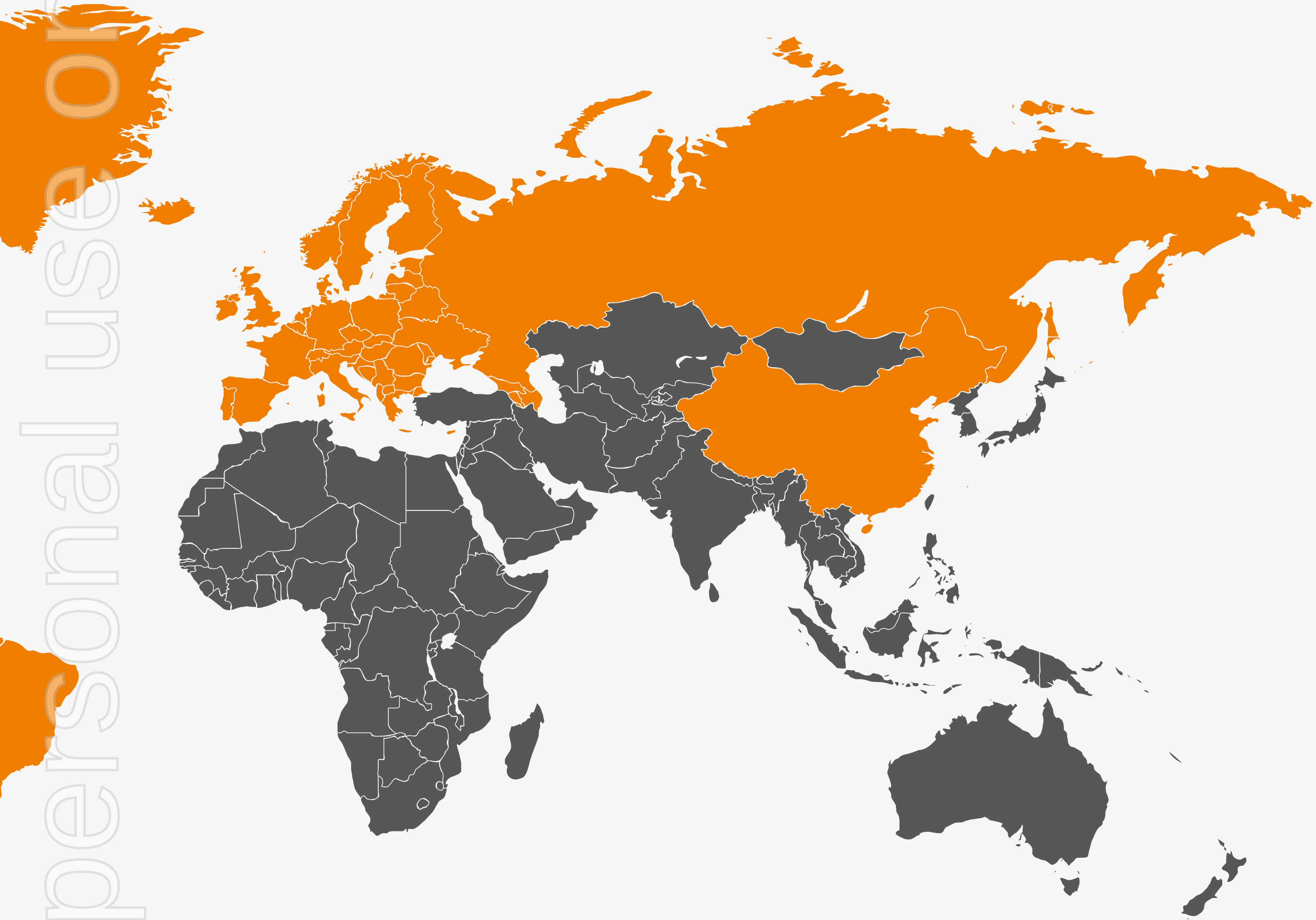
Questions

If you have any questions about how to apply for Shares, please call the Hydralyte North America Offer Information Line on 1300 288 664 (within Australia) or +61 (2) 9698 5414 (outside Australia) from 9:00 am to 5:00 pm (Melbourne time), Monday to Friday (excluding public holidays). Instructions on how to apply for Shares are set out in Section 7 and on the Application Form.

If you have any questions about whether to invest in the Company, you should seek professional advice from your stock broker, accountant, lawyer or other professional adviser.

Contents

Important notices		IFC
Key Offer information		4
Key dates		5
Chairman's letter		7
1.	Investment overview	8
2.	Industry overview	21
3.	Company overview	32
4.	Financial information	48
5.	Risks	70
6.	Key people, interests and benefits	81
7.	Details of the Offer	102
8.	Independent Limited Assurance Report	114
9.	Additional information	124
Appendix A: Significant Accounting Policies		146
Appendix B: Glossary		155
Corporate directory		IBC



World Wide Split and Focus

- Exclusive Hydralyte North America territories
- Hydralyte Australia (owned by Care Pharmaceuticals) territories

Key Offer information

Offer Price	AU$0.29 per Share
Number of Shares offered under the Offer	58,620,690
Gross proceeds of the Offer	AU$17 million
Total number of Shares issued on conversion of the Convertible Notes[1]	43,130,367
Number of Shares held by Existing Shareholders at the Prospectus Date[2,3]	59,273,626
Total number of Shares to be issued under the Cleansing Offer	2,000
Total number of Shares on issue on Completion of the Offer	161,026,683
Total number of Options on issue on Completion of the Offer	38,689,619
Total number of Performance Rights on issue on Completion of the Offer	6,288,028
Market capitalisation at the Offer Price[4]	AU$46.7 million
Enterprise Value[5]	AU$25.8 million
LTM Sep21F pro forma forecast revenue	US$5.4 million
Enterprise Value/LTM Sep21F pro forma forecast revenue	3.5x
Expected free float on Completion of the Offer[6]	56.0%

The capital structure of the Company as disclosed in this Prospectus assumes that Completion of the Offer, conversion of the Convertible Notes and completion of the Restructure occurs in accordance with the key dates set out in the Key Dates section on page 5. If Completion of the Offer is delayed, additional Shares may be issued as a result of conversion of the Convertible Notes and, potentially, the Restructure.

1. The Convertible Noteholders will acquire Shares at an effective price of AU$0.2146 per Share. See Section 9.4.
2. Comprises Shares to be issued on Completion following the Restructure in respect of the Class A Shares as described in Section 9.3.1.
3. Shares held by Existing Shareholders will be subject to escrow arrangements as described in Section 9.7.
4. Market capitalisation at the Offer Price is defined as the Offer Price multiplied by the total number of Shares on Completion of the Offer.
5. Enterprise Value is defined as market capitalisation at the Offer Price, less pro forma historical net cash of US$15.49m as at 30 June 2021, converted to Australian dollars at a foreign exchange rate of USD:AUD 1.35 or AUD:USD 0.74.
6. Free float is calculated as the percentage of Shares on Completion of the Offer that are not subject to voluntary or mandatory escrow (see Section 9.7) nor held by Directors or affiliated Shareholders of the Company.

Key Dates

Prospectus Date	Wednesday, 3 November 2021
Retail Offer and Cleansing Offer open (Opening Date)	Thursday, 11 November 2021
Retail Offer closes and Applications due (Closing Date)	Friday, 26 November 2021
Settlement of the Offer	Thursday, 2 December 2021
Completion of the Restructure	Thursday, 2 December 2021
Issue of Shares under the Offer (Completion of the Offer)	Friday, 3 December 2021
Cleansing Offer closes (Cleansing Offer Closing Date)	Monday, 6 December 2021
Expected despatch of holding statements	Monday, 6 December 2021
Shares expected to begin trading on ASX on a normal settlement basis	Thursday, 9 December 2021

Dates may change

The dates above are indicative only and may change. Unless indicated otherwise, all dates and times are the date and time in Melbourne. The Company (in consultation with the Lead Manager) reserves the right to vary the dates of the Offer without prior notice (subject to the ASX Listing Rules, the Corporations Act and other applicable laws), including to close the Offer early, extend the date the Offer closes, to accept late Applications or to withdraw the Offer before Completion of the Offer (in each case without notifying any recipient of the Prospectus or any Applicant).

How to invest

Applications for Shares can be made in accordance with the procedures described in this Prospectus. Instructions on how to apply for Shares in the Offer are set out in Sections 7.2, 7.3 and 7.4 and on the back of the Application Form.


30
servings
VARIETY PACK
Hydralyte®
Electrolyte Powder
REHYDRATES FASTER
THAN WATER*
Travel
Hot or dry conditions
Vigorous exercise
Cold and flu
Vomiting and diarrhea
Alcohol
10 Orange
10 Strawberry Lemonade
10 Lemonade
No artificial colors, flavors or sweeteners
30 – 0.21 OZ (6.0 g) PACKETS / NET WT 6.3 OZ (180 g)
Hydralyte
Clinical Hydration. Rapid Results.
Clinical Hydration. Ra

Chairman's letter

Dear Investor,

On behalf of the Directors I am pleased to offer you the opportunity to become a Shareholder of The Hydration Pharmaceuticals Company Limited.

Hydralyte North America is a consumer products company that markets and sells a range of liquid, tablet and powder Healthy Hydration Solutions products into the North American markets of Canada and the United States, under the Hydralyte brand. Hydralyte North America does not operate in Australia or New Zealand.

The Board believes there is a significant opportunity within the Healthy Hydration Solutions Market for Hydralyte North America. The Healthy Hydration Solutions Market sits in the overlap between over-the-counter medicines, functional beverages and vitamin and mineral supplements, and primarily aims to boost health and wellness via range of rehydrating products. The Company offers products covering each of those market areas.

The Healthy Hydration Solutions Market generates an estimated US$800 million to US$1.1 billion in annual sales in North America alone, and is currently experiencing strong growth due to a variety of factors, including improved consumer consciousness of health and wellness as well as increasing consumption of vitamins and minerals. There is also significant opportunity for growth of the Company via brand activation, customer acquisition from competitors, and geographic expansion.

The Company has a clear vision for its position within the market: it is seeking to 'own' hydration in the family home. The Company intends to capitalise on important industry trends such as consumer shifts to lower sugar functional beverages, consumer shifts to everyday consumption of beverages for health and wellness benefits, increasing importance of e-commerce and increasing focus by consumers on marketing and personalisation of products to the individual consumer (such as a tailored vitamin profile).

The Company is led by an experienced Management team and highly competent Board of Directors, with a demonstrated track record in the Healthy Hydration Solutions Market and ASX-listed entities generally. In particular, multiple members of the Management team and Board played a key role in the growth of the Swisse Wellness business and its corporate integration into the Hong Kong listed H&H Group. The Board also has relevant business knowledge, marketing, financial management, corporate strategy and corporate governance experience.

The Company is seeking to raise AU$17 million through the issue of 58,620,690 Shares at the Offer Price of AU$0.29 per Share. This is in addition to AU$8.3 million raised in March 2021 through the issue of Convertible Notes (see Section 9.4).

Proceeds of the Offer will be used primarily to fund sales, marketing and brand and product development costs. On Completion of the Offer, Successful Applicants will hold approximately 36.4% of the Shares and Existing Shareholders and Convertible Noteholders will hold approximately 63.6% of the Shares.

This Prospectus contains detailed information about the Offer, the Healthy Hydration Solutions Market, the Company's operations, financial position and performance and key personnel. It also provides detailed information on the risks associated with an investment in Shares, which are set out in Section 5. Key risks include that the Healthy Hydration Solutions Market is a competitive market, the Company's reliance on its key suppliers and distributors, foreign exchange rate risks and the impact of COVID-19.

I encourage you to read this Prospectus in detail before making an investment decision.

On behalf of the Board, I look forward to welcoming you as a Shareholder of Hydralyte North America.

Yours faithfully,

George Livery
Chairman

1. Investment overview

1. Investment overview

Topic	Summary	For more information
1.1 Introduction		
What does Hydralyte North America do?	Hydralyte North America is a consumer products company that markets and sells a range of liquid, tablet and powder Healthy Hydration Solutions products into the North American markets of Canada and the United States, under the Hydralyte brand.	Section 3.1.1
What is the background to Hydralyte North America?	The "Hydralyte" brand was founded in Australia in 2001 and grew to be a leading supplier of hydration products in the Australian and New Zealand markets. Hydralyte North America was formed in 2014 after the Company sold its business, the "Hydralyte" brand and exclusive distribution rights for the "Hydralyte" branded products in Australia and New Zealand to Care Pharmaceuticals. Following a further sale of IP in additional territories to Care Pharmaceuticals in 2020, Hydralyte North America has retained the exclusive rights to the "Hydralyte" brand in North and South America, Europe (except Turkey) and China (except Taiwan but including Hong Kong). Current business operations are focused on the United States and Canada. The business is headquartered in San Diego in the United States.	Section 3.1.2
Does Hydralyte North America operate in Australia or New Zealand?	No. The Company is not the "Australian" Hydralyte brand and does not, and is not permitted to, market and sell its products in Australia or New Zealand. The Company is able to market and sell its products in North and South America, Europe (except Turkey) and China (except Taiwan but including Hong Kong).	Section 3.1.3
What industry and markets does the Company operate in?	The Company is a consumer products company that operates in the Healthy Hydration Solutions Market, which sits at the intersection of the Over-the-Counter Consumer Healthcare Market, the Functional Beverages Market and the Vitamin and Mineral Supplements Market.	Section 2.1
What is the Company's business model?	Hydralyte North America collates and translates consumer insights and needs into developing and delivering quality hydration products to market. The Company's business model is an asset light, flexible production model that allows it to outsource manufacturing and packaging to appropriate suppliers. The Company uses trusted leading manufacturing partners with the necessary certifications and expertise to produce high quality hydration products that can be distributed to retailers and, ultimately, end customers.	Section 3.2
What are the Company's products?	Hydralyte North America markets and sells a range of liquid, tablet, powder and effervescent healthy hydration products.	Section 3.4
What is the Offer?	The Offer is an initial public offering of 58,620,690 Shares by the Company at the Offer Price of AU$0.29 per Share to raise gross proceeds of AU$17 million. All Shares issued pursuant to this Prospectus will, from the time that they are issued and allotted, rank equally with all other Shares on issue at that time.	Section 7.1

Topic	Summary	For more information
Why is the Offer being conducted?	The purpose of the Offer is to: • raise funds to invest in brand, marketing, sales channel expansion, product development and to expand the capability of the Hydralyte North America team; • provide the Company access to capital markets, which it expects will provide additional financial flexibility to pursue further growth opportunities; • achieve a listing on ASX to broaden the Company's shareholder base and provide a liquid market for its Shares; • assist the Company in attracting and retaining high quality staff; and • increase brand awareness that may arise from being a listed entity.	Section 7.1.3
What is the Restructure?	The Company will undertake the Restructure. The Restructure is scheduled to take effect prior to Completion of the Offer. If the Restructure does not complete, the Offer will not proceed.	Section 9.3.1

Topic	Summary	For more information
1.2 Background on the Healthy Hydration Solutions Market		
What is the Healthy Hydration Solutions Market?	The Healthy Hydration Solutions Market sits at the intersection of three separate but overlapping consumer product markets, being the Over-the-Counter (**OTC**) Consumer Healthcare market, the Functional Beverage market, and the Vitamin and Minerals Supplements (**VMS**) market. Healthy Hydration Solutions products tend to be low in sugars and high in electrolytes relative to other beverages, and can be supplied in liquid, tablet or powder format. Improved bioavailability of liquids makes hydration products an attractive option for the intake of vitamins and minerals for health and wellness benefits.	Section 2.1
What is the size of the Healthy Hydration Solutions Market?	The Healthy Hydration Solutions Market is estimated by the Board to generate between US$800 million to US$1.1 billion in annual sales in North America in 2020.	Section 2.4
What sectors of the Healthy Hydration Solutions Market does the Company operate in?	The Company operates in all key segments of the Healthy Hydration Solutions Market, with products targeted at: • relieving dehydration due to a range of illnesses; • providing rapid rehydration as a result of vigorous exercise or activity; and • the provision of important vitamins and minerals for everyday health and wellness benefits.	Section 2.2

Topic	Summary	For more information
What key industry trends are relevant for the Company?	There are a range of important industry trends that the Company is seeking to exploit, such as: • a consumer shift to lower sugar functional beverages; • a consumer shift from consumption of hydration products as a remedy for illness to everyday consumption for a range of health and wellness benefits; • increasing importance of e-commerce sales distribution; • increasing consumption of vitamins and minerals complementary to a range of diets; and • increasing focus on product design, marketing and personalisation.	Section 2.3
Who are the Company's key competitors?	The industry is largely made up of three types of competitors: large pharmaceutical companies, large consumer products companies and independent specialist hydration and health suppliers.	Section 2.2.6
How is the Healthy Hydration Solutions Market regulated in the Company's markets?	In the United States, the product is regulated by the Food and Drug Administration that determines a range of factors in quality control and packaging. In Canada, hydration products are controlled by Health Canada's NHP Regulation and requires registration of a Natural Product Number (**NPN**) for trading.	Sections 2.5.3 and 9.5.12

Topic	Summary	For more information
1.3 Key features of Hydralyte North America's business model		
How does Hydralyte North America generate revenue?	Hydralyte North America markets and sells a range of liquid, tablet, powder and effervescent healthy hydration products. The Company distributes these products through a mix of sales channels including: • e-commerce; • direct-to-consumer through the Company's website; and • through retail outlets in the United States and Canada. The Company outsources manufacturing and packaging to appropriate suppliers and distribution to key distribution partners.	Section 3.2.2
Who are the Company's customers?	The Company sells to a broad range of adult customers with a primary marketing focus on families. Hydralyte North America is aiming to 'own' hydration in the family home.	Section 3.5.1
What is the Company's growth strategy?	Hydralyte North America is focused on growing the business through brand activation, customer acquisition and retention, and product and channel expansion.	Section 3.8
What is the Company's marketing strategy?	Hydralyte North America has established a three-phase customer acquisition and retention strategy. This includes customer awareness, conversion and retention phases. Hydralyte North America's customer acquisition strategy is focused on engaging with the core target consumers of families in different ways and at different parts of their engagement cycle.	Section 3.5

<table>
<tr><th>Topic</th><th>Summary</th><th>For more information</th></tr>
<tr><td>How does the Company expect to fund its operations?</td><td>The Company expects to fund its ongoing activities through cash flows generated from operations and available cash.</td><td>Section 4.3.7</td></tr>
<tr><td>What is the Company's pro forma historical and forecast financial performance?</td><td>
<table>
<tr><th></th><th></th><th>Pro forma historical</th><th></th><th>Pro forma forecast</th></tr>
<tr><th>USD in '000s</th><th>FY19</th><th>FY20</th><th>LTM Sep-20</th><th>LTM Sep-21</th></tr>
<tr><td>Revenue</td><td>2,963</td><td>3,757</td><td>3,079</td><td>5,436</td></tr>
<tr><td>Gross profit</td><td>1,376</td><td>1,335</td><td>1,239</td><td>2,259</td></tr>
<tr><td>EBITDA</td><td>(5,701)</td><td>(5,523)</td><td>(5,679)</td><td>(6,835)</td></tr>
<tr><td>NPAT</td><td>(5,747)</td><td>(5,806)</td><td>(5,905)</td><td>(6,733)</td></tr>
</table>
The information presented above contains non-International Financial Reporting Standard (IFRS) financial measures, is intended as a summary only and should be read in conjunction with the more detailed discussion on the Financial Information disclosed in Section 4 as well as the risk factors set out in Section 5.
Investors should read Section 4 for the full details of the Company's Pro Forma Financial Information and Statutory Financial Information including the pro forma adjustments and reconciliations in Section 4.3.4.
</td><td>Section 4.3</td></tr>
<tr><td>What is the Company's dividend policy?</td><td>
The payment of dividends by the Company is at the complete discretion of the Directors. Given the stage of development of the Company, the Directors have no current intention to declare and pay a dividend.
In determining whether to declare future dividends, the Directors will have regard to Hydralyte North America's earnings, overall financial condition, capital requirements and the level of franking credits available. There is no certainty that the Company will ever declare and pay a dividend.
It is unlikely the Company will generate significant franking credits that may otherwise be available for distribution with future dividends on the basis that the Company expects the majority of earnings will be subject to tax in foreign jurisdictions including the United States and Canada.
</td><td>Section 4.5.4</td></tr>
<tr><td>Will the Company be adequately funded on Completion of the Offer?</td><td>The Directors believe that following Completion of the Offer, the Company will have sufficient working capital to fulfil the purposes of the Offer and carry out its stated business objectives.</td><td>Section 7.1.7</td></tr>
</table>

Topic	Summary	For more information
1.4. Key strengths		
Attractive market fundamentals	The Healthy Hydration Solutions Market sits at the intersection of three very large consumer product markets all experiencing strong growth fundamentals. The market segment is benefiting from a shift to an improved consumer consciousness of health and wellness, which is leading to increased demand for beverages with lower contained sugar and increasing consumption of vitamins and minerals, together with the benefits of solving dehydration due to illness.	Section 2
Distinctive brand	Hydralyte is an authentic hydration brand which is marketed by the Company around a series of 'Hydration Moments', which can apply to any family member to meet a range of every day hydration needs. At the core of Hydralyte North America's brand essence is a strong alignment to the authenticity of the World Health Organisation-endorsed rapid hydration formulation.	Section 3.2.3
Multi-channels sales strategy	Hydralyte North America has established multiple channels to market in both retail stores and through e-commerce channels – third party e-commerce channels such as Amazon and the Company's direct-to-consumer channel through its Hydralyte.com e-commerce store.	Section 3.2.2
Scalable supply chains	Hydralyte North America is able to leverage 'at scale' manufacturing facilities. This assists the Company in sourcing products at market competitive costs.	Section 3.6
Repeatable customer acquisition	Hydralyte North America has a repeatable brand marketing and customer acquisition platform. This is being delivered by: • consumer and market insight; • industry leading sales and marketing expertise; • an eco-system of strategic brand activation partners; and • digital capacity.	Section 3.5
Future growth opportunities	Hydralyte North America has a range of future growth opportunities including: • brand scaling through expanded distribution channels and strategic partnerships with material public figures or influencers; • expanding products within the brand families; • geographic expansion, including into China via the WPIC China eCommerce Program Statement of Work; and • inorganic growth through acquisitions or strategic partnerships.	Sections 3.8 and 9.5.11
Experienced Management team	At the core of Hydralyte North America's business is a seasoned Management team and Board with the following key characteristics: • entrepreneurial spirit; • strong and common organisation values; and • strong governance structures.	Sections 6.1 and 6.2

Topic	Summary	For more information
1.5. Key risks		
Competitive market	Hydralyte North America operates in a highly competitive geographic and product market, particularly with regards to: • prices at which products are sold; • shelf space and store placement; • brand and product recognition; and • new product introductions.	Section 5.2.1
Reliance on third party supply chain	Hydralyte North America relies on its supply chain to manufacture and distribute its products. Hydralyte North America may experience disruptions to its supply chain, such as a shortage of raw materials or packaging; manufacturing and supply constraints; distribution and logistics delays; labour shortages; or an inability to pass on increased costs.	Section 5.2.2
Impact of COVID-19 and other health issues	There is continued uncertainty as to the ongoing and future response of governments and authorities globally to COVID-19 as well as the potential for an economic downturn of unknown duration or severity. As such, the full impact of COVID-19 to consumer behaviour, suppliers, the global supply chain, the availability and cost of labour and the Company generally are not fully known.	Section 5.2.3
Reliance on sales channels and distributors	The Company depends on continued access to its sales channels in order to connect with its customers. There can be no guarantee that the Company's relationships with key channel partners will continue, or, if they do continue, that they will operate on the same terms and, in respect of retailers, that they will purchase the same, similar or greater quantities of Hydralyte North America's products as they have historically.	Section 5.2.4
Intellectual property risks	Hydralyte North America regards its brands, trademarks, domain names, trade secrets, propriety information and similar intellectual property (**IP**) as important to its success. The Company owns certain parts of its IP and licences further IP rights under the IP Licence Deed. There are limited IP rights in the Company's products, which may mean that a competitor could make a similar or identical product that competes with the Company's products. Further, the Company relies on the IP Licence Deed for certain of its IP rights. While the IP Licence Deed is perpetual and irrevocable, the IP Licence Deed may nonetheless be breached by a party to it, or the licensor under the IP Licence Deed may fail to enforce its IP rights, which may have an adverse effect on the Company.	Sections 5.2.5 and 9.5.2
No contracts with key customers	Hydralyte North America's revenue is generated from uncontracted customer relationships, using the Company's or the customer's standard terms and conditions and purchase orders and invoices. These supply arrangements, which are consistent with the typical terms of supply for participants in the FMCG industry, typically have no minimum volume requirements and can be varied or terminated by the customer on short notice (or no notice) and without penalty.	Section 5.2.6

Topic	Summary	For more information
Foreign exchange risk	The Company's financial statements are presented in United States dollars, and the Company and its subsidiaries must translate its assets, liabilities, revenue and expenses into United States dollars for external reporting purposes. As a result, significant changes in the value of the United States dollar during a reporting period (in particular, any material depreciation against the Australian dollar, the Canadian dollar or the Swiss franc) may unpredictably and adversely impact the Company's operating results, asset and liability balances and cash flows.	Section 5.2.7
Reliance on key personnel	Hydralyte North America's performance reflects, to a large extent, the efforts and abilities of its senior Management team. While these executives are party to an employment contract with Hydralyte North America under the terms of these contracts each executive is permitted to terminate the contract upon a certain notice period.	Section 5.2.8
Other risks	A number of other risks are included in Section 5.	Section 5

Topic	Summary	For more information

1.6 Significant interests of key people and related party transactions

Who are the Existing Shareholders and what will their interests in the Shares be on Completion of the Offer?

The Existing Shareholders are the current owners of Hydralyte North America. The table below has been prepared to show the Shareholdings of the Existing Shareholders on a post-Restructure basis and excludes any Shares applied for in the Offer.

Section 7.1.4

	Shares as at Prospectus Date		Shareholdings as at Completion of the Offer	
	Shares	%	Shares	%
Radek Sali^[1,2]	10,951,779	18.5%	11,515,791	7.2%
Dan O'Brien^[2]	13,941,594	23.5%	14,936,910	9.3%
Adem Karafili^[2]	896,873	1.5%	1,560,417	1.0%
Regal Emerging Companies Opportunities Fund^[2]	5,979,150	10.1%	9,296,871	5.8%
Other Existing Shareholders[2,3]	27,504,230	46.4%	29,872,777	18.6%
Other Convertible Noteholders[4]	–	0.0%	35,221,226	21.9%
New Shareholders[5]	–	0.0%	58,622,690	36.4%
Total	**59,273,626**	**100.0%**	**161,026,683**	**100.0%**

The shareholdings of each of Radek Sali, Dan O'Brien, Adem Karafili and Regal Emerging Companies Opportunities Fund are held indirectly, through controlled entities or custodians.

^ Each of Radek Sali, Dan O'Brien, Adem Karafili and Regal Emerging Companies Opportunities Fund also hold Convertible Notes. The Shares at Prospectus Date *excludes* the Shares to be issued on conversion of the Convertible Notes and the Shareholdings at Completion of the Offer *includes* those Shares.

1. Shareholdings at Completion of the Offer excludes the 780,049 Shares to be received as a fee for providing services in relation to the Offer.
2. Excludes any Shares subscribed for in the Offer.
3. Excluding Radek Sali, Dan O'Brien, Adem Karafili and Regal Emerging Companies Opportunities Fund. Certain other Existing Shareholders hold Convertible Notes.
4. Excluding Radek Sali, Dan O'Brien, Adem Karafili, Regal Emerging Companies Opportunities Fund and Other Existing Shareholders.
5. Includes the 2,000 Shares to be issued under the Cleansing Offer.

Topic	Summary	For more information
What significant benefits and interests are payable to Directors and what significant interests do they hold?	On Completion of the Offer, the Directors' relevant interests in Shares and Options are expected to be as follows. The table does not take into account any Shares the Directors may acquire under the Offer:	Section 6.3.4

Director	Relevant interests in Shares and Options at Completion of the Offer[1]		
	Number of Shares	%	Number of Options
George Livery	–	0.0%	–
Gretta van Riel	–	0.0%	–
Adem Karafili	1,560,417	1.0%	1,974,739
Total	**1,560,417**	**1.0%**	**1,974,739**

1. Directors may hold their interests in the Shares and Options shown above directly, or through holdings by companies or trusts.

On Completion of the Offer, the relevant interests in Shares and Options of certain former Directors of the Company are as set out in Section 6.3.4.2.

The Company has agreed to pay Light Warrior Group (of which former Directors Radek Sali and Adam Gregory are co-founders and which Radek Sali controls) the following amounts:

- US$85,000, for services provided by Light Warrior Group employees to the Company in connection with the Company's successful Convertible Notes issuance in March 2021. This payment was satisfied by the issue of US$85,000 worth of Convertible Notes; and
- US$170,000, for services provided by Light Warrior Group employees to the Company in connection with the Offer. This payment will be satisfied by the issue of 798,647 Shares under the Offer (at the Offer Price).

In addition, the Company has paid AU$32,179 to Light Warrior Group since July 2019 for the sub-lease of office space for the Company's two Australian employees.

The Company engages a related entity of Dan O'Brien (former Director) for IT services, and has paid a total of AU$10,856 under this arrangement since 1 July 2019.

All Non-Executive Directors will receive directors' fees.

Advisers and other service providers are entitled to fees for services (including the Adviser Options).

Topic	Summary	For more information
What Adviser Options will be issued to advisers in connection with the Offer?	Under the Lead Manager Mandate with BW Equities, the Company has agreed to make Option grants as follows: • 1,500,000 Options at an exercise price of AU$0.5075; and • 1,500,000 Options at an exercise price of AU$0.6525. The Adviser Options will expire three years from Listing.	Section 9.5.1

Topic	Summary	For more information
Will any Shares be subject to restrictions on disposal following Completion of the Offer?	The following Shareholders or classes of Shareholders are subject to ASX mandatory escrow and/or have entered into voluntary escrow agreements: • Radek Sali • Dan O'Brien; • Adem Karafili; • certain other Existing Shareholders; and • the Convertible Noteholders. The combined effect of the ASX and voluntary escrow restrictions on these Shareholders is summarised in Section 9.7. All of the Options (and Shares issued on exercise of the Options) held by the following persons (or their nominees) will be subject to escrow for a period of two years from Listing: • Radek Sali – 3,683,708 Options; • Dan O'Brien – 629,375 Options; • Adem Karafili – 1,974,739 Options; • Jonathan West – 650,000 Options; and • Adam Gregory – 450,000 Options.	Section 9.7

Topic	Summary	For more information

1.7 Proposed use of funds and key terms and conditions of the Offer

Topic	Summary	For more information
What is the proposed use of the funds raised under the Offer?	The proposed use of funds raised under the Offer is set out below:	Section 7.1.3

Use of funds	Amount in Australian dollars	% of Proceeds
Marketing through online and retail channels, including: • celebrity and influencer costs • online and other advertising • costs of advertising agencies	AU$8.5 million	50.0%
New product development	AU$1.4 million	8.3%
Operating expenses including governance, warehousing and distribution costs and administration expenses	AU$3.4 million	20.0%
Working capital	AU$1.4 million	8.3%
Costs of the Offer	AU$2.3 million	13.3%
Total uses	**AU$17.0 million**	**100%**

Topic	Summary	For more information
Who is the issuer of this Prospectus?	The Hydration Pharmaceuticals Company Limited (ACN 620 385 677), a company incorporated in Victoria, Australia.	Section 9.1
What is the Offer?	The Offer contained in this Prospectus is an invitation to apply for 58,620,690 Shares offered for issue by Hydralyte North America at an Offer Price of AU$0.29 per Share, to raise AU$17.0 million. The Offer is open to Australian resident retail investors and Institutional Investors in Australia and certain other eligible jurisdictions.	Section 7.1
What is the Cleansing Offer?	The Cleansing Offer is intended to remain open following the closing of the Offer, until the issue of Shares on conversion of the Convertible Notes has been completed. This will ensure that the Shares issued on conversion of the Convertible Notes will be capable of being traded on ASX from Listing.	Section 7.1.8
What is the Minimum Subscription under the Offer?	The Offer has a Minimum Subscription of 58,620,690 Shares to raise AU$17.0 million.	Section 7.1.1
What happens if the Minimum Subscription is not achieved?	If the Minimum Subscription is not achieved then the Company will not proceed with the Offer and will repay all Application Money received (without interest).	Section 7.1.1
Will the Shares be quoted on ASX?	Hydralyte North America will apply to ASX within seven days after the Prospectus Date for its admission to the Official List, and quotation of the Shares on ASX under the code "HPC". Completion of the Offer is conditional on ASX approving that application and granting permission for the Shares to be quoted on ASX on terms acceptable to the Company. If this approval is not given within three months of the Prospectus Date (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.	Section 7.2
What are the conditions to the Offer proceeding?	The Offer is conditional on: • completion of the Restructure; and • the Company raising the Minimum Subscription under the Offer.	Section 7.2
How is the Offer structured and who is eligible to participate in the Offer?	The Offer comprises: • the Institutional Offer, which consists of an invitation to certain Institutional Investors in Australia and a number of other eligible jurisdictions to apply for Shares; and • the Retail Offer, comprising: – the General Public Offer, which is open to Australian resident retail investors and consists of an invitation to apply for Shares at the Offer Price; and – the Broker Firm Offer, which is open to persons who have received an invitation from their Broker and who have a registered address in Australia.	Section 7.1.2

Topic	Summary	For more information
Is the Offer underwritten?	No, the Offer is not underwritten.	Section 7.1
What is the allocation policy?	The allocation of Shares between the Retail Offer and the Institutional Offer will be determined by the Company in consultation with the Lead Manager. Under the Retail Offer, a proportion of Shares will be allocated to Broker Firm Offer Applicants as part of the Broker Firm Offer. Brokers will decide as to how they allocate Shares that they are allocated to their retail clients. The General Public Offer may be subject to scaleback, having regard to the level of demand in the Offer generally. The Company, in consultation with the Lead Manager, has discretion regarding the basis of allocation of Shares among Institutional Investors under the Institutional Offer.	Sections 7.2, 7.3.3 and 7.5.2
Is there any brokerage, commission or stamp duty payable by Applicants?	No brokerage, commission or stamp duty will be payable by Applicants on the acquisition of Shares under the Offer.	Section 9.10.5
What are the tax implications of investing in the Shares?	A summary of certain Australian tax consequences of participating in the Offer and investing in Shares is set out in Section 9.10. The tax consequences of any investment in the Shares will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether or not to invest.	Sections 7.2 and 9.10
When will Successful Applicants receive their holding statements?	It is expected that holding statements will be despatched to Successful Applicants by standard post on or around Monday, 6 December 2021.	Section 7.2
When can I sell my Shares on ASX?	It is expected that trading of the Shares on the ASX will commence on a normal settlement basis on Thursday, 9 December 2021. It is the responsibility of each person who trades Shares to confirm their holding before trading Shares. Any person who sells Shares before receiving a holding statement does so at their own risk.	Section 7.2

Topic	Summary	For more information
How can an Applicant apply for Shares?	**General Public Offer Applicants** If you are an eligible investor in Australia, you may apply for Shares under the General Public Offer online, by visiting https://investor.automic.com.au/#/ipo/hydralyte and making your Application and paying your Application Monies using BPAY®. If you require a paper copy of the Application Form together with the Prospectus, please contact the Hydralyte North America Offer Information Line. **Broker Firm Offer Applicants** Broker Firm Offer Applicants who have received a Broker Firm Offer may apply for Shares by completing a valid Broker Firm Offer Application Form attached to or accompanying this Prospectus and submitting that form in accordance with the instructions received from their Broker. **Institutional Offer Applicants** The Lead Manager has separately advised Institutional Investors of the Application procedure under the Institutional Offer.	Sections 7.3 and 7.5
What is the minimum Application size?	The minimum Application size under the Offer is AU$2,000 (which is equivalent to 6,897 Shares in aggregate).	Section 7.3.5
Can the Offer be withdrawn?	The Company may withdraw the Offer at any time before the issue of Shares to Applicants under the Offer. If the Offer does not proceed, Application Monies received will be refunded (without interest) in accordance with the Corporations Act.	Section 7.2
Where can I find out more information about the Offer?	All enquiries in relation to this Prospectus should be directed to the Hydralyte North America Offer Information Line on: • within Australia – 1300 288 664; or • outside Australia: +61 (2) 9698 5414, from 9:00am to 5:00pm (Melbourne time), Monday to Friday (excluding public holidays). If you have any questions about this Prospectus, the Offer or whether or not to invest in the Company, you should seek professional advice from your accountant, financial adviser, stockbroker, tax adviser, lawyer or other professional adviser.	Section 7.2

2. Industry overview

2. Industry overview

2.1 Healthy Hydration Solutions Market overview

2.1.1 Overview

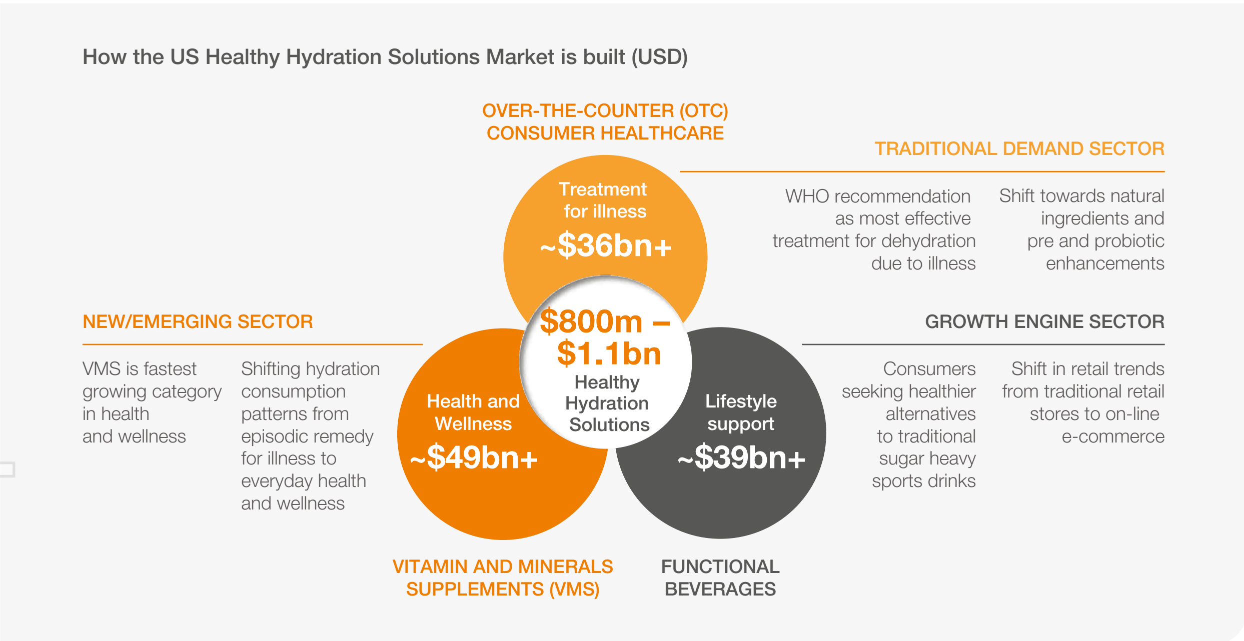
Hydralyte North America operates in the Healthy Hydration Solutions Market.

The Healthy Hydration Solutions Market sits at the intersection of three separate but overlapping consumer product markets, being:

1. Digestive health and paediatric diarrhoea remedies contained within the **OTC Consumer Healthcare Market**. The OTC Consumer Healthcare Market is a broad market covering a wide range of product categories. The relevant segment of this market, referred to as the **Oral Rehydration Solutions Market**, is focused on providing oral rehydration solutions to help replenish important salts and fluids lost due to illness, and in the USA is heavily biased towards supporting babies and young children.
2. Active lifestyle rehydration solutions contained within the **Functional Beverages Market**. This market segment is focused on providing oral rehydration to help replenish important salts and fluids lost due to normal lifestyle activity (such as travel or alcohol use), or due to exercise/sport.
3. Health and wellness hydration solutions contained within the **Vitamin and Mineral Supplements (VMS) Market**. This market segment is focused on combining rapid rehydration with vitamins and minerals in a more bioavailable liquid format (rather than tablets) as part of good nutrition and preventative health.

Figure 2.1 below shows a summary of the three segments of the Healthy Hydration Solutions Market.

Figure 2.1 Healthy Hydration Solutions Market definition and key macro segments in the United States[7]



The primary products in the Healthy Hydration Solutions Market are premixed liquid, powder and effervescent tablet products that are mixed in with and dissolved in water at the time of consumption.

7. See Sections 2.4.1 and 2.4.2.

For personal use only

2.1.2 WHO formulation

While drinking water helps to restore fluid in the body, it has an inefficient absorption rate (with a portion flowing through the body to waste). Furthermore, water does not contain electrolytes or vitamins, making it an ineffective choice for replenishing those lost due to illness or sweat.[8]

In 1978, the World Health Organisation (**WHO**) formalised the discovery that a simple formula with precise ratios of water, glucose and salt allowed severely dehydrated patients to absorb the water and salts they needed to stay alive.[9] Due to the solution being simple, cheap, and readily available, this oral rehydration solution quickly became an important response to severe dehydration across the world, helping to reduce child morbidity due to dehydration by over two thirds.[10]

2.1.3 OTC Consumer Healthcare Market

Consumer healthcare products mainly constitute over-the-counter (**OTC**) drugs (including medicines), which are sold directly to a consumer without a prescription from a healthcare professional. There are over 300,000 OTC consumer healthcare products in the United States which are managed by the Federal Drug Authority (**FDA**) for review of active ingredients and labelling standards.[11] OTC consumer healthcare products cover a broad range of health product categories such as pain care, oral care, cold and flu care and digestive care.

The relevant market segment of the OTC Consumer Healthcare Market that Hydralyte North America operates in is the Oral Rehydration Solutions Market.

2.1.4 Functional Beverages Market

Functional beverages are drinks that are non-alcoholic in nature and are added with various health-enhancing ingredients such as fruit and vegetable extracts, herbs, minerals, vitamins, amino acids and others. Key categories within functional beverages include; sports drinks, energy drinks, enhanced water, protein drinks, specialty teas, juices and dairy drinks.[12]

Since the emergence of Gatorade in the 1960s, functional beverages have become one of the fastest growing segments in consumer food products.[13]

The main distinction between the Company's products and functional beverages market segments is the ratio of glucose and electrolytes in the hydration mix. In comparison to regular sports drinks, the Company's products are typically significantly higher in electrolytes and lower in sugar content.

2.1.5 Vitamin and Mineral Supplements Market

Vitamins and minerals are both essential nutrients which are required in a daily diet. Altogether, there are 13 essential vitamins and many minerals which are required for the body to function properly and to maintain optimal health.[14] The VMS Market has evolved to supplement essential vitamins and minerals in the body that may not be secured from a person's diet. The VMS Market encapsulates a range of sub-categories such as vitamin A through to K and minerals such as sodium, phosphorous, calcium, iodine, magnesium and iron.

Recent studies in the United States show that over 70% of consumers take a vitamin and mineral supplement every day with a desire to help them live longer, be happier and prevent illness.[15] The well-documented absorptive benefits of the optimum glucose, salts and water fluid in the digestive system is seen as a valuable 'delivery system' for other vitamin and mineral supplements into the bloodstream, delivering health and wellness benefits over and above the benefits of better hydration.[16]

8. Liquid I.V. Expert Article, Medical Director, Dr. Brad Thomas, Liquid IV Website; Liquid I.V.'s Science, Explained | Liquid I.V.™'s Healthy Hydration – Fueling Life's Adventures – Liquid I.V. (liquid-iv.com).
9. Oral Rehydration Therapy, Wikipedia; Oral rehydration therapy – Wikipedia.
10. Oral Rehydration Therapy, Wikipedia; Oral rehydration therapy – Wikipedia.
11. Drug Applications for Over-the-Counter (OTC) Drugs, USA FDA website; https://www.fda.gov/drugs/types-applications/drug-applications-over-counter-otc-drugs
12. Functional Beverage Market Size, Growth & Global Trend 2028 (fortunebusinessinsights.com).
13. Medicinal Properties and Functional Components of Beverages, Aysu Tolun, Zeynep Altintas, in Functional and Medicinal Beverages, 2019 Precision Hydration blog, A short history of sports drinks by Andy Blow, Medically reviewed by Dr Tamara Hew-Butler.
14. National Institute for Aging, US Department of Health and Human Services website; Vitamins and Minerals for Older Adults | National Institute on Aging (nih.gov).
15. Emerson Insights, Driving VMS growth by exploiting Target Consumer Benefit segments, February 2021.
16. Liquid I.V. Expert Article, Medical Director, Dr. Brad Thomas, Liquid IV Website; Liquid I.V.'s Science, Explained | Liquid I.V.™'s Healthy Hydration – Fueling Life's Adventures – Liquid I.V. (liquid-iv.com).

While improvement to general wellness remains a core driver of the growing VMS Market, increasingly, consumers are seeking out more specific wellness benefits (such as needs associated with the consumer's age).[17] As an example, younger consumers are seeking products that are supportive of digestive health, better sleep, reduced anxiety, healthy hair, anti-aging, and clearer skin. Older consumers are biased more towards general wellness, immunity, joint and bone, memory and eye related health benefits.[18]

2.2 Product categories, distribution channels and competitive landscape

2.2.1 Overview

The Company operates in all key segments of the Healthy Hydration Solutions Market, with products targeted at:

- relieving dehydration due to a range of illnesses;
- providing rapid rehydration after vigorous exercise or activity; and
- the provision of important vitamins and minerals for everyday health and wellness benefits.

There are three key product categories in the Healthy Hydration Solutions Market:

1. premixed liquids;
2. powder products; and
3. effervescent tablets.

2.2.2 Premixed liquids

Hydralyte North America's liquid products come in 500ml and 1 litre containers. They are available in 5 flavours: orange, lemonade, strawberry lemonade, grape, and berry. Liquid products are also available with prebiotic additions that can enhance digestive health. Liquid products are consistent with a 'I need this right now' condition such as cold and flu, vomiting, and diarrhoea and hangovers. In addition, the liquid format gives parents 'peace of mind' in quality control of a pre-mixed solution when being used with young children and babies. Liquid products are primarily distributed through retail channels.

17. Emerson Insights, Driving VMS growth by exploiting Target Consumer Benefit segments, February 2021.
18. Emerson Insights, Driving VMS growth by exploiting Target Consumer Benefit segments, February 2021.

2.2.3 Powder products

Powder hydration products can come in one of two forms. Firstly, bulk containers containing dry hydration mix with a serving spoon to measure out the required hydration powder for mixing with water. Secondly, a powder ‘stick’ that comes in a prepacked flexible tube and ensures accurate quantities when mixing the product with water. In some cases, powders come in an effervescent granular form. Powder products with higher count flexible packages (20 to 36 sticks) are the Company’s dominant format for hydration packaging in e-commerce channels.

2.2.4 Effervescent tablets

Tablet hydration products are composed of powders (including effervescent chemical ingredients) pressed into the format of a tablet that dissolve vigorously in water without the need for stirring. The tablet ensures quality control in mixing quantities and supports ease of application in water containers used by consumers during outdoor activity or exercise.

Tablets are the Company’s smallest product category in the Healthy Hydration Solutions Market and are more prevalent in the lifestyle rehydration and health and wellness sub-categories. Tablets tend to be sold in multi-packs in e-commerce channels as a way of improving per unit economics.

2.2.5 Major distribution channels

2.2.5.1 Overview

There are four key distribution channels for Hydralyte North America’s products in North America:

1. wholesale;
2. in-store retail;
3. e-commerce, such as Amazon.com; and
4. direct-to-consumer, facilitated by a sales engine on the Company’s websites.

The fastest growing channels for Hydralyte North America are the e-commerce and direct-to-consumer channels.

2.2.5.2 Wholesale channel

The primary role of wholesale channels is to supply hydration products into the independent pharmacy and medical facility network, for use as a remedy for dehydration due to illness. Examples of hydration wholesalers in the United States include; AmerisourceBergen, McKesson and Cardinal Health and in Canada include McKesson and Imperial. Wholesale is a minor distribution channel for the Company's Healthy Hydration Solutions products.

2.2.5.3 In-store retail channel

In-store retail is the largest distribution channel for Healthy Hydration Solutions products in North America. However, there is some variability in the maturity of in-store retail channels between the United States and Canada. Until late 2019, in Canada the distribution of hydration products outside of pharmacies was restricted by National Drug Schedules managed by Canada's National Association of Pharmacy Regulatory Authorities (**NAPRA**). The Drug Schedules provide guidelines for sales conditions of Natural Health Products (**NHP**).[19] Due to NAPRA only recently removing hydration products out of the National Drug Schedules, distribution outside of pharmacies in Canada is immature compared to the United States.

In-store retail distribution is achieved through a range of subchannels that include:

- *Major and independent pharmacies* – this includes major national pharmacy chains and a range of independent and often regionally focused pharmacy chains.
- *Major and independent grocery stores* – this includes major national grocery chains, independent and regional grocery chains.
- *Mass retail* – this includes mass retailers such as Walmart and Target in the United States. Hydration products are generally shelved in the medical and health sections of mass retail stores, or in pharmacies contained within the stores.
- *Natural retail* – this includes natural and organic retailers, such as Whole Foods Market in the United States.
- *Sports and clubs* – this includes a diverse range of independent entities such as bike and sports stores.

2.2.5.4 Third party e-commerce

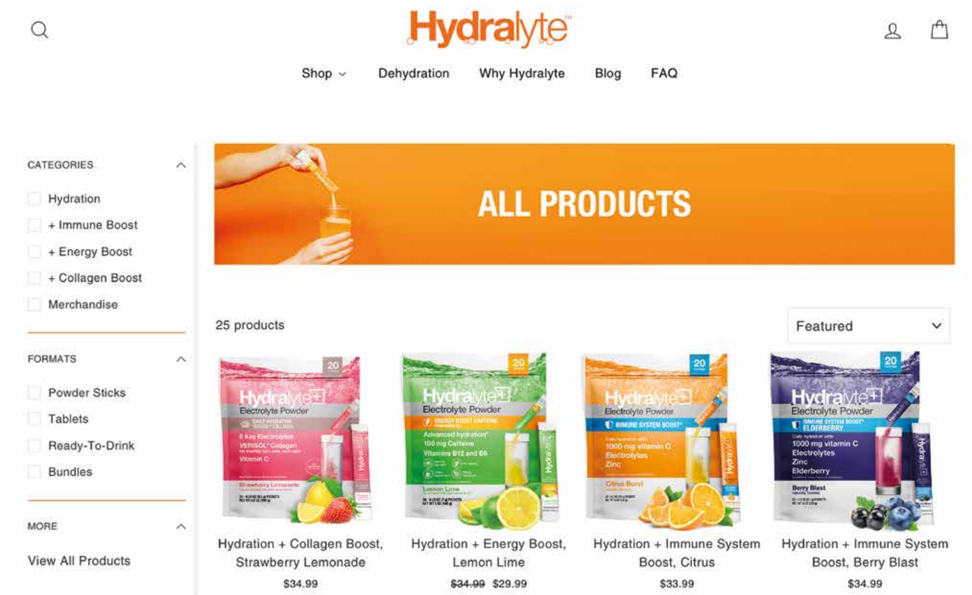
E-commerce is a large, and the fastest growing, distribution segment for Hydralyte North America: most of the growth is driven by large third-party e-commerce platforms and in particular Amazon.[20] The impact of COVID-19 has seen an acceleration in the shift to e-commerce for many health and wellness consumer products categories, and hydration products are no exception, particularly in the United States.[21] The evolution of e-commerce for hydration products is less mature in Canada due to historical sales restrictions in the National Drug Schedules managed by Canada's NAPRA that have only been relaxed since 2019.[22]

2.2.5.5 Direct-to-consumer

Direct-to-consumer distribution is primarily achieved through the Company's hydralyte.com and hydralyte.ca websites. A supplier's success in direct sales is dependent on their success in growing brand equity and the ability to sell innovative offers (both products and services) that distinguish their direct-to-consumer channel from third party e-commerce sites. A strong delivery fulfilment capability and securing multi-period subscriptions are key ingredients to succeeding in the direct-to-consumer channel. Like other e-commerce channels, high count powder, multi-pack tablets, multi-format product bundles, and new product developments tend to dominate direct-to-consumer channels.

19. National Drug Schedules | NAPRA, www.NAPRA.ca/National-drug-schedule
20. Company market research in Section 2.5 of the Prospectus.
21. Emerson Insights, Driving VMS growth by exploiting Target Consumer Benefit segments, February 2021.
22. National Drug Schedules | NAPRA, www.NAPRA.ca/National-drug-schedule

Figure 2.2: Example picture from hydralyte.com website



2.2.6 Major competitors

The Healthy Hydration Solutions Market is largely made up of three types of competitors: large pharmaceutical companies, large consumer products companies and independent specialist hydration and health suppliers.

The largest Healthy Hydration Solutions brand in North America, Pedialyte, is owned by a large multi-product, multi-category, multi-geography pharmaceutical company, Abbott Laboratories.

With the evolution of the Healthy Hydration Solution market from its traditional OTC Consumer Healthcare Market into broader lifestyle hydration, the market has become increasingly the focus of large consumer products companies. Key industry players Liquid IV and Nuun have recently been acquired by large multi-product, multi-category, multi-geography consumer products companies in Unilever and Nestle respectively.[23]

The third competitor type in the Healthy Hydration Solutions Market is independent specialist hydration and health and wellness suppliers. These competitors have either been created specifically to develop hydration products (e.g. Drip Drop) or are a consumer product company in a related segment that has moved into hydration products as an adjacency (e.g. Biosteel).

2.3 Major industry trends

2.3.1 Shift from sugar-based to functional beverages

An increase in social awareness of the detrimental impact of sugar on a range of health outcomes has resulted in major global beverage companies (e.g. Coca Cola, PepsiCo) leading the shift from high sugar carbonated beverages to lower sugar functional beverages.[24]

Although functional beverages may be best known as the go-to sources of performance ingredients (such as protein and amino acids), energy ingredients (such as caffeine and B vitamins), and electrolytes (such as sodium, potassium and magnesium), an expansion of ingredient demands is underway. Examples of functional ingredients grabbing the attention of today's consumers are probiotics, prebiotics, MCTs, omega-3s, and turmeric.[25]

Oral hydration solutions are a strong beneficiary of these macro consumer trends away from sugar and towards functional nutrition with strong bioavailability. Hydralyte North America and its competitors continue to focus on lower sugar, more electrolytes, and more choice around VMS relative to many other functional beverage products on the market.

23. Unilever and Nestle company websites.
24. Functional Beverage Market Size, Growth & Global Trend 2028 (fortunebusinessinsights.com).
25. The Glanbia Nutritional's website, referencing Euromonitor International. (2020). Data ending 2019; US Functional Beverage Market Insights for 2020 | Glanbia Nutritional's.

2.3.2 Shifting hydration consumption patterns from episodic remedy for illness to everyday health and wellness

The Company believes that the Healthy Hydration Solutions Market is benefiting from two key drivers; a broadening of the addressable consumer market and an increase in intensity of consumption. Initially, this transition was driven by the incursion of hydration products into the Functional Beverages Market as a low sugar, high electrolyte, and high vitamin and mineral alternative to the high carbohydrate sports drinks. However, increasingly, the market is being driven by the VMS Market where hydration products provide an alternative to traditional VMS in tablet format.

2.3.3 From retail stores to e-commerce distribution

COVID-19 impacts on retail store opening are accelerating well-established trends of consumers shifting spending to online e-commerce channels. This general consumer trend is clearly reflected in the Healthy Hydration Solutions Market in North America (and in particular the United States).

Studies in the United States indicate that 33% of VMS products are purchased online, a figure that has increased by five percentage points over the past year.[26] Key drivers for e-commerce growth include: easy price comparison, easy to search, product features/benefits easy to read and understand, easy to find products, discounting offered (value for money), and the transparency of product reviews. The delivery promise and convenience are also important attributes that can differentiate between e-commerce channels.[27]

As a response to these trends, the importance of e-commerce channels is anticipated to increase over time and represent a higher share of overall category sales.

2.3.4 Vitamin and Mineral Supplements are the fastest growing market in the health category

The VMS Market is the largest and highest growth market in the health and wellness market in the United States, with consumers spending more on average in-store than any other health care category. Over the course of 2020, consumption online has increased to around one third of the total market, and this strong growth trend online is expected to continue.[28] All demographics are buyers of VMS, however, there is some segmentation on products and format based on age demographics. Increasingly, healthy hydration products are targeting these fast-growing consumer needs.

2.3.5 Keto, paleo, vegan, gluten free, organics

Weight loss or weight management diets like keto or paleo that are focused on low carbohydrate intakes can lead to dehydration due to excreting excess electrolytes through urine and bowel movements. Specialist hydration products are increasingly popular components of these diets. Hydration products are also being marketed as suitable to those on vegan and gluten free diets.

As consumer needs are changing around diet, the focus on effective hydration will continue to increase, providing opportunity for hydration suppliers in both the differentiation of hydration products and in brand and marketing efforts.

2.3.6 Product design, sustainable packaging and marketing

The emerging trend in the VMS Market is to shift from marketing inputs (e.g. vitamin C) to marketing output benefits to the consumer (e.g. improved immunity).[29] This trend is being exploited by the Healthy Hydration Solutions Market as it further expands its presence in this large and fast-growing market segment.

There has been an evolution in hydration flavour profile to more ‘complex’ flavours for the segments that are focused on adults. Hydration suppliers continue to experiment with flavours with a strong focus on ‘natural’ flavours such as Acai.

Some hydration suppliers are also starting to explore sustainable packaging to match their broader social purpose. In addition, the increasing importance of e-commerce channels has resulted in increasing sophistication in brand activation strategies, including tiered ambassadorial/influencer strategies.

26. Emerson Insights, Driving VMS growth by exploiting Target Consumer Benefit segments, February 2021.
27. Emerson Insights, Driving VMS growth by exploiting Target Consumer Benefit segments, February 2021.
28. Emerson Insights, Driving VMS growth by exploiting Target Consumer Benefit segments, February 2021.
29. Emerson Insights, Driving VMS growth by exploiting Target Consumer Benefit segments, February 2021.

2.3.7 Consumer product personalisation

Consumer diversity is driving a trend from mass products to greater personalisation in consumer products, and the Healthy Hydration Solutions Market is no different.[30] The continuous evolution of this trend is being exploited by some suppliers to differentiate their products in the market and to attract consumers into a more personalised experience in their direct-to-consumer '.com' channels. The most common shift to personalisation emerging on e-commerce platforms is where consumers are able to mix and match flavours and products types within the one bundle buy.

2.4 Healthy Hydration Solutions Market in the United States

2.4.1 Overview

The Healthy Hydration Solutions Market in the United States is contained within overlapping parts of three large and positive growth consumer market segments, being:

- the OTC Consumer Healthcare Market, which is estimated as a US$36.5 billion market in 2020 and is growing at 3% CAGR;[31]
- the Functional Beverages Market, which is estimated as a US$39 billion market in 2018 and is anticipated to grow at 3% CAGR (US$46 billion) by 2023;[32] and
- the Vitamin and Mineral Supplement Market, which is estimated as a US$49bn market in 2019 and is growing at 6% CAGR.[33]

The Healthy Hydration Solutions Market is not the sum of these markets, but operates across each one.

2.4.2 Estimated Healthy Hydration Solutions market size

The estimated market information presented in this Section 2.4.2, and in Section 2.5.2, has been prepared by the Company based on information including estimates of relevant segments from macro market analysis; retail scan data; Amazon Jungle Scout information and industry and trade publications.

For the purposes of the estimated Healthy Hydration Solutions Market size calculations, the following classes of products are excluded:

- analgesics, oral care, wound care, eye care, dermatology, sleep, cold, cough, and allergies from OTC;
- protein drinks, specialty teas, weight products, dairy products, juice products, sports drinks and coconut products from functional beverages; and
- protein, omega, fibres, and amino acids from VMS.

The Company has prepared the estimated market information based on these sources due to the absence of a readily published market sizing for the Healthy Hydration Solutions Market in North America by external research organisations. The information is included in the Prospectus in order to give investors an indication of the size of the market that the Company participates in.

Investors are cautioned that the estimated market information has been prepared by the Company and is not directly sourced from external, third-party industry data or information.

The Directors believe the estimated market information to be based on reasonable grounds and relevant for investors and their advisers to understand, however given it is an estimation only, the Company can give no assurance that the market information is accurate.

30. Precision Hydration blog, A short history of sports drinks by Andy Blow, Medically reviewed by Dr Tamara Hew-Butler; https://www.precisionhydration.com/performance-advice/hydration/a-short-history-of-sports-drinks-and-the-science-behind-them/
31. Consumer Healthcare Products Association, referencing The Nielsen Company – total U.S. all outlets; OTC Use Statistics | Consumer Healthcare Products Association (chpa.org).
32. The Glanbia Nutritional's website, referencing Euromonitor International. (2020). Data ending 2019; US Functional Beverage Market Insights for 2020 | Glanbia Nutritionals.
33. New Hope Network reporting on Nutritional Business Journals 2020 Supplement Business Report. 2020 Supplement Business Report (marketresearch.com).

The United States Healthy Hydration Solutions Market is estimated to have generated approximately US$945m in revenue in 2020. Taking consideration of the estimation methodology, the market size is represented as a range of between US$800m to US$1.1bn in 2020. The estimated composition of the Healthy Hydration Solutions Market by sales channel and product mix is shown in the figures below.

Figure 2.3 Estimated USA Hydration Market by Sales Channel in 2020 (US$million)

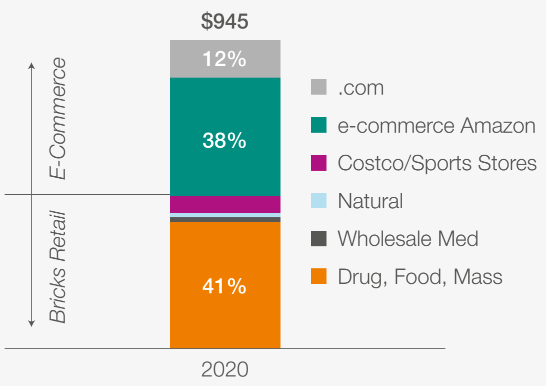
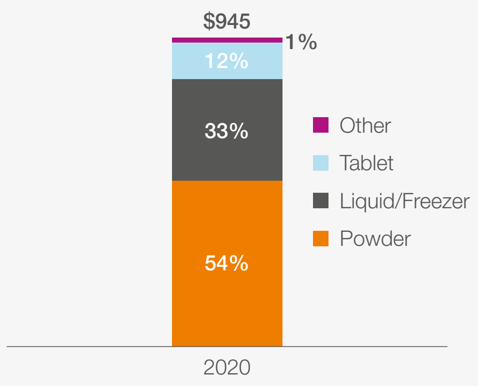


Figure 2.4 Estimated USA Hydration Market by Product Type in 2020 (US$million)



In 2020, the Healthy Hydration Solutions Market is estimated to have a split of around 50/50% between traditional in-store 'bricks' retail channels and 'clicks' e-commerce channels. Over 90% of retail store sales are estimated to be made through major pharmacy, grocer, and major retailers (such as Walmart, Costco), with the remainder passing through natural food stores and wholesale channels to hospitals. Of the e-commerce sales, around 75% are estimated to be made through Amazon, with the remaining 25% through other e-commerce or direct-to-consumer channels.

In relation to product mix, the largest product category is estimated to be powder products at 54% of the market, followed by liquid and freezer products which are estimated to comprise 33% of the market, and tablets at around 12% market share.

2.5 Healthy Hydration Solutions in Canada

2.5.1 Overview

The Healthy Hydration Solutions Market in Canada is estimated to be materially smaller than the equivalent market in the United States. For many consumer products where consumption behaviours are aligned, Canadian market size is around 10% of the United States market, which broadly reflects the population ratio between the two countries. However, given the restraints on distribution due to the Drug Schedules managed by Canada's NAPRA, the Canadian Healthy Hydration Solutions Market is estimated to be smaller than the 10% ratio of market size seen in other consumer products.

2.5.2 Estimated Healthy Hydration Solutions market size

Investors are cautioned that the estimated market information in this Section 2.5.2 has been prepared by the Company and is a combination of third-party sources and Company estimates.

The Directors believe the estimated market information to be accurate and based on reasonable grounds, however there is no assurance that the market information is accurate.

Refer to the note at Section 2.4.2 for further details.

The Canadian Healthy Hydration Solutions Market size is estimated to be around US$25m in 2020. The estimated composition of the market by sales channel and product mix is shown in the figures below:

Figure 2.5 Estimated Canadian Hydration Market by Sales Channel in 2020 (US$million)

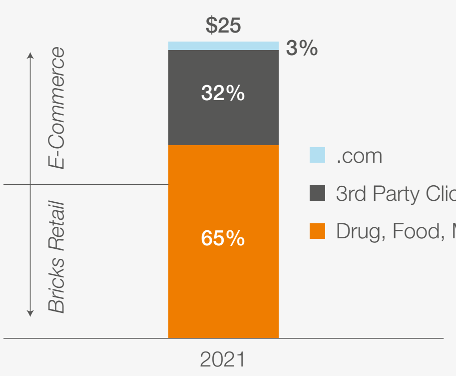
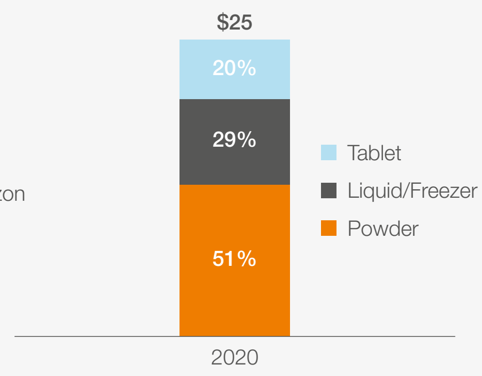


Figure 2.6 Estimated Canadian Hydration Market by Product Type in 2020 (US$million)



The Healthy Hydration Solutions Market in Canada is estimated to have a split of approximately 65/35% between traditional in-store 'retail' channels (~65%) and e-commerce channels (~35%). A significant majority of the sales in in-store retail are made through major pharmacy, grocer, and mass retailers. Of the e-commerce sales, a significant majority is estimated to be made through Amazon, with the remaining sales made through other e-commerce or direct-to-consumer channels.

In relation to product mix, the largest product category is estimated to be powder products at approximately 51% of the market, followed by liquid and freezer products at 29% of the market, and tablets at around 20% market share.

2.5.3 Canadian Drug Schedules

Until late 2019, Healthy Hydration Solutions products in Canada were defined under the Drug Schedules managed by Canada's National Association of Pharmacy Regulatory Authorities (**NAPRA**), via the NHP Regulation. The Drug Schedules specified that "Natural Products" contained in the schedule could only be sold at a pharmacy while a pharmacist was present.

In late 2019, hydration products were removed from the Drug Schedules which facilitated much broader distribution of the products both in a broader range of retail stores and in e-commerce channels. This has the potential to accelerate growth rates, increase competitors and increase innovation in the Canadian Healthy Hydration Solutions Market.

3. Company overview

3. Company overview

3.1 Overview of Hydralyte

3.1.1 Introduction to Hydralyte North America

Hydralyte North America is a consumer products company that markets and sells a range of liquid, tablet and powder Healthy Hydration Solutions products into the North American markets of Canada and the United States under the 'Hydralyte' brand. Hydralyte North America's products retain a strong alignment to the World Health Organisation (**WHO**) formulation for effective healthy hydration products. Hydralyte sells products through a range of retail, e-commerce and direct channels and outsources manufacturing and supply chain management to a team of valued partners.

Hydralyte North America was founded on the following core principles that remain at the heart of the business to this day:

- Due to the demands of everyday life, 75% of people are estimated to be dehydrated every day which has negative impacts on their wellbeing.[34]
- Dehydration is highly preventable and rapidly resolved through the consumption of hydration products that leverage the WHO endorsed hydration formulation.
- By staying true to the WHO formulation, Hydralyte North America's products continue to have less sugar and more electrolytic salts than comparable hydration and functional beverage products and are therefore more effective.
- By combining rapid rehydration with vitamins and minerals in a more bioavailable liquid format (rather than vitamin tablets) healthy hydration products can play an important role in improving nutrition and preventative health.

Hydralyte North America's ambition is to *'own hydration in the family home'* in North America built on the clinical efficacy of its products and a trusted brand positioning with families.

3.1.2 Company History

3.1.2.1 Hydralyte founding and early years

The Hydralyte brand was founded in Australia in 2001 with the introduction of one litre liquid and freezer pop hydration products. In the period between 2006 and 2010, the Hydralyte product range was expanded to include powders and effervescent tablets. Through a combination of quality products and effective brand activation, by 2014 Hydralyte grew to a leading market share in the Australian and New Zealand hydration markets.

3.1.2.2 Hydralyte international expansion

Hydralyte commenced its international growth by entering the Canadian market in 2012. Hydralyte has grown its market presence in Canada to be the number two brand by market share (circa 22%) behind Pedialyte in the Canadian Healthy Hydration Solutions Market.[35] Hydralyte further extended its international presence by entering the neighbouring United States market in 2016.

3.1.2.3 Separation of Hydralyte Australia and New Zealand and other markets

In 2014, the Company sold its Australian and New Zealand business and exclusive brand and distribution rights in those territories to Care Pharmaceuticals Pty Limited, a subsidiary of the global Care Pharmaceuticals business.

In 2020, the Company sold further exclusive brand and distribution rights to Care Pharmaceuticals in a variety of countries, including Asia (excluding China and Hong Kong), the Middle East and Africa.

As part of the sale transactions, the Company transferred the IP in relation to the Hydralyte brand and products in the Care Territories to Care Pharmaceuticals, but retained the rights to the 'Hydralyte' brand name and registered trade marks in the Company's exclusive territories. The Company also secured rights to other Hydralyte IP in the Company's exclusive territories via an IP Licence Deed that was entered into by the relevant parties which licensed copyrighted materials and manufacturing intellectual property related to the Hydralyte products from Care Pharmaceuticals back to The Hydration Pharmaceuticals Trust (**HPT**), which is part of the Hydralyte North America Group.

34. 75% of Americans May Suffer From Chronic Dehydration, According to Doctors (medicaldaily.com).
35. Company market research in Section 2.6 of the Prospectus.

See:

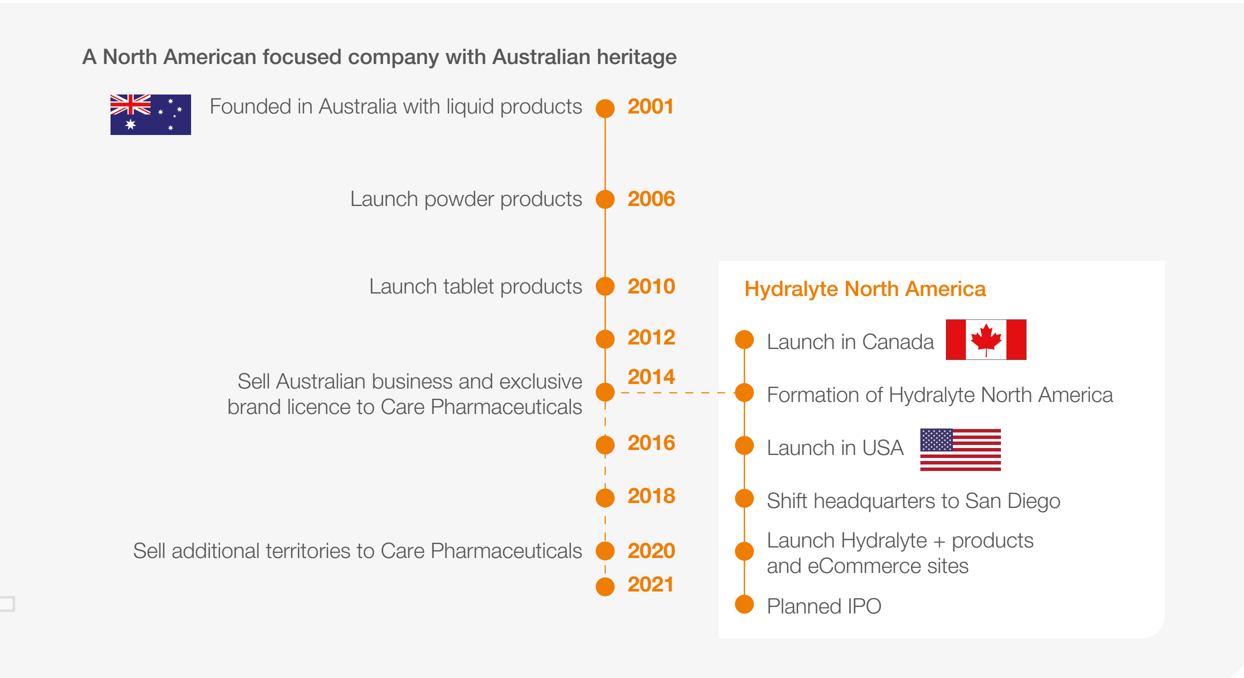
- Section 3.1.3 for a summary of the Company's exclusive territories;
- Section 5.2.5 for a description of the risks associated with the IP Licence Deed; and
- Section 9.5.2 for a summary of the IP Licence Deed.

3.1.2.4 New product and e-commerce channel expansions

Hydralyte North America launched the first of its 'Hydralyte +' product range in the United States in 2020, targeting the VMS Market to address key dehydration causes e.g. travel, cold and flu. These new products are targeting the benefits of improved immunity (vitamin C) and improved skin and hair health (collagen) by leveraging stronger bioavailability of hydration products relative to more traditional vitamin and mineral supplement product formats.[36] In 2020, Hydralyte North America also accelerated its e-commerce strategy with Amazon and through the establishment of direct-to-consumer sales engines, Hydralyte.com and Hydralyte.ca. This ensures the Company has a multi-product and multi-distribution network to frame the next phase of Hydralyte North America's growth.

Figure 3.1 below shows a summary of key milestones of the 'Hydralyte' business since its formation in 2001.

Figure 3.1 Key Company milestones



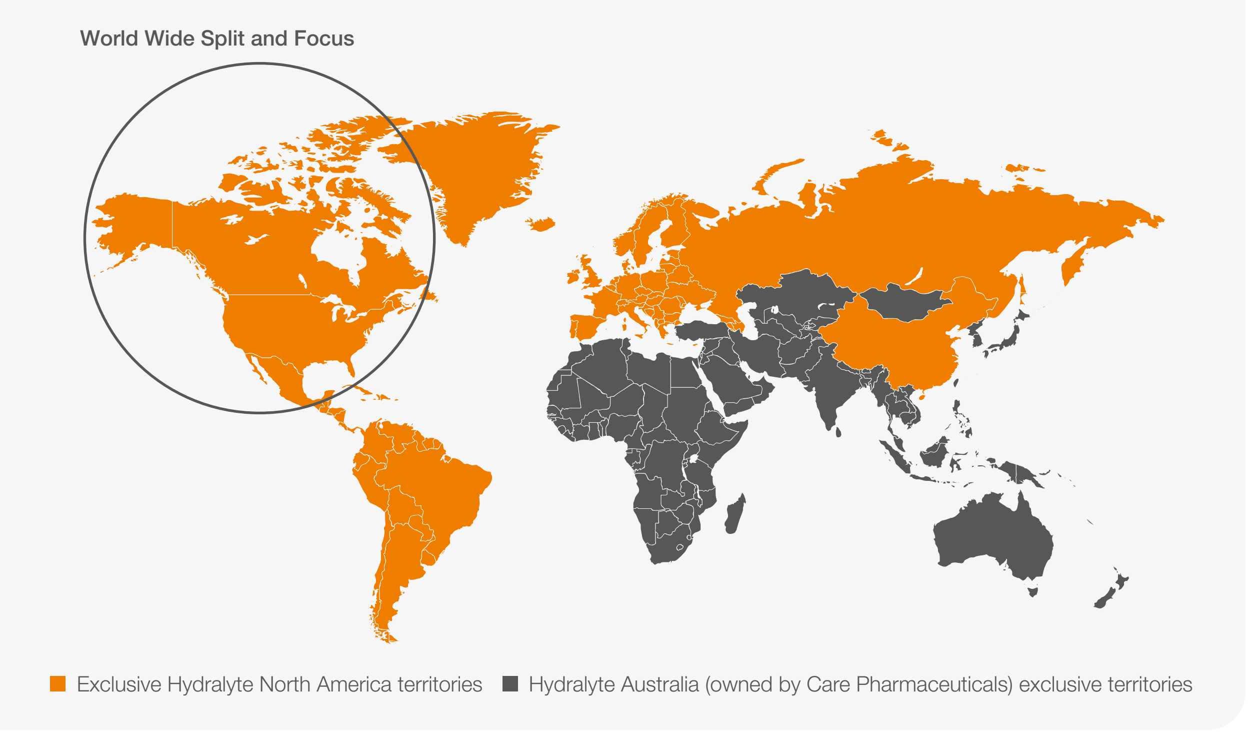
3.1.3 Hydralyte North America territories

The Hydralyte North America business has exclusive distribution rights in North and South America, the European Union, United Kingdom, China and Hong Kong. As between Care Pharmaceuticals and the Company, the Company owns the 'Hydralyte' brand in these exclusive territories, and the Company has registered trade marks for the brand in a number of these jurisdictions. The figure below shows a summary of the key territories where Hydralyte North America has exclusive distribution rights.

Hydralyte North America is not permitted to develop or distribute Hydralyte products in the Care Territories, which include Australia, New Zealand, Africa, the Middle East (including Turkey) and South East Asia (excluding China and Hong Kong but including Taiwan).

36. Bioavailability of Drugs – howMed.

Figure 3.2: Hydralyte North America territories



3.1.4 Hydralyte North America operations

Hydralyte North America is headquartered in San Diego in the United States where key commercial sales, marketing and financial operations are located. The Company sources liquid products from a manufacturer located in Utah and solid products from manufacturers located in Switzerland. Hydralyte North America works with sales brokers with distribution capabilities. To service e-commerce and direct to consumer markets in both Canada and the United States, Hydralyte North America partners with a distributer located in Alabama.

Hydralyte North America currently has 8 employees.

3.2 Hydralyte North America business model

3.2.1 Overview

Hydralyte North America collates and translates consumer insights and needs into developing and delivering quality hydration products to market. The Company's business model is an asset light, flexible production model that allows it to outsource manufacturing and packaging to appropriate suppliers. Hydralyte North America uses trusted leading manufacturing partners with the necessary certifications and expertise to produce high quality hydration products that can be distributed to retailers and, ultimately, end customers.

The Company's core capabilities are:

1. effective development of a diverse range of sales channels;
2. activating the Hydralyte brand and driving the customer acquisition and retention strategy;
3. efficiently managing its supply chain to get products to market; and
4. delivering a pipeline of innovative products to meet emerging customer needs.

Hydralyte North America works closely with a range of strategic partners in manufacturing, supply chain and distribution management. The Company has also established a range of strategic relationships with providers in digital and traditional marketing.

3.2.2 Sales channels

Hydralyte North America distributes its products via three primary channels:

- *Retail stores* – these are primarily national pharmaceutical chains and regional grocers. There are further opportunities to expand distribution into mass retail, natural retail and sports clubs (e.g. Costco/Sam's).
- *Third party e-commerce platforms* – the significant majority of this channel is Amazon. There are further opportunities to expand distribution through other third-party e-commerce platforms as the brand grows.
- *Direct e-commerce* – this is currently Hydralyte.com (United States) and Hydralyte.ca (Canada), each of which operate on a Shopify sales engine.

See Section 3.3 for further details on the Company's sales channels.

3.2.3 Brand management and marketing

Hydralyte North America markets the Hydralyte brand around a series of 'Hydration Moments' which can apply to any family member to meet a range of everyday hydration needs.

At the core of Hydralyte North America's brand essence is a strong alignment to the authenticity of the WHO endorsed rapid hydration formulation.

Most product research and purchases begin online, so this is where most of the Company's marketing efforts are being directed. Hydralyte North America's customer acquisition strategy is focused on engaging with the core target consumers of families in different ways at different parts of their customer engagement/purchase/retention cycle.

See Section 3.4 for further details on the Company's brand proposition and Section 3.5 on customer acquisition, retention and marketing.

3.2.4 Manufacturing, distribution and supply chain

Hydralyte North America sources quality products through a network of strategic manufacturing partners located in North America (liquids) and Europe (powder granules and tablets). Manufacturers also serve as strategic partners in new product developments. The Company utilises some custom co-packing for its powder products located in Germany prior to their shipping to North America.

The use of outsourced manufacturing ensures that the Company can get access to scale benefits that it would not be able to replicate on a standalone basis.

Hydralyte North America is accountable for managing inventory levels in the supply chain but works with distribution partners to execute the fulfilment of orders. Hydralyte North America's distribution methods are unique depending on region and sales channel.

See Section 3.6 for further details.

3.2.5 Product innovation and quality control

Hydralyte North America is responsible for managing new product development and ongoing quality control associated with its product portfolio. Hydralyte works collaboratively with its manufacturing partners to both deliver new products and ensuring high levels of quality assurance.

See Section 3.7 for further details.

3.3 Sales and distribution

3.3.1 Target sales geographies

Hydralyte North America's primary target market is English speaking Canada and the Southern States of the United States.

The Company has also appointed WPIC and as its Chinese distribution partner to develop a Hydralyte T-Mall Store and a social media presence in China: see Section 9.5.11 for a description of the WPIC China eCommerce Program Statement of Work.

3.3.2 Amazon and third-party e-commerce platforms

While there is a range of available third-party e-commerce platforms, Amazon represents the dominant market share and succeeding on Amazon is a key focus of the Company in the next phase of its growth. The sales and activation strategy for Hydralyte North America on Amazon is broadly aligned in both Canada and the United States.

At a product level, Hydralyte North America's e-commerce strategy is focused on larger pack sizes and lighter powder products (i.e. higher count powder sticks) that deliver a higher average selling price, higher margin and lower relative freight costs (compared to lower priced products). e-commerce supports Hydralyte North America's innovation strategy as it allows fast launching and market testing of new products prior to extending the product into retail stores.

With the support of sophisticated third-party software, digital channels provide an ability to finely segment customers and customer needs to develop custom product and marketing strategies across gender, age, seasons and consumption habits.

3.3.3 Direct e-commerce

Hydralyte North America has developed a direct-to-consumer sales engine at Hydralyte.com (United States) and Hydralyte.ca (Canada), which is supported by the Shopify sales platform. The platform can offer a 'first touch' immersion in the brand and to help build both brand and product information.

The Amazon and Hydralyte.com/Hydralyte.ca channels are designed to complement each other. This is achieved by offering unique products or bundles offered on Hydralyte.com and Hydralyte.ca. The direct channel is aimed at providing high reward to those that shop there and is primarily achieved through subscription offers as a central plank of the direct-to-consumer channel strategy.

3.3.4 Retail Stores

Hydralyte North America has established retail channels in Canada with limited store distribution in the United States.

Canada – Hydralyte North America's primary retail channel is through national chain pharmacies such as Shoppers Drug Mart (**SDM**), Loblaws, London Drugs and Rexall. The Company sells branded products and supplies private label products in SDM and Loblaws. These retail channels are supplied through the Company's Canadian distribution partner, MCP.

United States – The retail strategy in the United States mirrors that of Canada albeit at an earlier stage of maturity in channel development. Hydralyte North America is focused on placement that supports the e-commence business and stores located in regional areas of focus. Retailers with regional or national distribution include: Rite Aid, Walgreens, CVS and HEB. These retail channels are supplied through the Company's United States distribution partner, Emerson.

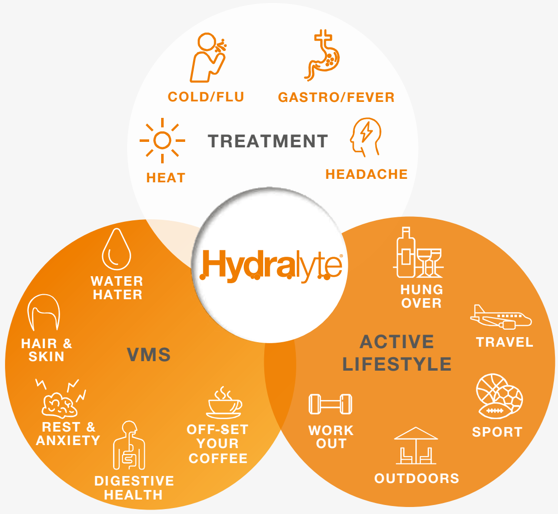
3.4 Hydralyte brand and products

3.4.1 Hydralyte brand

The target consumer group for the Hydralyte brand is North American families. Hydralyte North America's brand, product and channel strategy is focused on exploiting the opportunity for a WHO-formula focused low-sugar hydration brand to *'own the family home'* in the Company's territories with a portfolio of hydration product solutions.

Hydralyte North America markets the brand around a series of 'Hydration Moments' which can apply to any family member to meet a range of every day hydration needs. Hydration moments may include a parent providing a quick and effective remedy for their young child that is dehydrated due to illness, or providing a healthy alternative (to sugar heavy sports drinks) for their children at their weekend sports game.

Figure 3.3: Hydration 'moments'



Key factors that the Company believes will drive awareness of its products and the choice of Hydralyte as a brand for North American families in its market segments are:

- *OTC Consumer Healthcare* – Competitor products typically contain more sugars than Hydralyte and provide limited 'natural' alternatives. Liquid products are primarily targeted at babies and translate poorly to adult consumption.
- *Functional Beverages* – Competitor products are primarily high sugar sports drinks, however, health-conscious family consumers have a desire for low-sugar hydration alternatives, especially for their children.[37] The Company's products typically have around 75% less sugar than the average sports drink.
- *VMS* – hydration solutions are a very recent entrant into this market category, with limited focus by competitors in translating WHO hydration products into a mature market category where ease of consumption plus ingredient source and quality are both important.

Hydralyte North America's brand strategy is to maintain a clear and consistent brand essence at the core of the Hydralyte brand. However, recognising the differing consumer needs of each hydration market sub-segment, Hydralyte North America's strategy is to adjust the consumption occasion in terms of the format, flavour and its marketing strategies.

3.4.2 Core brand essence

At the core of Hydralyte North America's brand essence is a strong alignment to the authenticity of the WHO endorsed rapid hydration formulation. Hydralyte products are formulated with the correct ratio of glucose and electrolytes to trigger the 'sodium glucose pump'. This is a mechanism that allows the fluids and electrolytes to pass through the cell walls faster than water alone and immediately enter the blood stream.

37. Low Sugar Drinks for Kids | Healthy Families BC; https://www.healthyfamiliesbc.ca/home/articles/low-sugar-drinks-kids

3.4.3 Hydralyte Products

Hydralyte North America markets and sells a range of liquid, tablet, powder and effervescent products.

3.4.3.1 Liquid products

Hydralyte North America's liquid products come in 500ml and 1 litre containers. They are available in 5 flavours: orange, lemonade, strawberry lemonade, grape, and berry. Liquid products are also available with pre and pro-biotic additions that can enhance digestive health. Liquid products are consistent with a 'I need this right now' condition such as cold and flu, vomiting, and diarrhoea and hangovers. In addition, the liquid format gives parents 'peace of mind' in quality control of a pre-mixed solution when being used with young children and babies. Liquid products are primarily distributed through retail channels.

Figure 3.4: the Company's liquid products

3.4.3.2 Effervescent tablet products

Hydralyte North America's effervescent tablet products generally come in containers of 20 tablets. They are available in four flavours: orange, lemonade, strawberry lemonade, and berry. A core benefit of effervescent tablet products is they are a convenient format for transporting and are suitable for easy addition to water bottles during travel, working out at the gym, or holding in the office drawer to consume during the workday. The tablet size ensures ultimate flexibility for the consumer to insert two tablets in a normal glass of water, or multiple tablets in 750-1000 ml water bottles. Effervescence has attractiveness in terms of the dissolving in water without the need for stirring, improved taste, and improved bio-availability benefits. Effervescent tablet products are primarily distributed through retail and e-commerce channels.

Figure 3.5: the Company's effervescent tablet products

3.4.3.3 Effervescent and non-effervescent powder products

Hydralyte North America's powder products come in flexible pouches that contain a number of single serve 'sticks' (that are referred to as 'counts') of hydration powder products. They can come in effervescent granules or non-effervescent powder forms. One 'stick' is suitable for mixing in a normal glass of water. They are available in six flavours: orange, lemonade, lemon lime, citrus burst, elderberry, and berry. The stick size ensures ultimate flexibility for the consumer to insert as the skinny spout makes them easier to pour into water bottles. Powder and effervescent granule products are primarily distributed through e-commerce channels, with rapid expansion of major online leaders through their online stores.

Figure 3.6: the Company's powder products

3.4.4 Hydralyte brand expression by market segment

3.4.4.1 OTC Consumer Healthcare

The dominant consumer need in the OTC Consumer Healthcare Market is to remedy dehydration caused by illness such as cold/flu, fever, diarrhoea, headaches and heat stress. Traditionally, the dominant consumer in this market segment is babies and small children with hydration products bought by parents.

3.4.4.2 Functional Beverages – Active lifestyle

The dominant consumer needs in the active lifestyle hydration sub-category of the Functional Beverages Market are to remedy, or to be proactive in preventing, dehydration associated with sport, travel, excess alcohol, and the daily active lives of families.

3.4.4.3 Vitamin and Mineral Supplements (VMS)

The dominant consumer needs of this hydration category are preventative supplementary vitamins and minerals to support necessary balance in the body, thereby promoting specific and general wellness benefits.

3.5 Marketing and customer acquisition and retention

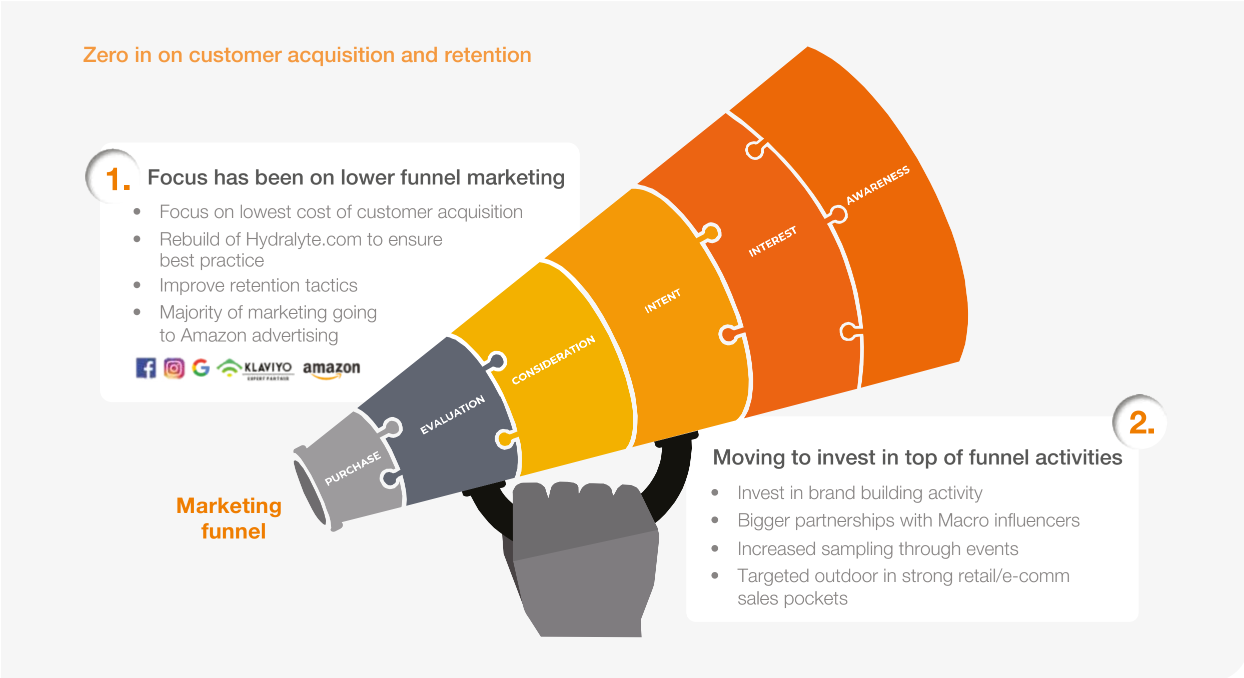
3.5.1 Marketing overview

Hydralyte North America's marketing strategy is to focus on the lifestyle and purchasing habits of the target consumer, being families.

A significant proportion of product research and purchases begin online, so this is where most of the Company's marketing efforts are being directed.

Hydralyte North America's customer acquisition strategy is focused on engaging with the core target consumers of families in different ways at different parts of their customer engagement/purchase/retention cycle. This is represented by the customer acquisition funnel outlined in the figure below.

Figure 3.7: customer acquisition funnel



3.5.2 Strategy

Hydralyte North America has established a three-phase customer acquisition and retention strategy.

3.5.2.1 Consumer awareness phase

This phase is focused on building ‘long range’ awareness in the brand to targeted consumers. It is focused on communicating the distinctive brand story and how this relates to the brand’s quality products that provide benefits for a broad range of hydration moments.

Key communication channels for this phase include influencer marketing, paid social media ads and Amazon advertising.

3.5.2.2 Consumer conversion phase

This phase facilitates ‘short range’ brand and product evaluation relative to comparable products, allowing more detailed understanding of the brand and product’s features and benefits with a desire to match these with the needs of the brand’s primary target consumers.

This is achieved through a range of online and in-store strategies.

3.5.2.3 Consumer retention phase

This phase involves consumer retention strategies to drive an ongoing relationship with the consumer.

The key strategy in this phase is to share ongoing brand and product use, update on new and exclusive offers, and develop new product innovations.

This is achieved by:

- ongoing email and text interactions;
- focus on subscription as first purchase; and
- customer segmentation to make offers more relevant.

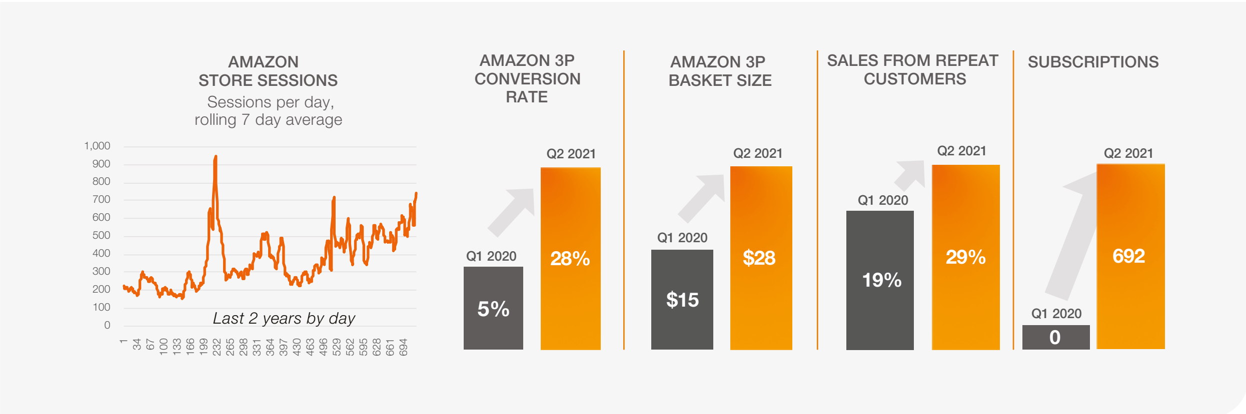
3.5.3 Customer acquisition, overall growth and retention performance metrics

Key metrics tracked by the Company to determine the health of its e-commerce strategy include:

- *Number of store sessions* – this measures the consumer 'foot' traffic to the Hydralyte.com, Hydralyte.ca and Amazon stores.
- *Conversion rate* – this measures the conversion rate of a consumer who reviews a product and proceeds to buy a Hydralyte product.
- *Basket size* – this measures the average value of a consumer's purchase (basket size).
- *Sales to repeat customers* – is a measure of customer loyalty and determining the repeat business from an acquired consumer.
- *Subscriptions* – measures the commitment of consumers to repeat purchasing through a subscription model.

The figure below highlights some of the shift in performance of these key metrics over the past two years on Amazon.

Figure 3.8: Amazon operational metrics



Excludes SKUs under $1k per month.

Source: Amazon 3P Sales Data and Brand Analytics portal.

3.6 Stable and scalable supply chain

3.6.1 Overview

Hydralyte North America outsources all its manufacturing and distribution management to an ecosystem of large and capable strategic manufacturing and supply chain partners. All strategic supply chain partners provide an opportunity for scalability given Hydralyte North America's demand currently represents a small percentage of their overall operating capability.

3.6.2 Product manufacturing

Hydralyte North America sources quality products through a network of strategic manufacturing partners located in North America (liquids) and Europe (granules and tablets). Manufacturers also serve as strategic partners in new product developments.

Hydralyte North America can leverage 'at scale' manufacturing facilities due to management and the Board's relationships from prior organisations. This assists the Company in sourcing lower volume raw materials and innovative ingredients at market competitive costs.

Hydralyte North America's manufacturing partner in solid products is in Switzerland and its new manufacturing partner in liquid products is located in Utah. Hydralyte North America has recently switched its liquid supplier to improve scalability and responsiveness. Utah is also strategically located for manufacturing and is less than two days' road transit from key distribution centres in Toronto and Indiana. The Company has a long-standing relationship with its European solids manufacturing partner that has been central to supporting new product development activities.

Details of the Company's material manufacturing arrangements are set out in Section 9.5.

Hydralyte North America's current operations represent only a small component of the overall manufacturing output of its partners, with significant capacity available to support the Company's targeted growth.

3.6.3 Logistics, warehousing and fulfilment

Hydralyte North America uses a range of third-party providers for distribution and inventory management. There are four primary methods of fulfilment, being:

- USA sales broker, Emerson, who holds the majority of United States inventory for distribution to US retail stores;
- Toronto-based sales broker, MCP, who holds the majority of Canadian inventory for distribution to Canadian retail stores;
- Amazon warehouses for consignment-style selling through Amazon's seller platform; and
- direct-to-consumer warehouses for hydralyte.com and .ca orders, specialising in single unit fulfilment.

Details of the Company's material distribution and logistics arrangements are set out in Section 9.5.

3.6.4 Inventory management

Hydralyte manages an integrated supply and operations planning (**S&OP**) process for the management of its supply chain and inventory needs. The foundation of the S&OP process is demand forecasting provided by the sales organisation. This demand forecast is broken down by region, by sales channel and by individual product. Statistical forecasting methods are used to support the planning and inventory management process. Demand forecasts are translated to supply plans with manufacturing and distribution partners.

3.7 Product innovation and quality systems

3.7.1 Product development process

Product innovation is at the core of Hydralyte North America's business model and is delivered through a structured five step product development process.

1. *Opportunity identification* – Scanning consumer, retailer, and competitor trends is at the core of the opportunity identification phase.
2. *Product formulation development* – Market research around product formulations to meet the identified consumer need is the next step in product development. This involves identifying key ingredients, defining product mix formulations, and potential final product formats (liquid, tablet or powder).
3. *Manufacturing prototype* – Upon finalisation of a product formulation, third party manufacturers are engaged to manufacture a product prototype. This requires developing supply chain options for key ingredients and ensuring the manufacturability of the desired product in the desired product format. Key elements of product costing, taste and product quality are tested in this phase.
4. *Final product design* – This step involves locking in the product formulation, a scalable manufacturing and supply chain for the product, marketing claims and positioning for the product, and final packaging design.
5. *Commercialisation* – Identifying appropriate sales channels, market launch, and associated product support materials are core deliverables to launch the product.

3.7.2 Product development pipeline

Over the past year, Hydralyte North America has been active in developing and commercialising a range of new products to bring to market. This has led to strong success on Amazon, where new products have quickly risen to the top five product sellers within the Hydralyte portfolio. Key Hydration + products that are in the early stage of commercialisation include: immunity, gut health, energy, and collagen.

Figure 3.9: Product innovation

The Company has an active pipeline of further product development within the different Healthy Hydration Solutions submarkets.

3.7.3 Quality systems and regulation

Hydralyte North America operates within a structured quality management system across the value chain.

Production sits under our established Pharmaceutical Quality System (**PQS**) which safeguards product quality and compliance. Key features of the PQS include qualification of manufacturers and ingredients, comprehensive finished product batch testing and release, periodic risk assessment and responsiveness to customer inquiry. Hydralyte North America produce to pharmaceutical grade at carefully selected licensed manufacturing facilities in Switzerland and the United States. These production facilities are subject to periodic audit by both the national regulators and our company staff or associates.

In retail distribution channels in the United States, Hydralyte products are positioned under two regulatory categories. Hydralyte Oral Rehydration Products, permitted to treat illness-related dehydration, are marketed as Medical Foods. They are formulated and labelled to comply with the Federal Food, Drug and Cosmetic Act definition of a Medical Food and are required to be manufactured in a factory that holds an FDA food facility registration. Products containing vitamins and/or botanicals are marketed in the United States as dietary supplements. They are manufactured in compliance with Good Manufacturing Practice (**GMP**) for dietary supplements (FDA 21 CFR Part 111) in a facility that holds an FDA food facility registration (category: dietary supplement). They are marketed and labelled in compliance with the *Dietary Supplement Health and Education Act of 1994* (**DSHEA**).

In retail distribution channels in Canada, all Hydralyte products are marketed as Natural Health Products (**NPNs**). Products are licenced with Health Canada and possess an NPN number. Products must comply with the Canadian Natural Health Products Regulations (June 2003). Manufacturing facilities comply with GMP as described in Part 3 of the regulations. The importer/distributor must operate with a site licence as described in Part 2 of the regulations.

3.8 Growth strategy

3.8.1 Overview

Hydralyte North America is focused on growing its business through brand activation, customer acquisition and retention and product and channel expansion.

The Company aims to grow its business through the following strategies:

Brand	securing a celebrity ambassador/influencer network to grow brand awareness and support a broader customer acquisition strategy.
Products	a strong pipeline of new innovative Hydralyte + products will be progressively commercialised.
Channel	scaling growth in e-commerce channels and in particular Amazon and Hydralyte.com/.ca. Moving products out of the digestive section of retail stores into the VMS and functional hydration segments is a key focus of the retail channel strategy. Similarly, extending the retail network to more stores in key national pharmacy chains represents an opportunity for growth.
Supply chain	establishing opportunities to refine the Company's solid products supply chain that can both reduce costs and increase responsiveness and scalability. The Company is also seeking to further refine its inventory management processes through implementation of a new enterprise resource planning (ERP) system.
Organisational capabilities	scaling of personnel and refining customer acquisition and retention capabilities.
Geographic growth	the opportunities for further growth in North America remains large and is the primary focus of the growth strategy being implemented. Hydralyte North America also has the option to explore growth opportunities in new geographic markets with exclusive distribution rights for the Hydralyte brand in South America, European Union, United Kingdom, China, and Hong Kong. See Section 3.8.2 for further details.
Inorganic growth	Hydralyte North America investigates and evaluates opportunities to accelerate its growth strategy through inorganic means – whether this be via acquisitions, joint ventures or strategic partnerships. Key areas of focus include partners that have innovative hydration products and services, complementary products and services to the hydration category, scalable access to important sales channels, the facilitation of easier entry into new geographic territories, or unique organisational capabilities.

3.8.2 China distribution partnership and other geographic markets

Hydralyte North America has entered into a distribution partnership with WPIC (see Section 9.5.11 for further details).

The partnership will involve WPIC developing a Hydralyte-branded T-Mall Store in China and a social media presence, together with the development of a Chinese consumer strategy, content repurposing, translation and ongoing marketing support.

While Hydralyte North America remains focused on the North American market, the Company expects that the partnership with WPIC will set the foundation for expansion into China in 2023.

In addition, the Company has entered into a non-binding arrangement with a United Kingdom-based distributor to manage the small volume of local Amazon and hydralyte.co.uk sales. This is not a current geographic focus of the Company but will be considered for expansion in the future.

3.9 Intellectual property

As a result of a business sale in 2014 and a further IP sale in 2020 to Care Pharmaceuticals:

- Care Pharmaceuticals owns all intellectual property related to the Hydralyte brand and products in all of the world, excluding the Company Territories;
- the Company retained any intellectual property it owned or licensed related to the Hydralyte brand and products in the Company Territories;
- Care Pharmaceuticals has the exclusive right to use the Hydralyte IP in the Care Territories to:
  - carry on the business of marketing, sale and manufacture of Hydralyte products;
  - register intellectual property rights, including trade marks incorporating the word Hydralyte; and
  - modify, create derivative works of, improve or otherwise use or exploit the intellectual property;
- Care Pharmaceuticals also has a non-exclusive right to manufacture, assemble and package materials (including packaging materials using the Hydralyte word) using the Hydralyte IP in the Company Territories, but only for ultimate sale of the products in the Care Territories; and
- The Hydration Pharmaceuticals Trust (**HPT**), part of the Hydralyte North America Group, is party to the IP Licence Deed (which is described in Section 9.5.2), under which the Company is granted a licence in the Company Territories to use Hydralyte IP that was transferred to Care Pharmaceuticals.

The IP Licence Deed covers manufacturing IP, know-how, technical information, confidential information and documentation related to the Hydralyte products originally developed by the Company in Australia and New Zealand.

The Company's owned-IP rights consist of its:

- product brands;
- trade secrets, proprietary information and know how;
- registered trade marks in each of Canada, China, the European Union, Hong Kong, Mexico, Spain, Switzerland, the United Kingdom, the United States and the International Bureau of the World Intellectual Property Organization; and
- various domain names related to the Company's business.

3.10 Impact of COVID-19

COVID-19 has had significantly disruptive impact on Hydralyte North America's production and sales channels. This impact has manifested in a variety of ways across five distinct time periods.

- *Period 1: March and April 2020* – in this period, COVID-19 uncertainty impacted demand and supermarkets experienced extraordinary peaks in demand. There was a major spike of sales for that reason.
- *Period 2: May to September 2020* – in this period, there were "stay at home" orders of varying intensity and length in the United States and Canada. e-commerce sales grew sharply, particularly given new SKUs focused on immune health. Traditional retail sales were very low during this period.
- *Period 3: October to December 2020* – in this period, lockdowns relaxed, but the Company continued to experience high demand for immunity products and strong e-commerce sales. Warehouses were stretched due to higher baseline of demand combined with the busy Christmas period. Further, a number of warehouses were closed as COVID-19 infections were identified in key locations creating inconsistency in ordering patterns and a number of issues with stock levels.
- *Period 4: January to May 2021* – the vaccine roll out in the United States resulted in more foot traffic to retail stores. However, Canada's largest province Ontario (38% of the population) went back in and out of several severe lockdowns from Christmas through to the middle of May.
- *Period 5: May 2021 to present* – Vaccine roll out in Canada combined with lockdown restrictions easing in Ontario brought Canada mostly in line with the United States. However, demand in e-commerce has remained strong, with traditional retail continuing to demonstrate variability.

3.11 Partnerships and sustainability

3.11.1 Community and partnerships

Hydralyte North America understands the immense benefit of hydration on the health and welfare of recipients. To accompany its commercial operations, the Company has a longstanding community partnership with Operation USA.

Operation USA is a Los Angeles-based international disaster relief and development agency helping communities at home and abroad overcome the effects of disasters, disease, violence and endemic poverty. In addition to disaster relief, Operation USA supports local at-need community groups. Since 1979, Operation USA has worked in 101 countries – delivering over US$450 million in aid for relief and development projects around the world. Disaster relief is most often associated with the developing world, where interruption of water supply can have material impacts on community health. To support these disaster relief efforts, Hydralyte North America is committed to a permanent supply of Hydralyte products in Operation USA's warehouse to support rapid disaster relief. Hydralyte North America provides stock no longer suitable for the consumer market but vital in times of natural disaster.

3.11.2 Sustainability

Hydralyte North America is committed to a more sustainable future through its business operations and is continually reviewing its portfolio of products to produce products in a more sustainable way; in particular seeking ways of using natural packaging products where possible.

With some 50% of the hydration market supplied by single use plastic containers,[38] Hydralyte North America has been at the forefront in shifting the industry product mix from liquid to solid hydration powder products. This trend is expected to continue and dominate Hydralyte North America's product mix in the coming years. The advantage of solid products is that hydration products can be added to water at the time of use. This has a dual benefit of helping to reduce single use plastic containers as well as reducing the weight, and therefore carbon footprint, of material processed through the supply chain. One pack of Hydralyte product purchased online and consumed with a reusable water bottle or a glass removes more than seven single use plastic bottles from circulation.

38. Linked to the share of liquid products sold in the market based on the Company's sales and market research.

4. Financial information

4. Financial information

4.1 Introduction

The Financial Information of Hydralyte North America contained in this Section 4 (Financial Information) includes Historical Financial Information and Forecast Financial Information as follows:

- **Historical Financial Information** comprising:
  - **Statutory Historical Financial Information** comprising:
    - Statutory consolidated statements of financial performance for the years ended 31 December 2019 (**FY19**) and 31 December 2020 (**FY20**) and the six-month periods ended 30 June 2020 (**1H FY20**) and 30 June 2021 (**1H FY21**) (**Statutory historical results**);
    - Statutory consolidated balance sheet as at 30 June 2021 (**Statutory historical balance sheet**); and
    - Statutory consolidated statements of cash flows for FY19, FY20, 1H FY20 and 1H FY21 (**Statutory historical cash flows**); and
  - **Pro Forma Historical Financial Information** comprising:
    - Pro forma consolidated statements of financial performance for FY19, FY20, 1H FY20, 1H FY21, the 12 months ended 30 September 2020 (**LTM Sep20**) and the three months ended 30 September 2020 (**Q3 FY20**) (**Pro forma historical results**);
    - Pro forma consolidated balance sheet as at 30 June 2021 (**Pro forma historical balance sheet**); and
    - Pro forma consolidated statements of cash flows for FY19, FY20, 1H FY20 and 1H FY21 (**Pro forma historical cash flows**); and
- **Forecast Financial Information** comprising:
  - Pro forma forecast consolidated statements of financial performance for the 12 months ending 30 September 2021 (**LTM Sep21**) and the three months ending 30 September 2021 (**Q3 FY21**) (**Pro forma forecast results**).

Hydralyte North America has a 31 December financial year end.

All amounts disclosed in Section 4 are presented in United States Dollars and, unless otherwise noted, are rounded to the nearest US $0.1 million. Rounding in the Financial Information may result in some discrepancies between the sum of components and the totals outlined within the tables, as well as percentage calculations.

Also contained in this Section 4 are:

- the basis of preparation and presentation of the Financial Information (refer to Section 4.2) and explanation of certain non-AAS Financial Information;
- summary of key operating and financial metrics (refer to Section 4.3.4);
- details of net (debt)/cash (refer to Section 4.3.6);
- management's discussion and analysis of the pro forma historical financial information (refer to Section 4.4);
- the Directors' best estimate general and specific assumptions underlying the pro forma Forecast Financial Information (see Section 4.5) and management discussion and analysis of the pro forma Forecast Financial Information; and
- dividend policy (refer to Section 4.5.4).

The information in Section 4 should also be read in conjunction with the risk factors set out in Section 5 and other information contained in this Prospectus.

4.2 Basis of preparation of the Financial Information

4.2.1 Overview

The Financial Information included in this Prospectus is intended to present potential investors with information to assist them in understanding the historical financial performance, cash flows and financial position of Hydralyte North America. The Financial Information has been prepared on a going concern basis, and the Directors are responsible for the preparation and presentation of the Financial Information.

The Financial Information has been prepared and presented in accordance with the recognition and measurement principles of Australian Accounting Standards (**AAS**) and Hydralyte North America's accounting policies.

The Financial Information reflects the consolidated information for the Company and its subsidiaries (the **Group**). The Group's key accounting policies have been consistently applied throughout the financial periods presented and are set out in Appendix A.

The Financial Information is presented in an abbreviated form insofar as it does not include all the presentation and disclosures, statements or comparative information as required by AAS and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act.

The Financial Information has been reviewed by PricewaterhouseCoopers Securities Ltd (**PwCS**) in accordance with the Australian Standard on Assurance Engagements ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information. Investors should note the scope and limitations of the Independent Limited Assurance Report contained in Section 8.

Following Completion of the Offer, Hydralyte North America will continue to prepare its financial statements in accordance with AAS issued by the AASB and its financial statements post-listing will be audited and reviewed by Hydralyte North America's auditor in accordance with AAS.

In addition to the Financial Information, Section 4.2.5 describes certain non-IFRS financial measures that the Company uses to manage and report on the business that are not defined under or recognised by AAS or IFRS.

Investors should note that past results do not guarantee future performance.

4.2.2 Significant accounting policies

The significant accounting policies adopted in the preparation of the Financial Information are set out in Appendix A and have been consistently applied throughout the financial periods presented in this Prospectus.

4.2.3 Preparation of historical financial information

The Statutory Historical Financial Information has been derived from the general purpose consolidated financial statements for FY19 and FY20 and the general purpose consolidated financial statements for 1H FY21, including the 1H FY20 comparable period.

The FY19 and FY20 general purpose consolidated financial statements were audited by the Australian Firm of PricewaterhouseCoopers (**PwC**) in accordance with Australian Auditing Standards.

The 1H FY21 consolidated financial statements (which include financial information for 1H FY20 for comparative purposes) have been prepared in accordance with AAS 134 Interim Financial Reporting, and have been reviewed by PwC in accordance with Australian Auditing Standards on Review Engagements ASRE 2400 Review of Financial Report performed by an assurance practitioner who is not the auditor of the Company.

The financial information for Q3 FY20 has been derived from unaudited management accounts. These management accounts formed part of the accounting records which were audited by PwC as part of its audit of the FY20 results. The financial information for Q3 FY21 (F) contains two months of unaudited actual financial results up to August 2021 and management's forecast for the month September 2021.

PwC issued unqualified audit opinions with respect to the FY19 and FY20 financial statements and issued an unqualified review conclusion with respect to the 1H FY21 financial statements. However, without modifying its opinions and conclusions with respect to each set of financial statements, PwC drew attention to Hydralyte North America's ability to continue as a going concern being dependent on raising new capital either through a potential IPO on the ASX, or through additional capital raises from other sources.

PwC noted that there was, at the time its opinions and conclusions were issued, a material uncertainty that cast significant doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

In preparing the Pro Forma Historical Financial Information adjustments have been made to the Statutory Financial Information to (i) reflect consistent application of the Group's current accounting policies and the costs of being a listed entity as described in Appendix A; and (ii) reflect Hydralyte North America's structure post Completion of the Offer as described in Section 1.

4.2.4 Preparation of forecast financial information

The Forecast Financial Information has been prepared solely for inclusion in this prospectus and is presented on a pro forma basis only.

The Forecast Financial Information which covers the last twelve months up to 30 September 2021 has been sourced from:

- actual results for the three months to 31 December 2020, which formed part of the Company's statutory financial results for FY20;
- actual results for the six months to 30 June 2021 which form part of the Group's statutory financial results for 1H'FY21
- actual results for the two months to 31 August 2021, sourced from the unaudited management accounts of the Group; and
- a forecast for the one month period to 30 September 2021.

The following pro forma adjustments have been applied to:

- include the estimate of the annual incremental cost that the company will incur as a listed public company; and
- include an estimate of the costs of incentive options to be issued concurrent with the Offer; and
- remove interest expenses on convertible notes that will convert to Shares upon Completion of the Offer.

The Directors believe that the Forecast Financial Information has been prepared with due care and attention and consider all best estimate general and specific assumptions when taken as a whole to be reasonable as at the Prospectus Date. However, this information is not fact and potential investors are cautioned not to place undue reliance on the Forecast Financial Information.

The Forecast Financial Information has been prepared by the Directors based on an assessment of present economic and operating conditions and on a number of best estimated general and specific assumptions regarding future events and actions as set out in Section 4.5. The Forecast Financial Information is subject to the risk factors set out in Section 5.

This information is intended to assist potential investors in assessing the reasonableness and likelihood of the assumptions occurring but is not intended to be a representation that the assumptions will occur. The Forecast Financial Information has been reviewed by PricewaterhouseCoopers Securities Ltd but has not been audited. Investors should note the scope and limitations of the Investigating Accountant's Report on the Historical Financial Information and Forecast Financial Information (refer to Section 8).

Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information, and that this may have a material positive or negative effect on the Company's actual underlying financial performance, cash flows or financial position. In addition, the assumptions upon which the Forecast Financial Information is based are by their very nature subject to significant uncertainties and contingencies, many of which will be outside of the control of the Company, the Directors and Management and are not reliably predictable.

Accordingly, none of the Directors, Management or any other person can give potential investors any assurance that the outcomes disclosed in the Forecast Financial Information will arise. The Forecast Financial Information should be read in conjunction with the best estimate general and specific assumptions as set out in Section 4.5.3, the risk factors set out in Section 5 and other information in this Prospectus.

The Directors have no intention to update or revise the Forecast Financial Information or other forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

4.2.5 Non-IFRS financial measures

Hydralyte North America uses certain measures to manage and report on its business that are not recognised under AAS or IFRS. These measures are collectively referred to in this Section 4 as 'non-IFRS financial information' under Regulatory Guide 230 'Disclosing non-IFRS financial information' published by ASIC. The principal non-IFRS financial measures that are referred to in this Prospectus are as follows:

- Gross profit: revenue less cost of goods sold; and
- EBITDA is earnings before interest, taxation, depreciation and amortisation. Hydralyte North America uses EBITDA to evaluate its operating performance without the non-cash impact of depreciation and amortisation, and before interest and taxation. EBITDA should not be considered as an alternative to measures of cash flow under AAS and investors should not consider EBITDA in isolation from, or as a substitute for, an analysis of the results of Hydralyte North America's operations.

Certain financial data included in Section 4 is also non-IFRS financial information. Hydralyte North America believes that this non-IFRS financial information provides useful information to users in measuring the financial performance of Hydralyte North America. As non-IFRS measures are not defined by recognised standard setting bodies, they do not have a prescribed meaning. Therefore, the way in which Hydralyte North America calculates these measures may be different to the way other companies calculate similarly titled measures. Investors are cautioned not to place undue reliance on any non-IFRS financial information and ratios.

4.3 Pro forma and statutory historical and forecast results

4.3.1 Overview

Table 4.1 sets out a summary of the pro forma historical and forecast results which are reconciled to the statutory historical results in Section 4.3.2.

Table 4.1: Pro forma historical and forecast consolidated statements of financial performance

USD in '000s	Notes	FY19	FY20	1H FY20	1H FY21	LTM Sep20	LTM Sep21 (F)
Revenue	1	2,963	3,757	1,750	2,300	3,079	5,436
Cost of sales	2	(1,587)	(2,421)	(877)	(1,226)	(1,840)	(3,177)
Gross profit		**1,376**	**1,335**	**873**	**1,073**	**1,239**	**2,259**
Administrative expenses	3	(2,002)	(2,029)	(1,021)	(1,084)	(2,093)	(2,462)
Employee benefits expense	4	(3,483)	(3,151)	(1,677)	(1,613)	(3,285)	(3,144)
Marketing expenses	5	(1,592)	(1,744)	(854)	(1,619)	(1,540)	(3,553)
Other income		–	65	–	–	–	65
EBITDA		**(5,701)**	**(5,523)**	**(2,679)**	**(3,243)**	**(5,679)**	**(6,835)**
Depreciation and amortisation expense		(12)	(23)	(15)	(3)	(25)	(6)
Income tax benefit	6	–	–	–	–	–	–
Foreign exchange gain/(loss)		(23)	(247)	(143)	158	(193)	130
Finance expenses		(11)	(12)	(5)	(17)	(10)	(22)
Profit/(loss)		**(5,747)**	**(5,806)**	**(2,842)**	**(3,105)**	**(5,905)**	**(6,733)**

Notes:

1. Revenue: represents amounts earned on the sale of goods to customers both from the traditional retail and online channels, after the deduction of trade terms, sales discounts and returns.
2. Cost of sales: represents the net cost of inventories recognised as an expense when the products are sold to customers.
3. Administrative expenses: include freight, distribution and warehousing expenses, professional fees, insurance, occupancy and other corporate costs.
4. Employee benefits expense: include wages and salaries for the Group's employees as well as related bonuses, employee share incentives and superannuation costs.
5. Marketing expenses: represent general (incl. sales consultant costs) and digital marketing expenses.
6. Income tax benefit: No income tax benefit of current losses has been recognised. As at 31 December 2020, the Group has carried forward tax losses in Australia of US$0.9 million which may be available to be utilised to reduce taxable income in future periods, subject to satisfying the tax loss utilisation tests in the Australian tax legislation. The tax losses carried forward by the United States and Canada subsidiaries are US$20.3 million and US$4.0 million at 31 December 2020. The ability to utilise such losses may be subject to limitations in the United States or Canada. The conversion rates used for converting the Australian tax loss and Canadian tax loss into USD are 0.77 and 0.78.

Table 4.2: Q3 FY20 pro forma historical results and Q3 FY21 pro forma forecast results

USD in '000s	Notes	Q3 FY20	Q3 FY21(F)
Revenue		853	1,983
Cost of sales		(666)	(1,073)
Gross profit		**186**	**910**
Administrative expenses		(503)	(873)
Employee benefits expense		(705)	(762)
Marketing expenses		(323)	(1,367)
Other income		–	–
EBITDA	**1**	**(1,344)**	**(2,091)**
Depreciation and amortisation expense		(5)	–
Income tax benefit		–	–
Foreign exchange gain/(loss)		(42)	34
Finance expenses		(3)	(2)
Profit/(loss)	**1**	**(1,394)**	**(2,060)**

Notes:

1. Pro Forma Historical Results for Q3 FY20 and Pro Forma Forecast Results for Q3 FY21 reflect the consistent application of the pro forma adjustments outlined in Section 4.3.3, where relevant to these periods.

4.3.2 Statutory historical results

Table 4.3 sets out the statutory historical results for Hydralyte North America's statements of financial performance.

Table 4.3: Statutory historical results

USD in '000s	FY19[1]	FY20[1]	1H FY20[1]	1H FY21[1]
Revenue	2,963	3,757	1,750	2,300
Cost of sales	(1,587)	(2,421)	(877)	(1,226)
Gross profit	**1,376**	**1,335**	**873**	**1,073**
Administrative expenses	(1,206)	(1,233)	(623)	(686)
Employee benefits expense	(1,967)	(1,635)	(919)	(855)
Marketing expenses	(1,592)	(1,744)	(854)	(1,619)
Other income	–	2,815	2,750	–
EBITDA	**(3,388)**	**(461)**	**1,228**	**(2,087)**
Depreciation and amortisation expense	(12)	(23)	(15)	(3)
Income tax benefit	–	–	–	–
Foreign exchange gain/(loss)	(23)	(247)	(143)	158
Finance expenses	(11)	(12)	(5)	(274)
Profit/(loss)	**(3,434)**	**(744)**	**1,065**	**(2,206)**

Notes:

1. The Statutory Historical Results presented above have been extracted from the FY19, FY20, 1H FY20 and 1H FY21 statutory financial statements. Certain line items have been aggregated for simplicity and other income has been netted off other expenses, compared to the relevant financial statements.

4.3.3 Key financial metrics

Table 4.4 sets out the key financial metrics to help assess Hydralyte North America's ongoing operating performance.

Table 4.4: Key financial metrics

	Note	FY19	FY20	LTM Sep-20	LTM Sep-21(F)
Revenue metrics					
Revenue growth (%)	1		26.8%		76.5%
E-commerce revenue growth (%)	2		267.2%		279.7%
E-commerce revenue % of revenue	3	6.5%	19.0%	17.3%	37.2%
Operational metrics					
Administration expenses % of revenue	4	67.6%	54.0%	68.0%	45.3%
Employee benefits expenses % of revenue	5	117.6%	83.9%	106.7%	57.8%
Marketing expenses % of revenue	6	53.7%	46.4%	50.0%	65.4%
Financial metrics					
Gross profit margin (%)	7	46.4%	35.5%	40.2%	41.6%

Notes:

1. Revenue growth is calculated as the change in current period pro forma revenue as a percentage of prior period pro forma revenue.
2. E-commerce revenue growth represents the percentage growth in revenue generated from e-commerce channel for the current period compared to the prior corresponding period.
3. E-commerce revenue % of revenue is calculated as revenue generated from e-commerce channel for the period divided by total revenue for that period, expressed as a percentage.
4. Administrative expenses % of revenue is calculated as pro forma Administrative expenses divided by pro forma revenue, expressed as a percentage.
5. Employee benefits expenses % of revenue is calculated as pro forma Employee benefits expenses divided by pro forma revenue, expressed as a percentage.
6. Marketing expenses % of revenue is calculated as pro forma Marketing expenses divided by pro forma revenue, expressed as a percentage.
7. Gross profit margin refers to pro forma revenue less pro forma cost of sales divided by pro forma revenue, expressed as a percentage.

4.3.4 Pro forma adjustments to the consolidated statement of financial performance

Table 4.5 sets out the pro forma adjustments that have been made to Hydralyte North America's statutory historical results to derive the pro forma historical results.

Table 4.5: Pro forma adjustments to statutory historical EBITDA and loss after tax

USD in '000s	Note	FY19	FY20	1H FY20	1H FY21
Statutory EBITDA		**(3,388)**	**(461)**	**1,228**	**(2,087)**
Pro forma adjustments					
Listed company costs	1	(949)	(949)	(474)	(474)
One-off sale of distribution rights	2	–	(2,750)	(2,750)	–
Issuance of incentive options	4	(1,364)	(1,364)	(682)	(682)
Pro forma EBITDA		**(5,701)**	**(5,523)**	**(2,679)**	**(3,243)**
Statutory net profit/(loss) after tax		**(3,434)**	**(744)**	**1,065**	**(2,206)**
Pro forma adjustments					
Listed company costs	1	(949)	(949)	(474)	(474)
One-off sale of distribution rights	2	–	(2,750)	(2,750)	–
Interest expense on Convertible Notes	3	–	–	–	257
Issuance of incentive options	4	(1,364)	(1,364)	(682)	(682)
Tax impact of pro forma adjustments	5	–	–	–	–
Pro forma loss after tax		**(5,747)**	**(5,806)**	**(2,842)**	**(3,105)**

Notes:

1. Listed company costs: reflects the Directors' estimate of the incremental annual costs that Hydralyte North America will incur as an ASX listed entity. These costs include Chair and Non-Executive Director remuneration, additional audit and legal costs, ASX listing fees, Share Registry costs, additional corporate overheads, director and officer's insurance premiums as well as annual general meeting and annual report costs. This adjustment reflects 12 months of public company costs in FY19 and FY20, LTM Sep-20, LTM Sep-21F, and 6 months of public company costs for 1H FY20 and 1H FY21.
2. One-off sale of distribution rights: reflects the pro forma adjustment to remove the one-off income received in FY20 from the sale of distribution rights in Africa, Middle East (include Turkey) and Asia (exclude China and Hong Kong).
3. Interest expense on Convertible Notes: during 1H FY21, Hydralyte North America raised funds by issuing US$6.5 million of Convertible Notes. These Convertible Notes will convert to shares in Hydralyte North America upon Completion of the Offer. Therefore, the interest expense on these Convertible Notes of US$0.3 million in 1H FY21, has been removed from pro forma loss after tax as these notes will no longer be in existence following Completion of the Offer.
4. Issuance of incentive options: concurrent with the Offer, an ongoing incentive plan has been entered into to provide an ongoing performance rights program for existing and new employees. A total of 4.0 million performance rights, 4.0 million at the money options and 17.4 million options (at various exercise prices) will vest over a three-year period. The performance rights and options include future performance rights and options to be issued to new employees post-IPO based on management's current business plan. The pro forma adjustment represents the average yearly costs of the estimated costs over the vesting period from FY22 to FY24 (assuming the abovementioned performance rights and options are issued over the period) to align the employee benefits expense with the remuneration structure going forward. The actual expense level during the vesting period may differ in each financial year.
5. Tax impact of pro forma adjustments: Hydralyte North America did not generate taxable profits in Australia, the United States and Canada in the above historical periods. As a result, no tax effect of the above pro forma adjustments has been recognised.

4.3.5 Pro forma historical consolidated balance sheet

4.3.5.1 Overview

The pro forma historical balance sheet as at 30 June 2021 as set out in Table 4.6 is derived from the statutory historical balance sheet as at 30 June 2021, adjusted to reflect the impact of the Offer and other capital raising activity and the associated impacts.

The pro forma balance sheet is provided for illustrative purposes and is not represented as being necessarily indicative of Hydralyte North America's view of its financial position upon Completion of the Offer or at a future date. Further information on the sources and uses of funds of the Offer is contained in Section 7.1.3.

The Company has no off-balance sheet arrangements.

Table 4.6: Statutory and pro forma historical consolidated statements of financial position

USD in '000s	Statutory 30 June 2021	Impact of the Offer[1]	Convertible Notes to Equity[2]	Issuance of incentive options[3]	Pro forma 30 June 2021
Current assets					
Cash and cash equivalents	4,460	11,026	–	–	15,486
Trade and other receivables	1,011	–	–	–	1,011
Inventories	1,998	–	–	–	1,998
Other assets	905	–	–	–	905
Total current assets	**8,375**	**11,026**	**–**	**–**	**19,401**
Non-current assets					
Property, plant and equipment	–	–	–	–	–
Total non-current assets	**–**	**–**	**–**	**–**	**–**
Total assets	**8,375**	**11,026**	**–**	**–**	**19,401**
Current liabilities					
Trade and other payables	(2,523)	–	374	–	(2,149)
Borrowings	(6,038)	–	6,038	–	–
Total current liabilities	**(8,561)**	**–**	**6,412**	**–**	**(2,149)**
Non-current liabilities					
Long-term provisions	(20)	–	–	–	(20)
Total non-current liabilities	**(20)**	**–**	**–**	**–**	**(20)**
Total Liabilities	**(8,580)**	**–**	**6,412**	**–**	**(2,168)**
Net assets	**(206)**	**11,026**	**6,412**	**–**	**17,233**
Equity					
Issued capital and other reserves	17,417	11,110	9,417	2,060	40,005
Accumulated losses	(17,623)	(84)	(3,005)	(2,060)	(22,772)
Total equity	**(206)**	**11,026**	**6,412**	**–**	**17,233**

Notes:

1. Impact of the Offer: As a consequence of the Offer, issued capital and other reserves is expected to increase by US$11.1 million through the issue of new Shares in relation to the Offer of US$12.4 million (assuming a USD:AUD exchange rate of 1.37) less US$1.5 million of the costs of the Offer that are expected to be offset against equity.
2. Convertible Notes to Equity: Hydralyte North America issued Convertible Notes on March 2021 with a total face value of US$6.5 million. The amount recognised as at 30 June 2021 as a financial liability (net of capital raising costs) amounted to US$6.0 million. In the event of a successful IPO, all of the Convertible Notes and any accrued but unpaid interest automatically convert into shares. The pro forma adjustment reflects the conversion of these Convertible Notes and results in (i) a decrease in loans and borrowings of US$6.0 million; (ii) an increase in issued capital of US$9.4 million; (iii) a decrease in trade and other payables of US$0.4 million (reflecting accrued interest); and (iv) an increase in accumulated losses of US$3.0 million, representing interest cost of US$2.5 million and write-off of capitalised capital raising costs of US$0.5 million. In calculating the pro forma adjustment, the Company assumes that the Convertible Notes will be converted in December 2021 with a Conversion Discount of 26%. The USD:AUD exchange rate used for the conversion calculation is 1.33 representing an estimate of the rate which will be used for conversion of these notes.
3. Issuance of incentive options: upon completion of the Offer, the Group plans to issue performance rights and options to reward employee performance. A total of 3.0 million performance rights and 3.5 million options (with an exercise price of AU$0.29) are planned to be issued. In addition, the Group plans to issue 0.2 million performance rights to certain employees to compensate their forgone salaries in 2020 and 2.0 million options (with an exercise price of AU$0.29) to directors on IPO. The pro forma adjustment reflects the issuance costs of performance rights and options to be issued to employees and directors upon completion of the Offer.

4.3.6 Indebtedness

Table 4.7 summarises the net (debt)/cash position as of 30 June 2021, on a statutory basis (before Completion of the Offer) and on a pro forma basis (assuming Completion of the Offer as at that date). A description of Hydralyte North America's current Convertible Notes is provided in Section 9.4.

Table 4.7: Indebtedness as at 30 June 2021

USD in '000s	Statutory 30 June 2021	Pro forma 30 June 2021
Convertible notes	(6,038)	–
Total Borrowings	**(6,038)**	**–**
Cash and cash equivalents	4,460	15,486
Net (debt)/cash	**(1,578)**	**15,486**

The Group has no leases which meet the recognition criteria for a liability under AASB16 on the basis that all leases are short-term in nature, and the lease expense relating to these leases are recognised in the statement of financial performance. Over the period of the Historical and Forecast Financial Information, the Group has only held short-term leases and therefore has not recognised lease liabilities on right-of-use assets. Management does not expect the Group will enter into long-term leases in the near future.

4.3.7 Liquidity and capital resources

Following Completion of the Offer, Hydralyte North America's principal sources of funds are expected to be cash on hand (including the proceeds of the Offer) and revenue generated from operations. Hydralyte North America's primary use of cash is to fund its marketing and product investment including, but not limited to, product and technology development; growth in employee headcount, as well as to fund working capital. Hydralyte North America expect that it will have sufficient cash flow from operations and from the proceeds of the Offer to meet its operational requirements and business needs for at least 12 months following Completion of the Offer. The Group's ability to generate sufficient cash depends on its future performance which, to a certain extent, is subject to a number of factors beyond its control including general economic, financial and competitive conditions.

Hydralyte North America anticipates that it may need to raise additional financing in the future to fund its operations, or to fund acquisitions. In order to meet these additional cash requirements, the Group may seek to sell additional equity or issue debt, convertible debt or other securities that may result in dilution to its Shareholders. If the Group raises additional funds through the issuance of debt or convertible debt securities, these securities could have rights senior to those of its ordinary Shares and could contain covenants that restrict its operations. There can be no assurance that the Group will be able to obtain additional equity or debt financing on terms acceptable to it, if at all. Additional debt financing, if available, would result in increased fixed payment obligations and may involve agreements that include covenants limiting or restricting Hydralyte North America's ability to take specific actions such as incurring debt, making capital expenditures or declaring dividends. Hydralyte North America's failure to obtain sufficient funds on acceptable terms when needed could have a material adverse effect on its business, results of operations and financial condition.

4.3.8 Pro forma consolidated cash flow statements

Table 4.8 sets out a summary of the Statutory and Pro Forma Consolidated Statement of Cash Flows. The pro forma historical statement of cash flows is reconciled to the statutory statement of cash flows in Section 4.3.10.

Table 4.8: Statutory and pro forma historical consolidated statements of cash flows

	Statutory				Pro forma			
USD in '000s	**FY19**	**FY20**	**1H FY20**	**1H FY21**	**FY19**	**FY20**	**1H FY20**	**1H FY21**
Operating activities								
Receipts from customers	3,133	3,523	2,141	2,142	3,133	3,523	2,141	2,142
Payments to suppliers and employees	(5,904)	(7,373)	(4,353)	(5,433)	(6,852)	(8,322)	(4,827)	(5,907)
Interest paid	(11)	(12)	(5)	(17)	(11)	(12)	(5)	(17)
Interest received	–	–	–	–	–	–	–	–
Net cash flows from operating activities	**(2,781)**	**(3,862)**	**(2,217)**	**(3,308)**	**(3,730)**	**(4,811)**	**(2,691)**	**(3,782)**
Investing activities								
Purchase of plant, property and equipment	(20)	(18)	(20)	–	(20)	(18)	(20)	–
Proceeds on disposal of intellectual properties	–	2,750	2,750	–	–	(0)	0	–
Net cash flows from investing activities	**(20)**	**2,732**	**2,730**	**–**	**(20)**	**(18)**	**(20)**	**–**
Financing activities								
Proceeds from the issuance of shares	3,043	–	–	–	3,043	–	–	–
Proceeds from Convertible Notes issue	–	–	–	6,415	–	–	–	–
Capitalised borrowing costs	–	–	–	(326)	–	–	–	–
Net cash flows from financing activities	**3,043**	**–**	**–**	**6,089**	**3,043**	**–**	**–**	**–**
Net increase/(decrease) in cash and cash equivalents	**241**	**(1,130)**	**513**	**2,781**	**(708)**	**(4,829)**	**(2,711)**	**(3,782)**

4.3.9 Pro forma historical consolidated cash flow statements

Table 4.9 sets out the pro forma adjustments that have been made to Hydralyte North America's statutory historical cash flows.

Table 4.9: Pro forma adjustments to statutory historical cash flows

USD in '000s	Note	FY19	FY20	1H FY20	1H FY21
Statutory net cash flow		**241**	**(1,130)**	**513**	**2,781**
Listed company costs	1	(949)	(949)	(474)	(474)
One-off sale of distribution rights	2	–	(2,750)	(2,750)	–
Conversion of Convertible Notes	3	–	–	–	(6,089)
Pro forma net cash flows		**(708)**	**(4,829)**	**(2,711)**	**(3,782)**

Notes:

1. Listed company costs: payments to suppliers and employees includes the Directors' estimate of the incremental annual costs that the Group will incur as an ASX listed entity.
2. One-off sale of distribution rights: proceeds on disposal of intellectual properties include pro forma adjustment to remove the one-off cash proceed from the sale of distribution rights in 1H FY20.
3. Conversion of Convertible Notes: removal of the cash flow as a result of the issuance of Convertible Notes (net of transaction costs) in March 2021.

4.3.10 Reconciliation from net loss after tax to historical net cash flow used in operating activities

Table 4.10 sets out the reconciliation of Hydralyte North America's historical net loss after tax to net cash flow used in operating activities.

Table 4.10: Statutory and pro forma historical cash flow reconciliation

	Statutory				Pro forma			
USD in '000s	FY19	FY20	1H FY20	1H FY21	FY19	FY20	1H FY20	1H FY21
Reconciliation of net profit/(loss) after tax to net cash flows from operations								
Net profit/(loss) for the year	(3,434)	(743)	1,065	(2,206)	(5,747)	(5,806)	(2,842)	(3,105)
Adjustments for								
Depreciation and amortisation expense	12	23	15	3	12	23	15	3
Unrealised foreign currency gains/(losses)	23	247	143	(158)	23	247	143	(158)
Non-cash employee benefits expense	178	75	38	–	1,541	1,439	719	682
Employee share reserve					–	–	–	–
Inventory provision	(435)	(93)	(95)	1	(435)	(93)	(95)	1
(Gain) on sale of assets	–	(2,750)	(2,750)	–	–	–	–	–
Accrued interest expenses of convertible notes			–	187	–	–	–	–
Amortisation of capitalised debt-raising costs			–	70	–	–	–	–
Changes in assets and liabilities								
(Increase)/decrease in trade and other receivables	(82)	(192)	390	(224)	(82)	(192)	390	(224)
Decrease/(increase) in inventories	718	(717)	195	(409)	718	(717)	195	(409)
Decrease/(increase) in other assets	49	(341)	(507)	(485)	49	(341)	(507)	(485)
Decrease/(increase) in provisions	13	(41)	(44)	1	13	(41)	(44)	1
(Increase)/decrease in trade and other payables	178	669	(667)	(89)	178	669	(667)	(89)
Net cash flows from operating activities	**(2,781)**	**(3,862)**	**(2,217)**	**(3,308)**	**(3,730)**	**(4,811)**	**(2,691)**	**(3,782)**

4.3.11 Qualitative disclosures about foreign exchange risk

Items included in the financial statements of each of the Group's entities are measured using the functional currency, that being the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in United States dollars, which is the presentation currency.

Hydralyte North America transacts in various currencies other than the Group's reporting currency, including the Australian dollar, Swiss franc and the Canadian dollar. Hydralyte North America has not historically hedged its foreign currency exposure and as a result earnings are exposed to the net impact of movements in foreign exchange rates on sales, deferred revenue, accounts receivable, employee expenses and purchases in the foreign currencies in which the transactions occur.

Hydralyte North America has foreign currency bank accounts, receivables and payables that are denominated in a currency other than the United States dollar reporting currency and holds investments in overseas subsidiaries which are not hedged, any foreign exchange rate movements in respect to the translation of currencies are recognized in the statement of financial performance. Any foreign exchange rate movements in respect to the functional currency in which the net investment in foreign subsidiaries are held are recognised in the foreign currency translation reserve.

4.4 Management discussion and analysis of Pro Forma Historical and Pro Forma Forecast Financial Information

4.4.1 General factors affecting the operating results of Hydralyte North America

This Section 4.4 sets out a discussion of the key factors which affected the Group's operating and financial performance during FY19, FY20, 1H FY20, 1H FY21, LTM Sep-20 and LTM Sep-21F. The discussion of these factors is intended to provide a brief summary only and does not detail all the factors that affected the Group's historical pro forma financial performance, or may affect the Group's future pro forma financial performance.

Revenue and earnings in the historical period were impacted by lockdowns as a result of the ongoing COVID-19 pandemic throughout Hydralyte North America's key markets, being the United States and Canada. The impact of COVID-19 is discussed in Section 4.4.8.

4.4.2 Revenue

The Group's historical revenues primarily derived through sales income from the distribution of Hydralyte North America products in the United States and Canada. Revenues are reported as net sales which represents gross sales less deduction of any sales allowances and discounts.

4.4.3 Cost of sales and operating expenses

Key operating expense categories of the Group are set out below:

- Cost of sales – represent the material, labour, packaging, and inbound freight costs associated with the manufacture of Hydralyte North America products.
- Marketing expenses – represents the cost for brand and sales channel activation to support the awareness of the brand and its products and to acquire and secure new customers for Hydralyte North America products.
- Administrative expenses – represents the office overheads and distribution and warehousing costs.
- Employee benefits expense – represents the salaries, benefits, share base payments and bonuses for the Group.

4.4.4 Depreciation and amortisation

Depreciation and amortisation are non-cash items that predominantly relate to:

- Depreciation of fixed assets, largely comprising computers and office equipment; and
- Amortisation of limited life intangible assets, comprising intellectual property and patents.

4.4.5 Tax

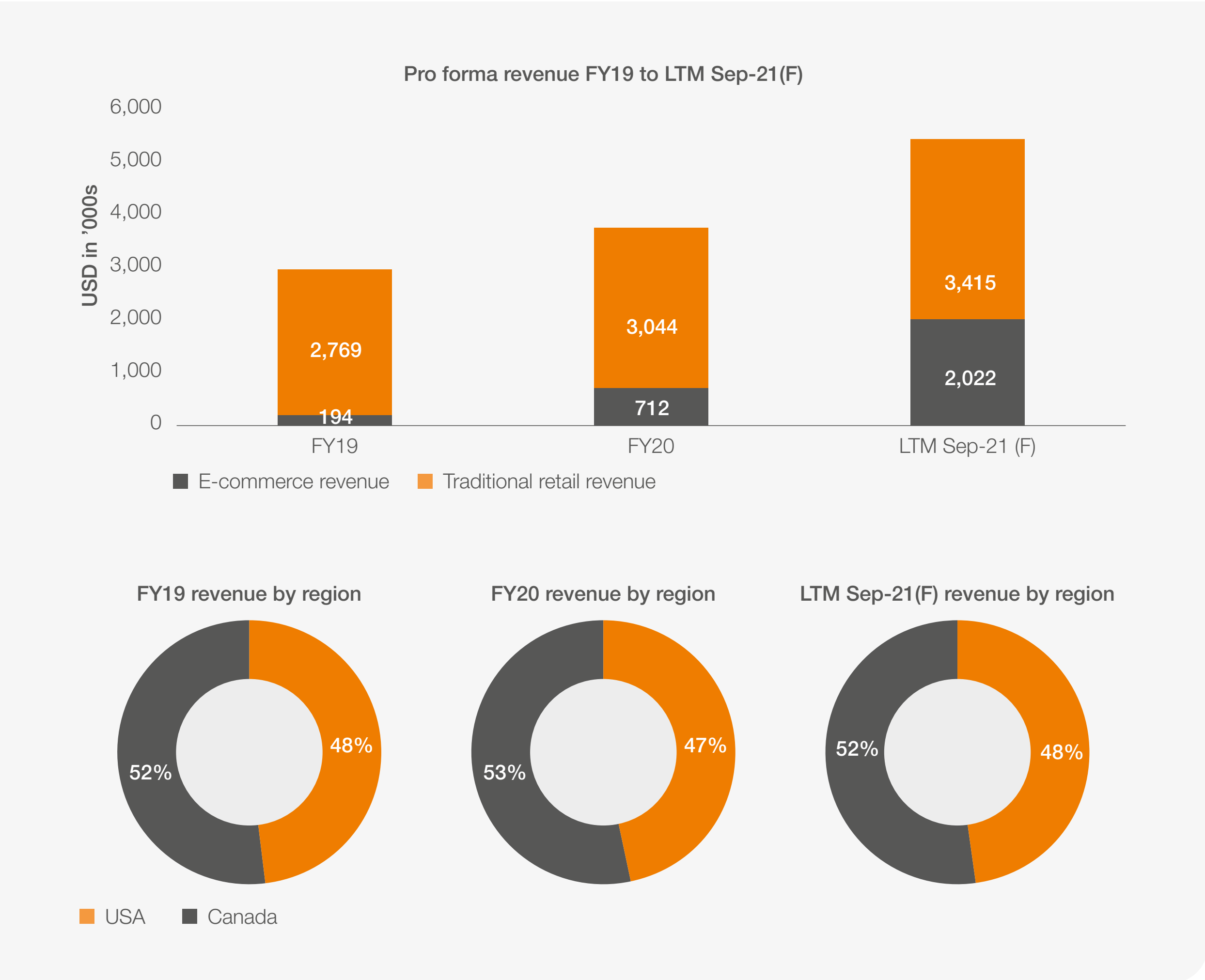
The primary jurisdictions in which the Group operates and the FY20 headline corporate tax rates applicable in those jurisdictions are Australia (30%), the United States (21%) and Canada (38%), which do not take into account any specific tax incentive schemes in each jurisdiction or any potential tax rate reduction at the provincial level. Due to the incurrence of tax losses in Australia, the United States and Canada over the historical period, no income tax should be payable in these jurisdictions relating to those historical periods.

4.4.6 Revenue

The Group generates revenue entirely from the sale of Hydralyte North America products in the United States and Canada through retail and e-commerce channels. Revenue is driven by a number of factoring that include:

- The growth of the market demand for hydration supplement products in the United States and Canada;
- The expansion of sales and distribution channels for Hydralyte North America products;
- The success of the Group's strategies;
- Commercialisation of new products;
- The trade terms and discounts agreed with major retailers, and discounts applied to e-commerce sales.

Table 4.11: Pro forma revenue FY19 to LTM Sep-21F



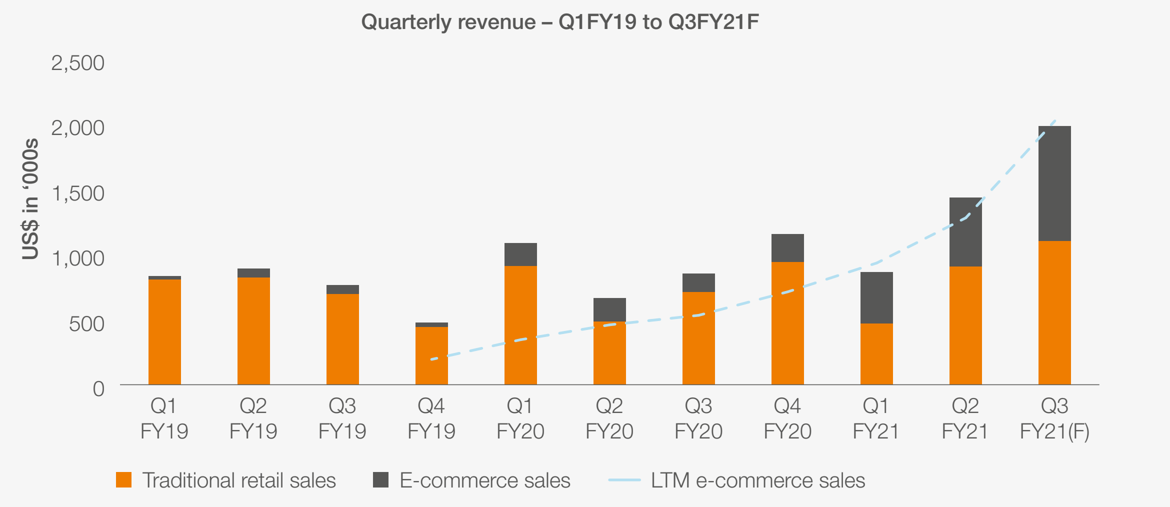
Comparing FY19 to FY20, revenue increased by 26.8% (US$0.8 million), from US$3.0 million in FY19 to US$3.8 million in FY20. This revenue increase was driven by both US$0.5 million growth in the e-commerce channel in the United States and Canada and US$0.3 million growth from the traditional retail channel. Revenue from the United States accounted for 46.8% (US$1.8 million) of total revenue in FY20, an increase of US$0.2 million relative to FY19. The revenue increase in FY20 was driven by the sales growth from the e-commerce channel, winning new retail customers and growth in existing customers. Revenue from Canada accounted for 53.2% (US$2.0 million) of total revenue in FY20, with an increase of US$0.4 million compared to FY19. This increase was driven by the launch of the e-commerce channel in February 2020. In addition, the onset of the COVID-19 pandemic further impacted demand for Hydralyte's products in key markets. The impact of the COVID-19 pandemic is discussed in detail below.

In 1H FY21, revenue increased by 31.4% (US$0.5 million) from US$1.8 million in 1H FY20 to US$2.3 million in 1H FY21. In 1H FY21, revenue in the United State was US$1.1 million and increased by 42.7% driven by the sales growth in the e-commerce channel. For 1H FY21, revenue in Canada was US$1.2 million and increased by 22.8%, also driven by e-commerce growth.

Revenue for LTM Sep-21F is forecast to increase by 76.5% (US$2.4 million) to US$5.4 million compared to LTM Sep-20. This increase is expected to be driven by US$1.5 million (279.7%) growth in e-commerce channels in the United States and Canada and US$0.9 million (34.1%) growth in the retail channels. The strong growth forecast in e-commerce sales is a result of the growth in volumes across Amazon.com and Amazon.ca and the commercialisation of new products.

4.4.7 E-commerce sales

Table 4.12: Quarterly revenue by channel



E-commerce revenue is expected to grow as a percentage of total revenue from 16.2% or US$0.2 million in Q1 2020 to 44.5% of revenue or US$0.9 million in Q3 FY21 (F).

Amazon.com and Amazon.ca are Hydralyte North America's fastest growing sales channels. The Group also operates e-commerce stores through Hydralyte North America's company websites in the United States and Canada. The proportion of revenue from the e-commerce channel has grown from 6.5% in FY19 to 19.0% in FY20. During the COVID-19 pandemic, Hydralyte North America has observed strong e-commerce revenue growth as discussed in Section 4.4.8. e-commerce revenue has grown compared to the prior comparable quarter in all quarters during FY20 and LTM Sep-21F. This growth reflects the growing customer base and order volume that began in early 2020.

4.4.8 Revenue seasonality and impact of COVID-19

Table 4.13: Quarterly revenue – FY19 to Q3FY21F

	FY19				FY20				FY21		
USD in '000s	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3(F)**
E-commerce revenue	25	67	67	34	176	181	141	214	397	527	883
Traditional retail revenue	808	822	696	442	909	484	712	939	468	907	1,100
Net sales	**834**	**889**	**764**	**476**	**1,086**	**665**	**853**	**1,154**	**866**	**1,434**	**1,983**
Growth % vs pcp – e-commerce					595.5%	169.8%	109.4%	524.8%	125.4%	191.3%	526.9%
Growth % vs pcp – traditional					12.5%	(41.1%)	2.2%	112.5%	(48.5%)	87.4%	54.5%
Growth % vs pcp – total					30.2%	(25.2%)	11.7%	142.2%	(20.3%)	115.7%	132.6%

Hydralyte North America typically generates a higher portion of its revenue in Q2 and Q3 of each financial year due to the timing of summer season in North America which results in higher consumer demand for hydration products. Q2 and Q3 generated approximately 55.8% of annual sales in FY19.

COVID-19 has driven volatility in both online e-commerce and retail sales. The impacts of COVID-19 significantly altered the seasonality profile of the Group's revenue in FY20 and FY21. The impacts on a quarterly basis are as following:

- Q1 FY20: COVID-19 onset in North America resulted in 'pantry stocking' and positively impacted consumer demand through both the e-commerce and retail channels and led to 30.2% revenue growth versus the Prior Comparable Period (Q1 FY19).
- Q2 FY20: the retail channel was adversely affected by lockdowns in the United States and Canada driving a 41.1% decline versus Prior Comparable Period. During this quarter, e-commerce revenue grew by 169.8% versus the Prior Comparable Period, supported by the launch of new products focused on immune health.
- Q3 and Q4 FY20: travel restrictions gradually relaxed in North America with improved sales through the retail stores (2.2% and 112.5% versus Prior Comparable Period, respectively). The Group continued to experience high demand for Immunity products and increased e-commerce revenue.
- Q1 and Q2 FY21: the COVID-19 vaccine roll-out in the United States led to more foot traffic in retail stores. However, Canada (especially Ontario) went through additional lockdowns from December 2020 to May 2021 which negatively impacted revenue in these retail channels.
- Q3 FY21F: travel restrictions in Canada were eased in May 2021, which saw an increase in sales to traditional retail. The Group's forecast e-commerce revenue continues to increase in Q3 FY21F given growing consumer demand and growth in volumes to key e-commerce customers.
- Despite seasonality and certain COVID impacts, through the entire period of Q1 FY20 through Q3 FY21 the company has experienced significant growth in the e-commerce channel, with e-commerce expected to make up 44.5% of revenue or US$0.9 million in Q3 FY21 (F), up from 16.2% or US$0.2 million in Q1 2020.
- Given the impacts of the COVID-19 pandemic on recent sales trends, management does not expect that the current rate of quarterly e-commerce revenue growth is indicative of likely future growth.

4.4.9 Cost of sales

Cost of sales from FY19 to FY20, including procurement costs of raw materials and finish goods, increased as a percentage of sales by 10.9ppt, from 53.6% in FY19 to 64.5% in FY20. Some factors impacting cost of goods sold in FY20 during COVID were freight rates, supply chain interruptions causing needs to air freight, and higher unit costs for new products due to lower order volumes. Many of these factors have been or will be mitigated in FY21 with new suppliers, volume discounts and supply chain management.

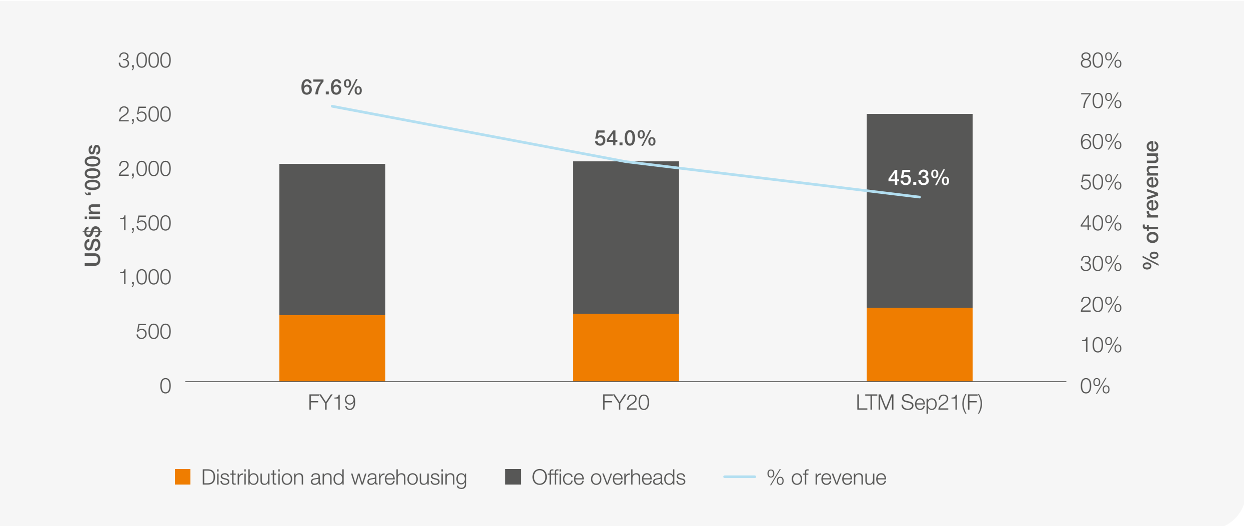
For LTM Sep-21F, cost of sales as a percentage of revenue is forecast to decrease to 58.4%, and further decrease to an average of 53.3% in 1H FY21 as supply chain anomalies around COVID-19 begin to fade and as Hydralyte North America gains production discounts with increased volume on key products.

4.4.10 Gross profit margin

Gross profit margin percentage is expected to increase from 40.2% to 41.6% from LTM Sep-20 to LTM Sep-21F for the reason described in the Cost of goods sold section above. 1H FY21 gross profit margin percentage has increased to 46.7% comparing to 23.0% in 2H FY20.

4.4.11 Administrative expenses

Table 4.14: Administrative expenses



Administrative expenses include office overheads and distribution and warehousing costs. Office overheads include legal, audit and tax costs, insurance costs, board fees, occupancy costs, bank fees, regulatory and other administrative expenses. Distribution and warehousing costs included freight, case handling and warehousing costs.

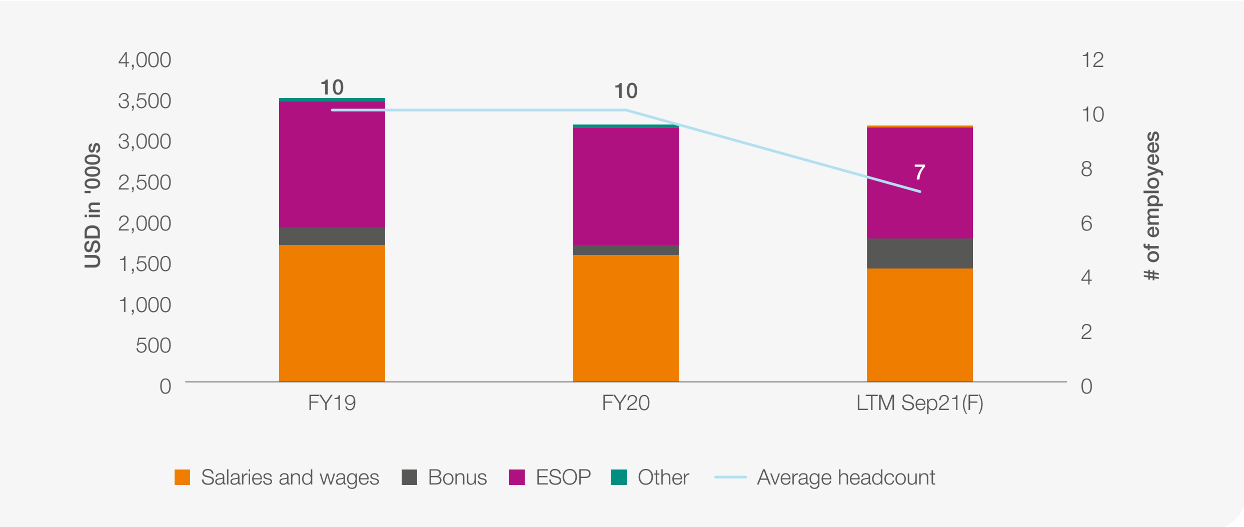
In FY20, administrative expenses were in line with FY19 at US$2.0 million. As a ratio of revenue, administrative expenses reduced from 67.6% to 54.0% in FY20.

In 1H FY21, administrative expenses were at US$1.0 million and stable relative to 1H FY20. As a ratio of revenue, the proportion of administrative expenses decreased from 58.3% in 1H FY20 to 47.1% in 1H FY21 as a result of the growth in revenue.

In LTM Sep-21F, administrative expenses are forecast to grow by US$0.4m to US$2.5 million compared to LTM Sep-20 due to increased distribution costs associated with growing revenue. In addition, the Group also forecasts an increase in professional services fees and general corporate overheads reflecting the investment in control and improving the robustness of the corporate structure. As a ratio of revenue, administrative expenses are forecast to decrease from 68.0% in LTM Sep-20 to 45.3% in LTM Sep-21F reflecting improved operating leverage of the business.

4.4.12 Employee benefits expense

Table 4.15: Employee benefits expense



Employee benefits expense includes the salaries, benefits, share base payments and bonuses for the Group.

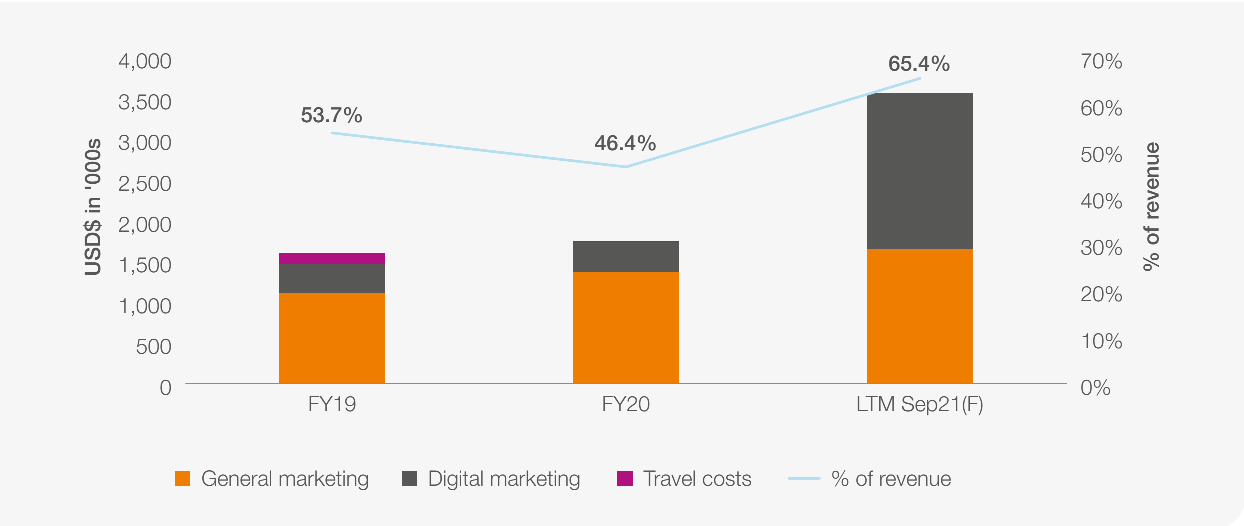
Through FY19 and FY20, the Group's overall average headcount has been stable at approximately 10 employees. Employee benefit expenses decreased by 9.4% (US$0.3 million) from US$3.5 million in FY19 to US$3.2 million in FY20 as the Group introduced a temporary 10% salary reduction to the leadership team during COVID-19 from Apr-20 to Dec-20.

In 1H FY21, employee benefits expenses were US$1.6m, a decrease of 3.8% (US$0.1 million) from 1H FY20. The overall headcount has declined from 10 in 1H FY20 to 7 in 1H FY21. The decrease during this period was primarily driven by leaves of absence of employees.

In LTM Sep-21F, employee benefits expenses are forecast to decline by 4.3% (US$0.1 million) compared to LTM Sep-20 as the reduction in headcount and employees are on leaves of absence.

4.4.13 Marketing expenses

Table 4.16: Marketing expenses



Marketing includes all the costs associated with selling and marketing Hydralyte North America products which include general marketing for advertising, trade shows, listing fees, external sales consultant costs, digital marketing for social media and digital advertising. The Group's sales and marketing organisation is comprised of five employees. The team is supported by external consultants who provide marketing support to the e-commerce and retail channels.

In FY20, marketing expenses were US$1.7 million. The increase in marketing expenses during this period was driven by the business initiative to invest in digital marketing from the second half of FY20 to drive new product launches and digital marketing in social media and online marketplaces (e.g. Amazon, Facebook, Google Ads). However, as a percentage of revenue, marketing expenses decreased from 53.7% of FY19 revenue to 46.4% of FY20 revenue.

In 1H FY21, marketing expenses increased from US$0.9m in 1H FY20 to US$1.6m in 1H FY21, reflecting the Group's ongoing investment in digital marketing to support its e-commerce sales channel. Marketing expenses as a percentage of revenue increased from 48.8% in 1H FY20 to 70.4% in 1H FY21 reflecting management's decision to support new product launches and to grow brand awareness in the online e-commerce sales channels. This investment in digital marketing is reflected in the LTM Sept-21F where marketing expenses are forecast to increase by 130.7% (US$2.0 million) to US$3.6 million.

4.4.14 Loss for the period

Loss for the periods FY19 to FY20 increased by US$0.1 million from a net loss of US$5.7 million in FY19 to a net loss of US$5.8 million. Loss for the periods 1H FY20 to 1H FY21 increased by US$0.3 million from US$2.8 million in 1H FY20 to US$3.1 million in 1H FY21 due to an increase in marketing expenses. The Group forecasts a net loss of US$6.7 million in LTM Sep-21F, an increase of US$0.8 million from LTM Sep-20 as the Group continues to invest in digital marketing and build up its corporate governance structure.

4.5 Assumptions underlying the Forecast Financial Information

As discussed in Section 4.2, the Forecast Financial Information for LTM Sep21F is based on actual trading for the 11 months to 31 August 2021 and a forecast for the one month period to 30 September 2021.

The Forecast Financial Information is based on various general and specific assumptions, including those set out in this Section 4.5. In preparing the Forecast Financial Information, Management has undertaken an analysis of historical performance and applied assumptions where appropriate to forecast future performance for the period to 30 September 2021. The Directors believe that they have prepared the Forecast Financial Information with due care and attention and consider all assumptions when taken as a whole to be reasonable at the Prospectus Date.

The Forecast Financial Information has been prepared based on the significant accounting policies adopted, which are in accordance with AAS.

4.5.1 General assumptions

In preparing the Forecast Financial Information, the Directors have adopted the following general assumptions:

- no material changes in the current competitive environment or current economic conditions in which the Group operates;
- no material changes from current government regulations or policies which impact the Group's business or customers;
- no significant interruptions, industry disturbances or disruptions in relation to the Group's operating model;
- no material amendment to any material contract, agreement or arrangement relating to the Group's business;
- no material industrial actions or other disturbances, environmental costs or legal claims;
- no material cash flow or consolidated income statement or financial position impact in relation to litigation (existing or otherwise);
- no material changes in key personnel, including key management personnel, and the Group is able to continue to recruit and retain personnel which will be required to support future growth;
- no material change in the Group's corporate or funding structure other than as set out in, or contemplated by, this Prospectus;
- no material unexpected change in applicable AAS, the Corporations Act or other mandatory professional reporting requirements which have a material effect on the Group's financial performance or cash flows, financial position, accounting policies, financial reporting or disclosures;

- no material acquisitions, divestments, restructuring or investments other than as set out in, or contemplated by, this Prospectus; and
- none of the key risks listed in Section 5 occurs, or if they do, none of them has a material adverse impact on the Group's operations.

4.5.2 Exchange rates used

Financial Information has been prepared on the basis of the exchange rates versus the U.S. dollar (where applicable) as summarised below:

Per USD $1	Sep21 (F)
Canadian Dollar	0.78

4.5.3 Specific assumptions

The Forecast Financial Information is based on various best estimate assumptions for the month of September 2021, including those set out below.

In preparing the Forecast Financial Information, Management has analysed historical performance including the current rates of revenue and expenses and applied assumptions, where appropriate, across the business. The assumptions set out below should be read in conjunction with the risk factors set out in Section 5, the significant accounting policies set out in Appendix A and other information contained in this Prospectus. The Investigating Accountant's Report set out in Section 8 also covers the Forecast Financial Information as set out in this Section.

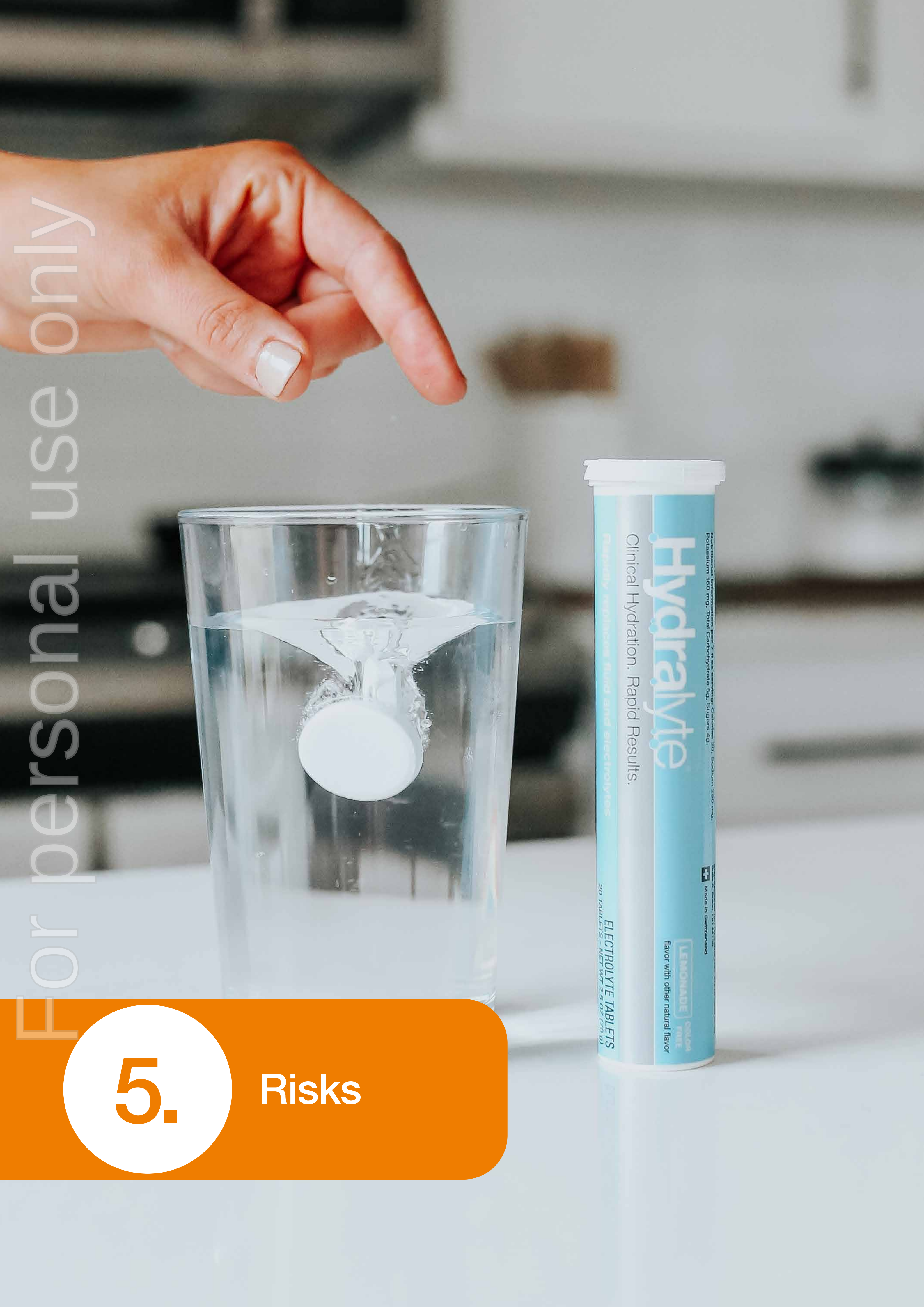
Table 4.17: Specific assumptions for the month of September 2021

Revenue assumptions	• Total sales forecast for September 2021 of US$0.4 million represents 23.0% growth on sales achieved in September 2020. • The forecast e-commerce revenue for September 2021 of US$0.2 million reflects the 2 weeks run rate of the month to date online orders from the e-commerce channel. • The forecast revenue from the traditional retail channel for September 2021 of US$0.3 million reflects invoices raised up to 16 September 2021 and management's estimate of open orders to be shipped from warehouses in September 2021.
Gross margin assumptions	• The Group's gross profit margin for September 2021 is forecast at 30.3%. This represents a decline from 46.7% achieved in 1H FY21 due to wholesale discounts with CVS new product pipe fill, lowering net sales relative to cost of sales.
Expense assumptions	• Administrative expenses are forecast to be US$0.3 million for September 2021 based on the current run rate up to August 2021. • Employee benefits expense is forecast to be US$0.1 million for September 2021 based on the current headcount and the actual employee benefits expense incurred in August 2021. • Marketing expenses are forecast to be US$0.6 million for September 2021 which is based on management's digital marketing budget and forecast general marketing costs.

The forecast for the LTM September 2021 period reflects 1 month of forecast results for the month of September 2021. The forecast for September 2021 has been compared to the unaudited draft management results for the month, with no material variance noted. As such no quantitative sensitivity disclosure has been included.

4.5.4 Dividend policy

The policy of the Company is to reinvest all cash flow into the business in order to maximise its growth. Accordingly, no dividends are expected to be paid in the near term following the Company's listing on the ASX. The payment of a dividend by Hydralyte North America, if any, is at the discretion of the Directors and will be a function of several factors (many of which are outside the control of the Directors), including the general business environment, the financial results of the business, cash flows and financial condition of Hydralyte North America, future funding requirements, considerations, and any contractual, legal or regulatory restrictions on the payment of dividends by Hydralyte North America. The Directors do not provide any assurance of the future level of dividends paid by the Company.


Hydralyte
Clinical Hydration. Rapid Results.
ELECTROLYTE TABLETS
LEMONADE
flavor with other natural flavor
Made in Switzerland

5. Risks

5. Risks

5.1 Introduction

This Section 5 describes the potential risks associated with Hydralyte North America's business and an investment in Shares. It does not list every risk that may be associated with the Company or an investment in Shares now or in the future, and the occurrence or consequences of some of the risks described in this Section 5 are partially or completely outside the control of Hydralyte North America, the Directors and the Management team.

The selection and order of risks has been based on an assessment of a combination of the probability of the risk occurring, the ability to mitigate the risk and impact of the risk if it did occur. The assessment is based on the knowledge of the Directors and Management team as at the Prospectus Date. There may be other risks which Directors are unaware of at the time of issuing this Prospectus which may impact on the Company, its operations or the valuation and performance of the Shares. The importance of different risks may change and other risks may emerge in the future.

Before applying for Shares, any prospective investor should be satisfied that they have a sufficient understanding of the risks involved in making an investment in Hydralyte North America and should consider whether the Shares are a suitable investment, having regard to their own investment objectives, financial circumstances and taxation position. If you do not understand any part of this Prospectus or are in any doubt as to whether to invest in the Shares, it is recommended that you seek professional guidance from your stockbroker, solicitor, accountant, tax adviser or other independent and qualified professional adviser before deciding whether to invest.

5.2 Risks specific to the nature of the Company's operations

5.2.1 Hydralyte North America is a small player in a competitive industry

Hydralyte North America operates in a highly competitive geographic and product market, particularly with regards to:

- prices at which products are sold;
- shelf space and store placement;
- brand and product recognition; and
- new product introductions.

The Company currently has a small share of the Healthy Hydration Solutions Market in North America and will need to boost its brand and product recognition in what is a highly competitive industry in order to grow its market share and meet its future growth objectives.

Hydralyte North America competes with other larger brands and products for retail and digital shelf space at its sales channels, and many of its competitors are multinational corporates and other large hydration brands, most of whom have significantly more access to capital and resources. In addition, the Company faces potential competition from its indirect competitors, who are not currently operating in the Healthy Hydration Solutions Market but have financial resources and access to manufacturing and distribution channels to rapidly enter the market in due course.

Should any of Hydralyte North America's current or future competitors participate more aggressively on price, product, innovation or other means, or if Hydralyte North America is unable to attain its targeted level of brand and product recognition, this is likely to have a material adverse impact on the Company's future financial performance and prospects.

5.2.2 Reliance on third party supply chain

Hydralyte North America relies on its supply chain to manufacture and distribute its products (see Section 3.6 for further details).

Hydralyte North America may experience disruptions to its supply chain, including specific examples as follows.

(a) Shortage of raw materials or packaging adversely affecting supply

The availability and price of the raw ingredients and packaging used in Hydralyte North America's products are influenced by global demand and supply factors outside of Hydralyte North America's control, and may be impacted by a wide range of factors, such as COVID-19 (see Section 5.2.3), the manufacturers' relationships with their suppliers, labour shortages or events such as natural disasters, power outages or disruptions to shipping routes (such as the recent Panama Canal blockage). Any disruption in the supply of raw materials required to manufacture and package the Company's products may adversely affect the Company's ability to procure sufficient volumes of products to meet demand and may also lead to cost increases.

(b) **Manufacturing risks and supply constraints**

Hydralyte North America's relationships with its existing suppliers are not exclusive, and its suppliers also have relationships with third parties (including Hydralyte North America's competitors). Hydralyte North America's current third-party suppliers may cease their supply to Hydralyte North America – for example, as a result of a breakdown in relationship, manufacturing outage, failure to negotiate appropriate terms, the supplier ceasing trading due to financial difficulties, or the supplier failing to supply or distribute products at an adequate quality or in a timely fashion. Further, supply constraints may emerge as a result of increased demand for the contracting manufacturing services of the Company's suppliers.

If a third-party supplier ceases supplying products or services to Hydralyte North America in a timely manner and an alternative supplier is not readily available to produce identical products at similar cost levels, and inventory (including any safety stock) is depleted, Hydralyte North America may not be able to source alternative products immediately or, if it can do so, it may be on less favourable terms. This could have an adverse impact on the Company's ability to meet current and anticipated future consumer demand, and on the operating and financial performance of the Company.

(c) **Distribution and logistics risks**

Hydralyte North America may be adversely impacted by disruptions to the distribution of its products. Distribution and logistics disruptions may be caused by a wide range of factors, including those affecting the supply of raw materials (see above) and other factors such as an increased demand for warehousing and logistics services as a result of the growth in e-commerce. A shortage of labour (for example, as a result of COVID-19) may also adversely impact the Company's supply chain – there may be insufficient labour to transport, warehouse, package and ship the Company's products in a timely manner.

Logistics disruptions may lead to increased costs, loss of margin or an inability to procure sufficient quantities of manufactured goods in a timely fashion to meet demand.

(d) **Labour shortages**

Labour shortages or increased labour costs could have a material adverse effect on Hydralyte North America's business, financial condition and results of operations. Increased labour costs may arise as a result of increased competition for employees, higher employee turnover rates, unionisation of workers, increases in the federal, state or local minimum wage or other employee benefits costs (including costs associated with health insurance coverage in the United States). These will primarily be incurred by the Company's manufacturers or other third-party suppliers, but may be passed on to the Company and, in turn, may result in increases to the Company's operating expenses. These increased costs may not be able to be passed on to the customer or, alternatively, if prices are increased to cover increased labour costs, the higher prices could adversely affect sales and thereby reduce the Company's financial performance.

(e) **Inability to pass on increased costs**

The costs of manufacturing and shipping the Company's goods may increase and there is no guarantee that the Company will be able to pass on increased costs to its customers (particularly if any costs increases are material). Hydralyte North America may be required to increase the prices of its products to pass on cost increases, which may affect the affordability of the Company's products and reduce sales. Furthermore, the ability and speed with which Hydralyte North America can respond to cost increases by adjusting the prices charged to its customers or sourcing more competitively priced materials may be limited and may result in lower margins on the sale of its products.

5.2.3 Impact of COVID-19 and other health crises

COVID-19 has brought significant volatility in global financial markets and has impacted many aspects of life and the economy, in the United States, Canada and around the world. There is continued uncertainty as to the ongoing and future response of governments and authorities globally as well as the potential for an economic downturn of unknown duration or severity. As such, the full impact of COVID-19 to consumer behaviour, suppliers, the labour market and the Company is not fully known. Given this, the future impact of COVID-19 could potentially be materially adverse to the Company's financial and operational performance. Further, any government or industry measures may adversely affect the Company's operations and are likely beyond its control.

A detailed description of the impact of COVID-19 on the Company's business as at the Prospectus Date is set out in Section 3.10. In particular, the following risks apply:

(a) Government restrictions

Due to COVID-19, many Governments worldwide (including in both Canada and, to a lesser extent, the United States) imposed quarantines, restrictions on travel and mass gatherings, and "shelter-in-place" restrictions which have, and may continue to, disrupt the operations of Hydralyte North America's business and the demand for its products. There is a risk that such restrictions will persist or additional restrictions will be implemented, which may disrupt Hydralyte North America's retail and warehouse operations.

Government restrictions on retail stores may reduce the numbers of customers purchasing through those channels, which may reduce sales, and restrictions on warehouse operations may impact Hydralyte North America's ability to fulfil orders in a timely manner or at all. Such restrictions may, directly or indirectly, have a material adverse impact on the financial and operational performance of Hydralyte North America.

Further, Government restrictions may also result in an increasing reliance on technology to communicate with staff members, which may impact on the Company's ability to attract and motivate its employees.

(b) COVID-19 labour market and supply chain impact

The spread of COVID-19 has had an impact on the Company's supply chain and there is a risk of future, material disruptions to the Company's supply chain. This could occur if: (i) the transport of products between countries is disrupted; (ii) the Company's key suppliers are negatively affected; or (iii) the Company is otherwise unable to efficiently distribute products to retailers and customers. In the event that Hydralyte North America's supply chain is disrupted, this may have a material adverse effect on the Company's financial and operating performance.

5.2.4 Reliance on sales channels such as retailers and online distribution partners

Hydralyte North America distributes a significant number of its products to end consumers through various sales channels, including US retailers such as Rite Aid and Walmart and online via Amazon's Marketplace. The Company depends on continued access to its sales channels in order to connect with its customers. There can be no guarantee that the Company's relationships with key channel partners will continue, or, if they do continue, that they will operate on the same terms and, in respect of retailers, that they will purchase the same, similar or greater quantities of Hydralyte North America's products as they have historically.

In addition, large retailers are generally sophisticated organisations with strong negotiating power that are able to resist price increases, demand increase promotional programs or demand a higher proportion of the sale price as its margin. Retailers may also decrease the number of brands that they carry, increase the emphasis on private label products, or make a range of other decisions regarding their retailing configuration, which may impact the Company's product display at that location.

In respect of Amazon, all products sold via Amazon's Marketplace are subject to Amazon's terms and conditions and operational systems.

Due to the Company's lack of control over Amazon and other retailers' processes, there is a risk that customers may have a negative purchasing experience of Hydralyte North America's products, or the products may not be displayed or marketed in line with the Company's preferences. This may reduce customer engagement with Hydralyte North America's brands and damage its reputation.

Further, if Hydralyte North America is unable to effectively negotiate commercial terms with its channel partners and retailers, or if they cease carrying Hydralyte North America's products or cease operations, the Company's financial performance and prospects would be materially and adversely affected.

5.2.5 Intellectual property risks

Hydralyte North America regards its brands, trademarks, domain names, trade secrets, propriety information and similar intellectual property (**IP**) as important to its success. The Company owns certain parts of its IP and licences further IP rights under the IP Licence Deed (see Section 9.5.2 for more information).

(a) Limited IP rights in products

Due to the nature of Healthy Hydration Solutions products, the breakdown of active ingredients and product recipes remains broadly consistent across all competitor products and is generally clearly signposted on a product's packaging. In addition, Hydralyte North America's product formulation is built on the WHO formulation for optimal absorption, which is publicly known information. Accordingly, there is limited scope for Healthy Hydration Solutions products, and Hydralyte's products in particular, to obtain IP protection for product formulations.

There is a risk that a competitor may release a similar or identical product to a Hydralyte North America product, against which the Company may have little or no recourse. Further, if a manufacturer ceases supplying products or services to Hydralyte North America, the Company may be unable to establish a replacement manufacturer who is capable of producing an identical product. This may result in some disruption to the Company's product range. Any of these events may have a material adverse effect on the Company's financial and operational performance.

(b) Reliance on IP Licence Deed

The Company has access to certain of its IP through the IP Licence Deed with Care Pharmaceuticals (**Licensed IP**). The arrangement grants the Company a perpetual, irrevocable licence to use the Licensed IP to sell its products on an exclusive basis, and to manufacture, modify, adapt and otherwise exploit the products on a non-exclusive basis; each in the Company Territories. The Licensed IP includes the following IP that was held by the Company in the Care Territories:

- materials related to the Hydralyte business and products protected by copyright (such as website content, packaging and promotional materials);
- intellectual property related to manufacturing of the Hydralyte products as they existed at the time of completion of the sale of the Licensed IP to Care Pharmaceuticals; and
- any other intellectual property the Company owned relating to the Hydralyte business and products, including confidential information, technical information and know-how.

While the IP Licence Deed is irrevocable and does not contain express termination rights, there is a risk that Care Pharmaceuticals may seek to terminate the agreement following a material breach by the Company. If this was to occur and the termination was held to be valid, this would have a material detrimental impact on the Company's branding, reputation, future prospects and financial performance.

(c) Inability to protect Licensed IP and other IP

The Company's IP is at risk of unauthorised use or disclosure. While the Company holds registered trade marks for the Hydralyte brand in various jurisdictions, much of its other IP is not protected (or capable of being protected) through other forms of registered intellectual property rights (such as patent or design registrations). Where this IP is licensed from Care Pharmaceuticals, both the Company and Care Pharmaceuticals have responsibilities to protect unregistered intellectual property through confidentiality. For the rest of the Company's IP (including new original formulations and derivations which are independent to the Licensed IP), the Company will be responsible for protecting its own intellectual property.

To enforce its IP rights, the Company may have to commence legal proceedings against third parties who infringe its rights. Such intellectual property litigation is expensive and time consuming, and may divert valuable resources from and disrupt the conduct of its business.

The Company or Care Pharmaceuticals' failure to enforce their intellectual property rights could diminish the value of its brands and products and harm Hydralyte North America's business, future growth prospects and financial and operating performance. A significant failure by the Company to enforce its intellectual property rights may also cause Care Pharmaceuticals to seek to terminate the IP Licence Deed.

5.2.6 No contracts with customers

Hydralyte North America's performance and growth is dependent on maintaining its existing customers and securing new customers. Hydralyte North America generates its revenue from uncontracted customer relationships, using the Company's or the customer's standard terms and conditions and purchase orders and invoices. These supply arrangements, which are consistent with the typical terms of supply for participants in the FMCG industry, typically have no minimum volume requirements and can be varied or terminated by the customer on short notice (or no notice) and without penalty.

The Company may be unable to maintain its uncontracted relationships on commercially viable terms, which – given the low proportion of contracted revenue – could materially adversely affect its revenue and profitability if the Company was unable to find other sources of revenue.

5.2.7 Foreign exchange rate risk

Hydralyte North America pays for its products in United States dollars and Swiss francs, generates revenue in United States dollars and Canadian dollars and reports in United States dollars.

The Company's financial statements are presented in United States dollars, and the Company and its subsidiaries must translate its assets, liabilities, revenue and expenses into United States dollars for external reporting purposes. As a result, significant changes in the value of the United States dollar during a reporting period (in particular, any material depreciation against the Australian dollar, the Canadian dollar or the Swiss franc) may unpredictably and adversely impact the Company's operating results, asset and liability balances and cash flows.

5.2.8 Reliance on key personnel

Hydralyte North America's performance reflects, to a large extent, the efforts and abilities of its senior Management team. While these executives are party to an employment contract with Hydralyte North America, under the terms of these contracts each executive is permitted to terminate the contract upon a certain notice period. Currently Hydralyte North America employs a highly experienced and dedicated senior Management team; any loss of senior Management may have a material adverse impact on the operating and financial performance of Hydralyte North America.

Hydralyte North America's future success will depend on its continuing ability to identify, hire, develop, motivate and retain highly skilled personnel for all areas of its business, particularly in sales and marketing.

5.2.9 Risks associated with IT systems

In addition to the sale of products via its sales channels, Hydralyte North America operates its own websites for direct purchases from and distribution to customers in both the United States and Canada. Accordingly, the Company's websites, databases, IT, warehouse systems and management systems, and those of its key online sales channels and suppliers, are critically important to its success in attracting and retaining customers and maximising sales conversions from those customers.

(a) Website failure

The Company's performance could be adversely affected by a system failure that causes disruption to its websites or the websites of its key online channels or suppliers. Any disruption, if sustained or regular, could lead to a disruption in business operations, which may have an adverse financial impact.

(b) Reliance on third-party providers

Hydralyte North America relies on its disaster planning contingencies, and those of its suppliers and sales channels, in order to deal with events such as earthquakes, floods, fires, power grid issues, telecommunication and network failures, terrorist attacks, computer viruses and other similar events. If the Company's systems fail, or if the systems of a key sales channel provider or third party supplier fails, is likely to have a material impact on the systems and operations of the Company.

(c) **Data analytics**

Customer and third-party supplier databases and data analytics are critical to the Company's continued success through its online channels. There is a risk that computer viruses, electronic theft, physical terminal theft, employee language programming errors, operating system failures, third party provider failures and similar disruptions could result in loss or damage to data. This may adversely affect the Company's financial and operating performance, or lead to reputational damage.

(d) **Data protection and privacy**

Hydralyte North America collects, processes and stores, through the ordinary course of its business, a wide range of customer data. Despite Hydralyte North America's best efforts to ensure the safe collection, storage and protection of customer data, there is a risk that a data breach may occur, or a third party may gain access to the confidential information of Hydralyte North America's customers or its internal systems. This could result in a breach of law by Hydralyte North America, or a breach of customer agreements, and may attract significant media attention and damage the Company's reputation and brand. Any breach of this nature may have a material adverse effect on the Company's financial and operational performance.

5.2.10 Brand or reputation damage

Hydralyte North America's business is dependent on its reputation with customers and consumers, and its 'Hydralyte' branding is of significant value to the business. The reputation and value associated with 'Hydralyte' branding and related intellectual property could be adversely affected by a number of factors, including:

(a) quality issues with Hydralyte North America's products;

(b) failure or delay in supplying products;

(c) disputes or litigation with third parties, employees, suppliers or customers; or

(d) adverse media coverage (including social media) or publicity about Hydralyte North America's products or processes.

Consumer perception of Healthy Hydration Solutions products and Hydralyte North America's products in particular can also be substantially influenced by scientific research or findings, national media attention and other publicity about product use. Adverse publicity from these sources regarding Healthy Hydration Solutions products and Hydralyte North America's products could harm the Company's reputation and the results of its operations. The publication of news articles or reports asserting that such products may be harmful or questioning their efficacy could have an effect on the Company's branding or reputation.

A material adverse impact to the reputation of Hydralyte North America or its brands could negatively affect public perception of Hydralyte North America, demand for its products, customer loyalty and reputation. This could have a material adverse impact on Hydralyte North America's financial and operating performance and future prospects.

5.2.11 Product liability and recalls

As a retailer of products designed for human consumption, Hydralyte North America could be subject to product liability claims if the use of its products is alleged to have resulted in injury.

Hydralyte North America engages highly reputable manufacturers with quality control policies, and takes all reasonable precautions to ensure that its products are free from contamination or defects. However, events outside of Hydralyte North America's control could occur. In the event that contamination, mislabelling, misbranding or another such quality control issue occurs in respect of a Hydralyte North America product, this may lead to business interruption, product recalls or liabilities to customers. While Hydralyte North America maintains insurance to cover these risks, Hydralyte North America may not be able to enforce its rights in respect of those policies and any amounts that Hydralyte North America does recover may not be sufficient to offset any damage to the financial condition, reputation or prospects of Hydralyte North America caused by product contamination or product liability claim, or the negative publicity surrounding the claim.

5.2.12 Failure to effectively manage inventory

Hydralyte North America may fail to accurately forecast or manage its inventory levels, including if the Company's inventory management system fails or provides inaccurate information. This may result in the Company incurring additional costs and losing revenue.

If Hydralyte North America manufactures excess product that it cannot sell in a timely manner, the excess product may need to be sold at a discount, otherwise the excess product may become obsolete and Hydralyte North America may be required to bear the costs of the surplus product and recognise inventory write-down costs. Alternatively, Hydralyte North America may experience disproportionate demand and supply for specific products, or 'out of stock' issues. This may result in lost sales, less than forecast margins and damage to the Company's reputation or brand, which may have a material adverse effect on the Company's financial and operational performance.

5.2.13 Changes in consumer trends and preferences

Hydralyte North America's business is primarily focused on the sale of a range of liquid, tablet, powder and effervescent healthy hydration products, in the Healthy Hydration Solutions Market. This market is subject to continually evolving consumer trends, demands and preferences, including shifts in the beliefs, tastes and dietary habits of end consumers. In addition, the Healthy Hydration Solutions landscape is very dynamic and constantly evolving, where discounters and value stores, as well as the volume of transactions through e-commerce, are growing at a rapid pace at the expense of traditional retailers.

If Hydralyte North America misjudges or fails to predict consumer preferences or fails to convert market trends into appealing product offerings on a timely basis, this may result in lower revenue and margins and could adversely impact Hydralyte North America's future financial performance. Furthermore, any changes in consumer preferences may also lead to an increased obsolete inventory risk for Hydralyte North America.

5.2.14 Changes in laws and regulations

The advertising, distribution, labelling, production, safety, sale, and transportation in North America of the Company's currently marketed products are subject to various United States and Canada regulations, state food and drug laws; state consumer protection laws; competition laws; various federal, state and local environmental protection laws; and various other federal, state, and local statutes and regulations. Changes to such laws and regulations could increase costs or reduce Hydralyte North America's net operating revenues.

In addition, failure to comply with environmental, health or safety requirements and other applicable laws or regulations could result in the assessment of damages, the imposition of penalties, suspension of production, changes to equipment or processes, or a cessation of operations at the Company's manufacturers' facilities, as well as damage to Hydralyte North America's image and reputation, all of which could harm the Company's operating and financial prospects.

5.2.15 Failure to execute growth plans

Hydralyte North America intends to continue to grow its business, including through increased sales of its current products and the introduction of new products. It aims to do this by building trusted and strong brands and products. There is a risk that the Company is unable to increase sales of its existing product range for a range of reasons, including loss of customers, competition, changes in consumer preferences, product safety issues and ineffective marketing campaigns.

There is also a risk that the Company's new products may be unsuccessful because they are not supported by sufficient market interest and purchases, and therefore fail to sell in the targeted volumes. The Company may also be unable to offer a sufficient number of new, differentiated products to meet consumer demand. Unsuccessful new products and ineffective marketing campaigns may adversely impact expected future revenues.

If the Company fails to grow the sales of its existing products and does not introduce successful new products, it will not meet its growth plans and its future financial performance and prospects will be diminished.

5.2.16 Failure to effectively manage growth

Hydralyte North America aims to achieve rapid growth in the scope of its operating activities. This growth is anticipated to result in an increased level of responsibility of existing and new management personnel. If the Company is unable to manage its expected growth successfully, including through the recruitment, training, integration and management of the staff required to support this expected growth, it may not be able to take advantage of market opportunities, satisfy customer requirements, execute its business plans or respond to competitive threats.

5.2.17 Health benefits of products are not proven

Health benefits of certain Healthy Hydration Solutions products are not guaranteed and have not been proven. Although the Company does not market its products as having any potential medical purpose or health benefits, there is a consumer perception that taking Healthy Hydration Solutions products has beneficial health effects. Consequently, negative changes in consumers' perception of the benefits of Healthy Hydration Solutions products or negative publicity surrounding Healthy Hydration Solutions products may result in loss of market share or consumer interest in the Company's products.

5.2.18 No track record of profitability

The Company does not have a track record of profit and there is no guarantee that it will ever be profitable. If it does not achieve profitability it will be unable to pay dividends in the future and capital growth may be less likely.

5.3 Risks relevant to an investment in Shares

5.3.1 Share price fluctuation

The Shares will trade on ASX following Listing at a price higher or lower than the Offer Price. The price at which the Shares trade will be affected by the financial performance of the Company and by external factors unrelated to the operating performance of the Company, including movements on international financial markets, the level of interest rates and exchange rates, general domestic and international economic conditions and government policies relating to taxation and other matters.

5.3.2 Trading in Shares might not be liquid

There can be no guarantee that an active market in the Shares will develop. There may be relatively few potential buyers or sellers of Shares on the ASX at any time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less or more than the price that Shareholders paid for their Shares.

5.3.3 Release of Shares from escrow

The Escrowed Shareholders will be subject to escrow requirements that are designed to protect the integrity of the market. At the conclusion of the applicable escrow periods, the Escrowed Shares will be released from escrow, which may impact the Share price of the Company if material numbers of Escrowed Shares are sold at the same time. Alternatively, the absence of such a sale by Escrowed Shareholders may diminish the liquidity of the market for Shares.

5.3.4 Additional capital requirements

Hydralyte North America may require additional capital in order to support and implement its growth plans. The Company's ability to obtain additional capital, if and when required, will depend on its business plans, investor demand, the capital markets and other factors. If the Company raises additional funds through the issue of hybrid or debt securities, those securities may have rights, preferences or privileges superior to the rights of the Shares. While the Company will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital that it is able to issue, Shareholders may be diluted as a result of such issues of securities and fundraisings.

If the Company is unable to obtain additional capital when required, or is unable to obtain additional capital on satisfactory terms, its ability to continue to support its business growth or to respond to business opportunities, challenges or unforeseen circumstances could be adversely affected.

5.3.5 Dividend payments are not guaranteed

To the extent the Company intends to pay dividends on the Shares, it will pay such dividends at such times (if any) and in such amounts (if any) as the Board determines appropriate and in accordance with applicable law and having regard to the performance of the Company's business. The Company can therefore give no assurance that it will be able to pay dividends going forward or as to the amount of such dividends, if any. The Company does not expect to pay dividends in the foreseeable future.

To the extent that the Company pays dividends, it unlikely the Company will generate sufficient franking credits in the future to frank dividends. The value and availability of franking credits to a Shareholder will differ depending on the Shareholder's particular circumstances.

5.4 General Risks

5.4.1 Exposure to general economic conditions

Hydralyte North America's performance will depend to a certain extent on a number of macro-economic factors outside its control which may impact the spending power and habits of its customers. These factors include, among other things, economic growth, unemployment rates, consumer confidence, taxation, inflation and the availability and cost of credit. In addition, consumer spending may be affected by a range of factors. Any significant or prolonged decrease in consumer spending on Healthy Hydration Solutions products could adversely affect the demand for the Company's products.

5.4.2 Inflation rates

Higher than expected inflation rates could lead to increased development and/or operating costs. If such increased costs cannot be offset by increased revenue, this could impact the Company's future financial performance.

5.4.3 Interest rates

On and from Listing, the Hydralyte North America Group will not currently have any material debt. If the Hydralyte North America Group borrows money in the future, it will be exposed to increases in interest rates which would increase the cost of servicing the Hydralyte North America Group's debts.

5.4.4 Taxation considerations

While the Company currently operates primarily in the United States and Canada and is domiciled in Australia, the Directors intend that it will expand its operations following Listing into additional overseas jurisdictions (including the United Kingdom, South America and China), and consequently it will need to ensure that it is compliant with the tax registration requirements and tax filing requirements in the United States, Canada, Australia and those overseas jurisdictions.

There can be no certainty that the current taxation regime in the United States, Canada, Australia or in overseas jurisdictions within which the Company plans to operate in the future will remain in force or that the current levels of corporation taxation will remain unchanged. There can be no assurance that there will be no amendment to the existing taxation laws applicable to the Company, which may have a material adverse effect on the Company's financial position.

5.4.5 Accounting standards

Australian Accounting Standards are set by the AASB and are outside the control of Hydralyte North America, its Directors or Management. The AASB may introduce new or refined Australian Accounting Standards in future periods, which may affect the future measurement and recognition of key statement of income and balance sheet items, including sales and receivables.

There is also the risk that interpretations of existing Australian Accounting Standards, including those relating to the measurement and recognition of key statement of income and balance sheet items, including sales and receivables, may differ. Changes to Australian Accounting Standards issued by the AASB or changes to the commonly held views on the application of those standards could materially adversely affect the financial performance and position reported in Hydralyte North America's consolidated financial statements.

5.4.6 Litigation risk

Hydralyte North America may be subject to claims from customers, contractual counterparties or others and may be obliged to make claims against customers, contractual counterparties or others to enforce obligations owed to the Company. If the Company was to become involved, whether as claimant or defendant, in significant litigation then liability for damages and/or legal costs could result that might have a material adverse effect on the Company's operations, financial performance and prospects.

5.4.7 Climate change

Climate change and the corresponding increase in the likelihood of events such as floods, droughts, fires, heatwaves and cyclones could impact Hydralyte North America by causing increased costs, closures, disruption to operations, lack of access, damage to warehouse or stock, impacts on supply and transportation of product, among other things. Such events may lead to an increase in operational costs or business interruption, and may have a detrimental impact on the Company's operations, financial performance and prospects.

5.4.8 Force majeure events may occur

Events may occur within or outside the United States and Canada markets that negatively impact the Company's financial performance, operations or the price of Shares. These events include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other natural or man-made events or occurrences that may have a material adverse effect on the Company's suppliers, the demand for products or its ability to conduct business. The Company has only a limited ability to insure against some of these risks.

5.4.9 Epidemics and pandemics

In addition to the force majeure events mentioned in Section 5.4.8 above, a rapid spread of infectious disease to a large number of people within a short period of time may occur within or outside the countries in which Hydralyte North America operates. In particular, a pandemic similar in nature to the COVID-19 outbreak may adversely affect general economic sentiment, the global economy, stock markets and other financial markets. COVID-19 is currently of significant concern to the worldwide community and has clouded the near- and medium-term outlook for the global economy. Financial markets have also been volatile as market participants and government worldwide assess the risks associated with COVID-19 and global supply chains are being severely impacted across major industries. Measures introduced to limit transmission of the virus may have a negative impact on the global economy and economic growth in the future. As a result of the global outbreak, monetary policy has been eased to provide additional support to employment and economic activity. Given the evolving situation, it is difficult to predict the nature and extent of the risk and the impact on Hydralyte North America. The impact of the virus on consumer sentiment, demand and confidence generally could materially adversely affect Hydralyte North America's operations and financial performance.

6. Key people, interests and benefits

6. Key people, interests and benefits

6.1 Board of Directors

The Directors of the Company bring to the Board a variety of skills and experience, including industry and business knowledge, financial management, legal expertise, corporate strategy and corporate governance experience. Profiles of each member of the Board are set out below.

Director profiles

Director	Profile
 **George Livery** *Independent, Non-Executive Chairman* *Appointed 2 November 2021*	George has enjoyed senior executive roles across numerous industries for the last 30 years, both domestically and internationally. A C-level executive for the last 25 years, George's career has included CEO of Village Cinemas Australia, COO of Village International, Commercial Director at Hoyts Ltd, Director of Operations (Non-Academic Services) at University of Sydney's USU, both Commercial Director at Swisse Vitamins and Director of Strategy & Corporate at Swisse Wellness Group. George also led the corporate integration of Swisse Wellness into the Hong Kong listed H&H Group of companies and enjoyed a dual role during that time as Group Senior VP Legal and Risk. He was also a Fellow of the Australia Marketing Institute. George was formerly executive chair, and is currently non-executive director, of ASX-listed Bod Australia Limited (ASX: BDA). He is currently non-executive chair of a private company called Buy Aussie Now. George is chair of the Nomination and Remuneration Committee and a member of the Audit, Risk and Compliance Committee. George resides in Sydney.
 **Gretta van Riel** *Independent, Non-Executive Director* *Appointed 2 November 2021*	Gretta is a serial entrepreneur, having founded five start-ups including SkinnyMe Tea, the 5TH Watches and Drop Bottle. Gretta has extensive experience in building and scaling eCommerce brands and is expert in influencer-led online marketing campaigns and brand development. Gretta was named in the "Forbes 30 Under 30 Asia List of 2018", which noted that "her most recent venture is an influencer marketing platform called Hey Influencers, which helps link and grow relationships between brands and social media influencers, something van Riel clearly knows a thing or two about". Gretta has a Bachelor of Arts with First Class Honours in Media and Communications from the University of Melbourne and resides in Melbourne. Gretta is a member of the Audit, Risk and Compliance Committee and the Nomination and Remuneration Committee.
 **Adem Karafili** *Non-Executive Director* *Appointed Director and Chair, 15 October 2018 Ceased role as Chair on 2 November 2021*	Adem is currently the Executive Chairman of ASX-listed Top Shelf International Holdings Ltd. Prior to that, he spent seven years establishing Swisse Wellness before its sale to H&H Group (formerly Biostime International) for nearly US$1.7 billion in 2015. Adem held senior positions of CFO, COO and MD at Swisse Wellness. Additionally, Adem currently chairs his private investment vehicle ANGLKorp and also chairs the 2030 Greater Victoria Commonwealth Games Taskforce, the National Institute of Integrated Medicine (NIIM) and sits on the investment committee for the private equity firm Corner Capital. Adem is a CPA, having obtained a Bachelor of Business Administration (Accounting). Adem is chair of the Audit, Risk and Compliance Committee and a member of the Nomination and Remuneration Committee. Adem resides in Melbourne.

6.1.1 Director's Disclosure

Each Director has confirmed to the Company that he or she anticipates being able to perform his or her duties as a Director without constraint from other commitments.

No Director has been the subject of any disciplinary action, criminal conviction, personal bankruptcy or disqualification in Australia or elsewhere.

No Director has been an officer of a company that has entered into any form of external administration as a result of insolvency during the time that they were an officer or within a 12-month period after they ceased to be an officer.

The Board has considered the Company's immediate requirements as it transitions to an ASX-listed company and is satisfied that the composition of the Board represents an appropriate range of experience, qualifications and skills at this time.

6.2 Senior Management and Company Secretary

6.2.1 Senior Management

The following table provides information regarding the senior Management team of Hydralyte North America, including their positions and expertise.

Senior Management profile

Management	Profile
 **Oliver Baker** *Chief Executive Officer*	Oliver Baker is the CEO of Hydralyte North America, having joined the business in 2018, taking responsibility for global sales. Prior to the Company, Oliver worked at Swisse Wellness in a number of roles across business development, marketing and general management. After the Biostime (H&H Group) acquisition of Swisse, Oliver led the integration team in Guangzhou China, building a local Chinese team and processes. He was then appointed General Manager of Swisse North America and was responsible for the launch of the Swisse brand with an e-commerce focused strategy in the USA and Canada. Previously he has held global and national roles in sales and marketing with a focus on sports sponsorships. Oliver has a Bachelor of Business and a Bachelor of Arts from Monash University and resides in San Diego, California.
 **Chris Kavanaugh** *Chief Financial Officer*	Chris joined the Company as the financial controller in May 2018 and has since transitioned to take on both operations and finance. Chris has an entrepreneurial background holding lead finance and operations positions at several start-ups ranging from consumer goods to software. Chris holds a Bachelor of Science degree from Indiana University of Pennsylvania with a double major in Accounting and Management Information Systems. Chris resides in San Diego, California.

6.2.2 Company Secretary

The Company Secretary of Hydralyte North America is Carlie Hodges, who was appointed on 18 May 2021.

Carlie is the Manager of Corporate Governance at cdPlus Corporate Services, which provides outsourced corporate governance and company secretarial services to both private and public companies. In addition, she is an Associate Lawyer and Coghlan Duffy & Co Lawyers, specialising in corporate law and equity capital markets.

Carlie holds a Bachelor of Science and a Bachelor of Laws from Deakin University, a Master of Arts in Medical Ethics and Law from King's College London, a Graduate Diploma of Applied Corporate Governance from the Governance Institute of Australia, and is admitted as a lawyer in the state of Victoria.

Carlie's services are provided via a retainer agreement dated 16 May 2021 between the Company and cdPlus Corporate Services Pty Ltd (**cdPlus**), an outsourced company secretarial service provider based in Melbourne. The key terms of the retainer agreement are set out below:

- in consideration for the provision of customary company secretarial services to the Company, including a representative of cdPlus acting as named company secretary, cdPlus is paid a monthly retainer;
- the initial term of the Retainer Agreement is 12 months, and will continue for successive terms of 12 months unless terminated earlier; and
- the Retainer Agreement may be terminated by cdPlus giving one month's written notice or by the Company giving three months' written notice, or otherwise by either party in the event of an unremedied material breach of the Retainer Agreement, or insolvency of, the other party.

The Company has entered into a deed of access, indemnity and insurance with Carlie on customary terms which (among other things) indemnifies her, to the fullest extent permitted by law, for any liability she incurs in her capacity as Company Secretary of the Company.

6.3 Interests and Benefits

This Section 6.3 sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- Director or proposed Director of the Company;
- person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of the Company; or
- underwriter of the Offer or financial services licensee named in this Prospectus as a financial services licensee involved in the Offer,

holds at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion or in connection with the Offer; or
- the Offer,

and no other amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any such persons for services in connection with the formation or promotion of the Company or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director.

6.3.1 Executive remuneration

6.3.1.1 Overview

The Company's philosophy on remuneration is that executive and key employee remuneration should be aligned with Shareholder interests by providing levels of fixed remuneration and "at risk" pay sufficient to attract and retain individuals with the skills and experience required to build on and execute the Company's business strategy. It aims to achieve this by ensuring "at risk" remuneration is contingent on outcomes that grow and/or protect Shareholder value.

To ensure that the Company continues to attract, retain and motivate talented staff at a competitive cost, the Company will aim to align total fixed remuneration to the median rate of the relevant market, with consideration given to experience, qualifications, performance and other non-financial benefits.

The Remuneration and Nomination Committee recommends to the Board the remuneration packages for the executive team. It is intended that these will be reviewed annually. The Remuneration and Nomination Committee may seek external advice to determine the appropriate level and structure of the remuneration packages.

6.3.1.2 Summary of key terms of employment of Oliver Baker and Chris Kavanaugh

Summaries of the key terms of the employment contracts of the Company's key employees, Oliver Baker and Chris Kavanaugh, are set out in Table 6.1 below.

Table 6.1: Summary of Management employment terms

	Employment terms of Oliver Baker (effective from 1 September 2018) and Chris Kavanaugh (effective from 7 May 2018)
Term	**Description**
Employer	Hydralyte LLC
Total Fixed Remuneration (TFR)	Oliver Baker is entitled to receive TFR of US$300,000 per annum. Chris Kavanaugh is entitled to receive TFR of US$200,000 per annum. TFR increases annually by the rate of inflation.
Short-term Incentive (STI)	Each key employee is eligible to participate in the Company's STI arrangements whereby, subject to meeting KPI targets established by the Remuneration and Nomination Committee, Company performance and at the Board's discretion: • Oliver Baker may receive a bonus of up to 50% of his annual base salary; and • Chris Kavanaugh may receive a bonus of up to 30% of his annual base salary. Further details on the Company's STI arrangements are contained in Section 6.3.2.1.
Long-term incentive (LTI)	Each key employee is eligible to participate in the Company's LTI arrangements at the Board's discretion.
Termination	Each key employee is employed "at will" and their employment agreement may be terminated by either party at any time and for any reason, with or without cause. Each employment agreement may be terminated by either party on four months' notice (unless the agreement is terminated for cause, in which case termination will be immediate). All payments on termination will be subject to the termination benefits cap under the Corporations Act.
Restraints	During their employment with the Company, the key employees may not (i) engage in any other employment, consulting or other business activity that conflicts or interferes with their obligations to the Company; or (ii) engage or participate in any business that is competitive with the Company.

6.3.2 Executive incentive arrangements

For the executive team, the remuneration packages will consist of fixed remuneration as described above.

The Board may determine to award Directors, Management and employees in good standing of the Company a percentage of their fixed remuneration as an annual cash bonus. Payment of annual cash bonuses is discretionary and determined by the Board based on individual measures and business performance.

For the executive team, the remuneration packages will consist of:

- fixed remuneration (described above);
- cash-based short term incentives (**STI**); and
- long term equity incentives (**LTI**).

6.3.2.1 Short-term incentive arrangements

The key components of the cash-based STI are:

- participants are entitled to receive a percentage of their fixed remuneration as an annual cash bonus;
- to be eligible for an annual cash bonus, participants must be employees in good standing of the Company at the date on which the bonus is payable; and
- payment of annual cash bonuses is discretionary and determined by the Board based on individual measures and business performance.

6.3.2.2 Long-term incentive arrangements

The Company has established an equity incentive plan (**Plan**) to assist in the reward, retention and motivation of participants and align their interests with those of Shareholders.

The rules of the Plan (**Plan Rules**) provide the framework under which the Plan and individual grants will operate. The key features of the Plan are outlined in table 6.2 below.

Table 6.2: Summary of LTI Plan Rules

Term	Description
Eligibility	Offers may be made at the Board's discretion to employees of the Company (including executive Directors) and any other person that the Board determines to be eligible to receive a grant under the Plan.
Types of securities	The Plan Rules provide flexibility for the Company to grant one or more of the following securities as incentives, subject to the terms of individual offers: • performance rights, which are an entitlement to receive Shares upon satisfaction of applicable conditions; • options, which are an entitlement to receive Shares upon satisfaction of applicable conditions and payment of the applicable exercise price; and • restricted shares, which are Shares that are subject to dealing restrictions, vesting conditions or other restrictions or conditions.
Offers under the Plan	The Board may make offers at its discretion and any offer documents must contain the information required by the Plan Rules. The Board has the discretion to set the terms and conditions on which it will offer performance rights, options and restricted shares in individual offer documents. Offers must be accepted by the employee and can be made on an opt-in or opt-out basis.

Term	Description
Plan limit	Where an offer is made in reliance on ASIC Class Order 14/1000, the total number of Shares issued (or in the case of performance rights and options, the total number of Shares which would be issued if those performance rights or options were exercised) must not exceed 5% of the total number of Shares on issue.
Issue price	Unless the Board determines otherwise, no payment is required for a grant of a performance right, option or restricted share under the Plan.
Vesting	Vesting of performance rights, options and restricted shares under the Plan is subject to any vesting or performance conditions determined by the Board and specified in the offer document. Options must be exercised by the employee and the employee is required to pay the exercise price before Shares are allocated. Subject to the Plan Rules and the terms of the specific offer document, any performance rights, options or restricted shares will either lapse or be forfeited if the relevant vesting and performance conditions are not satisfied.
Cessation of employment	Under the Plan Rules, the Board has a broad discretion in relation to the treatment of entitlements on cessation of employment. It is intended that individual offer documents will provide more specific information on how the entitlements will be treated if the participating employee ceases employment
Clawback and preventing inappropriate benefits	The Plan Rules provide the Board with broad "clawback" powers if, for example, the participant has acted fraudulently or dishonestly or there is a material financial misstatement.
Change of control	The Board may determine that all or a specified number of a participant's performance rights, options or restricted shares will vest or cease to be subject to restrictions on a change of control event in accordance with the Plan Rules.
Reconstructions, corporate action, rights issues, bonus issues etc.	The Plan Rules include specific provisions dealing with rights issues, bonus issues and corporate actions and other capital reconstructions. These provisions are intended to ensure that there is no material advantage or disadvantage to the participant in respect of their incentives as a result of such corporate actions.
Restrictions on dealing	Prior to vesting, the Plan Rules provide that participants must not sell, transfer, encumber, hedge or otherwise deal with their incentives. After vesting, participants will be free to deal with their incentives, subject to the Securities Dealing Policy.
Sub-plan for US participants	The Plan Rules include a sub-plan which applies to US residents or employees otherwise subject to United States laws.
Other terms	The Plan contains customary and usual terms of dealing with administration, variation, suspension and termination of the Plan.

6.3.2.3 Details of Option grants to Management and certain other employees

Existing grants

The Company has made the following grants of Options to Management and certain other employees.

Table 6.3: Existing Option grants to Management and employees

Person	Options granted	Grant date	Vesting	Exercise Price (AUD)	Expiry Date
Oliver Baker	666,667	31 August 2019	Vested	$0.20	31 August 2024
	666,667	31 August 2019	Vested	$0.23	31 August 2024
	666,666	31 August 2019	1 September 2022	$0.25	31 August 2024
	600,000	31 August 2019	Vested	$0.29	31 August 2028
Chris Kavanaugh	180,000	31 August 2019	Vested	$0.20	31 August 2024
Other employees	360,000	31 August 2019	Vested	$0.20	31 August 2024
	580,000	31 August 2019	Vested	$0.29	31 August 2024

Grants to be made at Completion of the Offer

The Company has agreed to make the following grants of Options to Management and certain other employees. The grants will be made on Completion of the Offer and vesting of the Options will be subject to Listing and certain other conditions described below.

The grants are being made under the Plan to reward the participants for the Company's performance over FY2020 and FY2021 (to date) and incentivise for future performance.

Table 6.4: Option grants to Management and employees at Completion of the Offer

Person	Options granted	Grant date	Vesting	Exercise Price (AUD)	Expiry Date
Oliver Baker	1,400,000	Completion of the Offer	FY2021 Revenue Condition	$0.29	1 December 2026
	1,960,000	Completion of the Offer	Time-based vesting	$0.29	1 December 2026
	3,480,000	Completion of the Offer	Time-based vesting	$0.44	1 December 2026
	3,480,000	Completion of the Offer	Time-based vesting	$0.58	1 December 2026
	3,480,000	Completion of the Offer	Time-based vesting	$0.73	1 December 2026
Chris Kavanaugh	1,820,000	Completion of the Offer	FY2021 Revenue Condition	$0.29	1 December 2026
	1,000,000	Completion of the Offer	Time-based vesting	$0.29	1 December 2026
	1,160,000	Completion of the Offer	Time-based vesting	$0.44	1 December 2026
	1,160,000	Completion of the Offer	Time-based vesting	$0.58	1 December 2026
	1,160,000	Completion of the Offer	Time-based vesting	$0.73	1 December 2026
Other employees	250,000	Completion of the Offer	Vested	$0.29	1 December 2026
	509,600	Completion of the Offer	Time-based vesting	$0.29	1 December 2026
	568,400	Completion of the Offer	Time-based vesting	$0.44	1 December 2026
	568,400	Completion of the Offer	Time-based vesting	$0.58	1 December 2026
	568,400	Completion of the Offer	Time-based vesting	$0.73	1 December 2026

The FY2021 Revenue Condition is that the Group Audited Revenue for FY2021 must be at least 30% more than the Group Audited Revenue for FY2020.

Group Audited Revenue means the actual, audited revenues for the Hydralyte North America Group for a financial year (as recorded in the Company's audited accounts), excluding extraordinary and one-off items, government grants and rebates.

The time-based vesting is that 33.3% of the Options vest equally over three years, from FY2022 to FY2024 inclusive, subject to the participant being an employee of the Group at the time of vesting (or, in certain cases, a "good leaver").

6.3.2.4 Details of Performance Rights grants to Management and certain other employees

The Company has agreed to make the following grants of Performance Rights to Oliver Baker, Chris Kavanaugh and certain other employees (who are not key management personnel). The grants will be made on Completion of the Offer and vesting of the Performance Rights will be subject to Listing, continued service and a vesting condition relating to the Group Audited Revenue.

The grants relate to reward for the Company's performance over FY2020 and FY2021 (to date) (the Tranche A Award) and incentivisation for future performance (the Tranche B Award), together with a portion of foregone salary. On completion of the grant of Performance Rights, a total of 6,288,028 Performance Rights will be held as follows:

- Oliver Baker – 3,316,011 Performance Rights;
- Chris Kavanaugh – 2,070,674 Performance Rights; and
- certain other employees and contractors – 901,343 Performance Rights.

The total number of Performance Rights will represent 3.9% of the undiluted issued capital on Listing. The Performance Rights will be granted around the time of Listing.

Tranche A Award

The Tranche A Award is substantially associated with the Company's performance over the course of FY2020 and FY2021 and also represents a portion of "salary sacrifice". A total of 2,818,428 Performance Rights will be issued under the Tranche A Award.

Table 6.5: Tranche A Award Performance Rights

Person	Performance Rights granted	Grant date	Expiry Date
Oliver Baker	1,356,011	Completion of the Offer	31 December 2025
Chris Kavanaugh	1,070,674	Completion of the Offer	31 December 2025
Kristi Arnotti	79,947	Completion of the Offer	31 December 2025
Chris Rueb	39,974	Completion of the Offer	31 December 2025
Grace Miller	19,987	Completion of the Offer	31 December 2025
Leana Zhang	63,958	Completion of the Offer	31 December 2025
Nancy Padilla	63,958	Completion of the Offer	31 December 2025
Kathleen Curran	19,987	Completion of the Offer	31 December 2025
Sandra Caruso	39,974	Completion of the Offer	31 December 2025
Brandon Fishman	39,974	Completion of the Offer	31 December 2025
Roman Bills	23,984	Completion of the Offer	31 December 2025

The Performance Rights granted under the Tranche A Award are subject to satisfaction (or waiver) of all of the following vesting conditions:

- Listing;
- continued employment (or being a good leaver); and
- satisfaction of the Tranche A Revenue Condition.

The Tranche A Revenue Condition is that the Group Audited Revenue for FY2021 must be at least 30% more than the Group Audited Revenue for FY2020. It is the same as the FY2021 Revenue Condition in respect of the Option grant to be made at Completion of the Offer.

Group Audited Revenue is defined at Section 6.3.2.3 above.

Tranche B Award

At Completion of the Offer (and in addition to the Tranche A Award), the Company will make the following grants of Performance Rights under the Tranche B Award. A total of 3,469,600 Performance Rights will be issued under the Tranche B Award.

Table 6.6: Tranche B Award Performance Rights

Person	Performance Rights granted	Grant date	Expiry Date
Oliver Baker	1,960,000	Completion of the Offer	31 December 2025
Chris Kavanaugh	1,000,000	Completion of the Offer	31 December 2025
Kristi Arnotti	104,000	Completion of the Offer	31 December 2025
Chris Rueb	52,000	Completion of the Offer	31 December 2025
Grace Miller	26,000	Completion of the Offer	31 December 2025
Leana Zhang	83,200	Completion of the Offer	31 December 2025
Nancy Padilla	83,200	Completion of the Offer	31 December 2025
Kathleen Curran	26,000	Completion of the Offer	31 December 2025
Sandra Caruso	52,000	Completion of the Offer	31 December 2025
Brandon Fishman	52,000	Completion of the Offer	31 December 2025
Roman Bills	31,200	Completion of the Offer	31 December 2025

The Performance Rights granted under the Tranche B Award are subject to satisfaction (or waiver) of all of the following vesting conditions:

- Listing;
- continued employment (or being a good leaver); and
- satisfaction of the Tranche B Revenue Condition.

The Tranche B Revenue Condition relates to the Group Audited Revenue for the periods FY2022 to FY2024 (inclusive). One third of a participant's total available number of Performance Rights under the Tranche B Award relates to each financial year in the three year period and those Performance Rights will vest as follows:

- one third of a financial year's total award potential will vest if a Minimum Threshold is met;
- two thirds of a financial year's total award potential will vest if a Medium Threshold is met; and
- all of a financial year's total award potential will vest if a Maximum Threshold is met.

Performance Rights will vest within 1 month of release of the full-year results for the relevant financial year by the Company.

This is described in table 6.7 below.

Table 6.7: Thresholds for Tranche B Award Performance Rights

Performance Milestone	Proportion of total Tranche B Award for each year	Minimum Threshold 20% growth	Medium Threshold 30% growth	Maximum Threshold 40% growth
The higher of Group Audited Revenue growth from FY2021 to FY2022 or FY2021 to FY2022 CAGR	Maximum of 33.3% of total Tranche B Award	11.1%	22.2%	33.3%
The higher of Group Audited Revenue growth from FY2022 to FY2023 or FY2021 to FY2023 CAGR	Maximum of 33.3% of total Tranche B Award	11.1%	22.2%	33.3%
The higher of Group Audited Revenue growth from FY2023 to FY2024 or FY2021 to FY2024 CAGR	Maximum of 33.3% of total Tranche B Award	11.1%	22.2%	33.3%

At the end of each financial year, the revenue growth CAGR since inception of the grant (FY2021) will be calculated as well as the revenue growth rate achieved in the most recent financial year. The higher of the two numbers will be used to assess performance in relation to the Tranche B Revenue Condition.

Any Performance Rights under the Tranche B Award that have not vested by no later than one month after release of the FY2024 results will lapse.

The Board considers that it is necessary and appropriate to remunerate or incentivise each of Oliver and Chris, and the other employees and contractors, to achieve the performance milestones via the grant of Performance Rights because, as the Company's key executives on the ground in the United States, they are critical to the performance and success of the Company (in particular, Oliver and Chris). The Board formed the view that it was reasonable, fair and equitable to incentivise and reward Oliver and Chris (and the other employees and contractors) for prior, and future, contributions in the event that the Company reached appropriate performance milestones. In respect of Oliver and Chris, the number of Performance Rights was determined taking into account remuneration, past performance, the nature of grants of Options and an appropriate incentivisation for future performance. The Performance Rights are not ordinary course of business remuneration securities.

All of the recipients of the Performance Rights are employees or contractors of the Company (in one case, a former employee) and none of them are related parties of the Company.

The terms of issue of the Performance Rights are as follows:

- the Performance Rights are unquoted, non-transferrable and do not confer any right to vote, except as otherwise required by law;
- the Performance Rights do not permit the holder to participate in new issues of capital such as bonus issues and entitlement issues; do not carry an entitlement to a dividend; and do not carry an entitlement to participate in the surplus profit or assets of the Company upon a winding up;
- each Performance Right is converted into one Share for nil exercise price on achievement of the relevant milestone (and exercise of the Performance Right) and, in the event that Performance Rights are not converted into Shares by the relevant expiry date, they will lapse.

6.3.3 Non-Executive Director remuneration and benefits

6.3.3.1 Remuneration

Under the Constitution, the Board may decide the remuneration from the Company to which each Director is entitled for their services as a Director. However, under the Constitution and the ASX Listing Rules, the total aggregate amount provided to all Non-Executive Directors for their services as Directors must not exceed in any financial year the aggregate amount approved by Shareholders at the Company's general meeting. The amount has been fixed at US$350,000 per annum.

The annual Non-Executive Director fees currently agreed to be paid by the Company commencing one month prior to the Prospectus Date to:

- the Chairman is US$60,000 (inclusive of superannuation); and
- each of the other Directors is US$50,000 (inclusive of superannuation).

Directors will not receive additional fees for being a member of a Board Committee.

The remuneration of Directors must not include a commission on, or a percentage of, profits or operating revenue.

6.3.3.2 Deeds of indemnity, access and insurance for Directors

Hydralyte North America has entered into a deed of indemnity, access and insurance with each Director which confirms the Director's right of access to books and records of the Company and its related bodies corporate while they are a Director and for a period of seven years after the Director ceases to hold office. The deeds of indemnity, access and insurance also require Hydralyte North America to indemnify the Director, on a full indemnity basis and to the full extent permitted by law, against all liabilities (including all reasonable legal costs) incurred by the Director as an officer of Hydralyte North America or of a related body corporate.

Pursuant to the Constitution, the Company may to the extent permitted by law, purchase and maintain insurance or pay or agree to pay a premium for insurance for each Director against any liability incurred by a Director as an officer of Hydralyte North America or a related body corporate. Under the deeds of indemnity, access and insurance, Hydralyte North America must maintain a directors and officers insurance policy insuring a Director against liability as a Director and officer of Hydralyte North America until seven years after a Director ceases to hold office as a Director of Hydralyte North America or a related body corporate or the date any relevant proceedings commenced (and notified by the Director to Hydralyte North America) during the seven-year period have been finally resolved.

6.3.3.3 Expense reimbursement and other remuneration arrangements

The Directors are entitled to be paid all travelling and other expenses they incur in attending to Hydralyte North America's affairs, including attending and returning from general meetings of the Company or meetings of the Board or of Board Committees. Such amounts will not form part of the aggregate remuneration for Non-Executive Directors.

Any Director who performs extra services, makes any special exertions for the benefit of the Company or who otherwise performs services which, in the opinion of the Board, are outside the scope of the ordinary duties of a Non-Executive Director, may be remunerated for the services (as determined by the Board) out of the funds of the Company. Any amount paid will not form part of the aggregate remuneration for Non-Executive Directors.

There is no retirement benefit scheme for Non-Executive Directors, other than statutory superannuation contributions.

6.3.3.4 Directors' interests in contracts and business dealings with the Company

None of the Directors is an executive Director and none of the Directors is a party to any agreement with the Company that is not described in this Prospectus.

6.3.4 Directors' interests in Shares and other securities

6.3.4.1 Directors

Directors are not required under the Constitution to hold any Shares. The Directors (and their associates) are entitled to apply for Shares under the Offer. Details of the interests of Directors (either directly or through beneficial interests or entities associated with the Director), and their holdings of Company securities at relevant times are set out in the table below.

The table does not take into account any Shares the Directors may acquire under the Offer.

Final Director Shareholdings will be notified to ASX following Listing.

Table 6.8: Director security interests

Director	Convertible Notes held on Prospectus Date*	Shares held on Prospectus Date (assuming completion of the Restructure)		Shareholding on Completion of the Offer		Options held at Completion of the Offer
		Number	%	Number	%	Number
George Livery	Nil	0	0	0	0	0
Gretta van Riel	Nil	0	0	0	0	0
Adem Karafili	100,000	896,873	1.5%	1,560,417	1.0%	1,974,739

* Each Convertible Note has a face value of US$1.

6.3.4.2 Interests of former Directors and associated persons

The following persons resigned as Director of the Company on 2 November 2021:

- Scott Emerson;
- Dan O'Brien;
- Jonathan West; and
- Adam Gregory.

In addition, Radek Sali was an alternate Director (for Adem Karafili) and Campbell Smith, an employee of Light Warrior Group, was an alternate Director (for Adam Gregory) and both of those persons ceased acting in that capacity on 2 November 2021. The interests of each of these persons in the Company's securities are set out below.

Options

The table below sets out the holdings of Options of the persons described in this Section 6.3.4.2.

The Options marked with an * were issued to the holders as "free attaching options" in connection with the Company's 2019 capital raising. The balance of the Options were issued (or will be issued) in lieu of Directors' fees. All Options are fully vested.

Table 6.9: Options held by former Directors

Person	Options granted	Grant date	Exercise Price (AUD)	Expiry Date
Radek Sali	2,520,212*	14 January 2019	$0.45	13 January 2029
	713,497*	3 May 2019	$0.45	2 May 2029
	200,000	31 August 2019	$0.20	31 August 2024
	250,000	2 December 2021	$0.29	1 December 2026
Dan O'Brien	179,375*	1 January 2019	$0.45	30 April 2029
	200,000	31 August 2019	$0.20	31 August 2024
	250,000	2 December 2021	$0.29	1 December 2026
Jonathan West	200,000	31 August 2019	$0.20	31 August 2024
	200,000	31 August 2019	$0.29	31 August 2024
	250,000	2 December 2021	$0.29	1 December 2026
Adam Gregory	200,000	31 August 2019	$0.20	31 August 2024
	250,000	2 December 2021	$0.29	1 December 2026
Scott Emerson	Nil	N/A	N/A	N/A
Campbell Smith	Nil	N/A	N/A	N/A

Table 6.10: Summary of securityholdings of former Directors and alternate Directors

Person	Convertible Notes held on Prospectus Date	Shares held on Prospectus Date (assuming completion of the Restructure)		Shareholding on Completion of the Offer		Options held at Completion of the Offer
		Number	%	Number	%	Number
Radek Sali	85,000	10,951,779	18.5%	11,515,791	7.2%	3,683,708
Dan O'Brien	150,000	13,941,594	23.5%	14,936,910	9.3%	629,375
Jonathan West	–	956,664	1.6%	956,664	0.6%	650,000
Adam Gregory	–	–	0.0%	–	0.0%	450,000
Scott Emerson	–	597,915	1.0%	597,915	0.4%	–
Campbell Smith	13,046	–	0.0%	86,566	0.1%	–

The Company has agreed to pay Light Warrior Group (of which Radek Sali and Adam Gregory are co-founders and which Radek Sali controls) the following amounts:

- US$85,000, for services provided by Light Warrior Group employees to the Company in connection with the Company's successful Convertible Notes issuance in March 2021. This payment was satisfied by the issue of US$85,000 worth of Convertible Notes; and
- US$170,000, for services provided by Light Warrior Group employees to the Company in connection with the Offer. This payment will be satisfied by the issue of 798,647 Shares under the Offer (at the Offer Price).

The Company formed the view that the payments to Light Warrior Group were on arm's length terms given the level of assistance and support that the Light Warrior Group has provided to the Company in relation to its financing activities.

The Company has paid AU$32,179 to Light Warrior Group since July 2019 for the sub-lease of office space for the Company's two Australian employees. The sub-lease arrangement was undocumented on a rolling monthly basis, and the last payment was made in November 2020. This arrangement has now been terminated and the Company has no intention of reinstating the arrangement in the future.

The Company engages a related entity of Dan O'Brien for IT services, and has paid a total of AU$10,856 under this arrangement since 1 July 2019. Services provided include IT services and support and some historical ad-hoc accounting assistance. The services are provided on an ad hoc basis and there is no obligation for the Company to continue with the arrangement.

6.3.5 Interests of advisers

The Company has engaged the following professional advisers in relation to the Offer.

Table 6.11: Adviser interests in the Offer

Adviser	Role	Fee (exclusive of taxes and disbursements)[1,2]
BW Equities	Lead Manager to the Offer.	See Sections 9.5.1 and 9.12 in relation to fees to be earned in connection with the Offer. BW Equities was paid a fee of approximately AU$390,000 for lead managing the Convertible Notes issuance.
Becketts Lawyers Pty Ltd	Australian legal adviser to the Company in relation to the Offer (excluding in relation to taxation and stamp duty matters). In addition, Becketts Lawyers has acted for the Company on the Convertible Note issuance and the Restructure.	AU$200,000. In addition to amounts paid or to be paid in connection with the Offer, the Company has paid or agreed to pay approximately AU$70,000 in fees to Becketts Lawyers for services and advice relating to the Restructure and certain other matters indirectly related to the Offer. Becketts Lawyers received approximately AU$30,000 in fees in connection with the Convertible Note issuance.
PricewaterhouseCoopers Securities Ltd	Investigating Accountant to the Company in relation to the Offer and has prepared the Independent Limited Assurance Report in Section 8.	AU$425,000.

Notes:

1. Cash fees and other expenses of the Offer will be paid by the Company (or one of its subsidiaries) out of funds raised under the Offer. Further information on the use of proceeds from the Offer and costs of the Offer are set out in Sections 7.1.3 and 9.12. Shares and Options will be issued on Completion of the Offer.
2. The Company has paid, or agreed to pay the amounts set out above to its advisers up until the Prospectus Date. Further amounts may be paid for other work in accordance with the normal time-based charges of its advisers.

6.4 Corporate governance

This Section 6.4 explains the main corporate governance policies and practices adopted by the Company. The Board is responsible for the overall corporate governance of Hydralyte North America. It is accountable to the Company's members as a whole and must act in the best interests of the Company. The Board monitors the financial position and performance of Hydralyte North America and oversees its corporate strategy, including approving the strategic objectives and budgets of the Company. The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial return, and sustaining the growth and success of Hydralyte North America.

In conducting business with these objectives, the Board seeks to ensure that Hydralyte North America is properly managed to protect and enhance Shareholder interests, and that Hydralyte North America, its Directors, officers and employees operate in an appropriate environment of corporate governance. Accordingly, the Board has created a framework for managing Hydralyte North America, including adopting prudent and effective internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for Hydralyte North America's business and which are designed to promote the responsible management and conduct of Hydralyte North America.

The main policies and practices adopted by Hydralyte North America, which will take effect from Listing, are summarised below. In addition, many governance elements are contained in the Constitution. Details of Hydralyte North America's key policies and the charters for the Board and each of its committees are available at www.hydralyte.com.

6.4.1 ASX Corporate Governance Council's Principles and Recommendations

Hydralyte North America is seeking a listing on the ASX. The ASX Corporate Governance Council has developed and released its ASX Corporate Governance Principles and Recommendations (4th Edition) (**ASX Recommendations**) for entities listed on the ASX in order to promote good governance outcomes, confidence and to assist companies to meet stakeholder expectations. The ASX Recommendations are not prescriptions, but guidelines. Under the ASX Listing Rules, Hydralyte North America will be required to provide a statement in its annual report on its website disclosing the extent to which it has followed the ASX Recommendations during each reporting period. Where Hydralyte North America does not follow an ASX Recommendation, it must identify the recommendation that has not been followed and give reasons for not following it.

Hydralyte North America intends to follow all of the ASX Recommendations from Listing, with the following exceptions:

- ASX Recommendation 1.5, which provides that a listed entity should, through its board or a committee of the board, set measurable objectives for achieving gender diversity in the composition of its board, senior executives and workforce generally. Hydralyte North America has not set measurable diversity objectives. Hydralyte North America has a relatively small workforce. Accordingly, the Board intends to set measurable objectives over the course of 2022. The size of the Company and the scale of its operations will be taken in to account.
- ASX Recommendation 1.6, which provides that a listed entity should have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors. Hydralyte North America does not have a process for Board performance evaluation. Hydralyte North America has only recently finalised the composition of its Board. Accordingly, its Board intends to establish a process for Board performance evaluation over the course of 2022.
- ASX Recommendation 1.7, which provides that a listed entity should have and disclose a process for evaluating the performance of its senior executives at least once every reporting period. Hydralyte North America does not yet have a process for senior executive performance evaluation. The Board intends to establish a process for senior executive performance evaluation over the course of 2022.
- ASX Recommendation 2.2, which provides that a listed entity should have and disclose a board skills matrix setting out the mix of skills that the board currently has or is looking to achieve in its membership Hydralyte North America does not have a Board skills matrix. Hydralyte North America has only recently finalised the composition of the Board. Accordingly, the Board intends to adopt a Board skills matrix over the course of 2022.

- ASX Recommendation 4.1, which provides that a listed entity should have an audit committee comprising at least three members, all of whom should be non-executive directors and a majority of whom should be independent directors, and be chaired by an independent director who is not the chair of the board. The Company's Audit, Risk and Compliance Committee comprises three members, all of whom are Non-Executive Directors and the majority of whom are independent, and it is chaired by a Director who is not the chair of the Board (being Adem Karafili). However, the proposed chair of the Committee, Adem Karafili, is not considered independent director. Accordingly, ASX Recommendation 4.1 will not be followed on Listing. The Board considers that the non-independent Non-Executive Director serving as chair of the Audit, Risk and Compliance Committee will bring the desired mix of skills and qualifications required to effectively assist the Board in matters relating to the Company's audit, risk and compliance functions. In particular, the Board considers that Adem Karafili will add significant value to the Board and the Committee given his qualifications and extensive experience in the finance industry. The Board considers that Mr Karafili will bring objective and independent judgement to his role as chair of the Audit, Risk and Compliance Committee.
- ASX Recommendation 4.3, which provides that a listed entity should disclose its process to verify the integrity of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor. Hydralyte North America has not disclosed its process for verifying the integrity of periodic corporate reports that are not audited or reviewed by an external auditor. To date, Hydralyte North America has not had to issue periodic reports under the ASX Listing Rules and has had its FY19 and FY20 accounts audited or reviewed by PwC. Accordingly, the Board intends to finalise the process for verifying the integrity of periodic corporate reports that are not audited or reviewed by an external auditor over the course of 2022.

6.4.2 Board of Directors

The Board is currently made up of three Directors, comprising:

- George Livery, the independent, Non-Executive Chairman;
- Gretta van Riel, an independent, Non-Executive Director; and
- Adem Karafili, a Non-Executive Director (who is not independent).

Detailed biographies of the Board are provided in Section 6.1.

The Board considers a Director to be independent where he or she is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment and their ability to act in the best interests of the Company as a whole rather than in the interests of an individual Shareholder or any other person. The Board (with assistance from the Nomination and Remuneration Committee) will assess the independence of each Non-Executive Director in light of interests disclosed by them at least annually on a case-by-case basis. Each Non-Executive Director must provide the Board with all relevant information for this purpose.

Hydralyte North America's Board Charter sets out guidelines and thresholds of materiality to assist in considering the independence of Directors, and has adopted a definition of independence that is based on that set out in the ASX Recommendations.

The Board considers that each of George Livery and Gretta van Riel are independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment and are able to fulfil the role of independent Director for the purposes of the ASX Recommendations.

Adem Karafili is not currently considered by the Board to be independent given his security holding in the Company;

If the Board determines that a Director's independent status has changed, that determination will be disclosed to the market in a timely manner.

6.4.3 Board Charter

The Board has adopted a Board Charter to outline the manner in which its constitutional powers and responsibilities will be exercised and discharged. The Board Charter includes an overview of:

- the Board's composition;
- the Board's role and responsibilities;
- the relationship and interaction between the Board and management;
- the authority delegated by the Board to management and Board Committees; and
- the Board's process.

The Board must act in the best interests of the Company as a whole and is accountable to the Shareholders for the overall direction, management and corporate governance of the Company. In support of this, the Board's role is to:

- oversee and appraise the Company's strategies, governance, policies and performance;
- protect and optimise Company performance and build sustainable value for Shareholders in accordance with any duties and obligations imposed on the Board by law and the Company's Constitution and within a framework of prudent and effective controls that enable risk to be assessed and managed;
- set, review and ensure compliance with the Company's values and governance framework (including establishing and observing high ethical standards and promoting the responsible management and conduct of the Company); and
- ensure shareholders are kept informed of the Company's performance and major developments affecting its state of affairs.

The Board, together with the Remuneration and Nomination Committee, determines the size and composition of the Board (subject to the terms of the Company's Constitution and applicable law).

The management function is conducted by, or under the supervision of, the CEO as directed by the Board (and by other officers to whom the management function is properly delegated by the CEO). Management must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. Directors are entitled to request additional information at any time when they consider it appropriate. The Board collectively, and each Director individually, has the right to seek independent professional advice at the Company's expense, subject to the approval of the Chairperson of the Board.

6.4.4 Board Committees

The Board may from time to time establish committees to streamline the discharge of its responsibilities. The permanent standing committees of the Board are the Audit, Risk and Compliance Committee, the Remuneration and Nomination Committee and the Disclosure Committee. The Board may also delegate specific functions to ad hoc committees on an "as needs" basis. Directors are entitled to attend Board Committee meetings and receive Board Committee papers, and the Chairperson of each Board Committee will report back on Committee meetings at Board meetings.

6.4.4.1 Audit, Risk and Compliance Committee

Under its Charter, the Audit, Risk and Compliance Committee should have at least three members, all of whom must be Non-Executive Directors, a majority of independent Directors and an independent Chairperson who is not Chairperson of the Board.

Membership of the Audit, Risk and Compliance Committee is as follows:

- Adem Karafili (chair);
- Gretta van Riel; and
- George Livery.

The Committee's objectives are to review and make recommendations to the Board in relation to its accounting, auditing, financial reporting, risk management, internal control systems and legal and regulatory compliance responsibilities.

The Committee's key responsibilities and functions in this regard are to:

- ensure that the Company applies and maintains appropriate accounting and business policies and procedures;
- oversee, maintain and continually improve the quality, accuracy and integrity of the Company's external financial reporting and financial statements;
- oversee the appointment, remuneration, independence and effective performance of the Company's external auditors, and the Company's relationship with its external auditors;
- oversee the effectiveness of the Company's legal and regulatory compliance framework;
- oversee the effectiveness of the Company's risk identification and management framework;
- provide a forum for communication between the Board and management in relation to audit, risk and compliance matters affecting the Company; and
- promote a culture of compliance.

Non-Committee members, including members of management and the external auditor, may attend meetings of the Committee at the invitation of the Committee Chairperson. The Committee has rights of access to management and to auditors without management present, and rights to seek explanations and additional information from management and auditors. The Company does not have an internal audit function.

6.4.4.2 Remuneration and Nomination Committee

Under its Charter, the Remuneration and Nomination Committee should have at least three members, all of whom must be Non-Executive Directors, a majority of independent Directors and an independent Director as Committee Chairperson.

Membership of the Remuneration and Nomination Committee is as follows:

- George Livery (chair);
- Gretta van Riel; and
- Adem Karafili.

The role of the Committee is to assist and advise the Board on:

- Board succession planning generally;
- succession planning for the CEO and other direct reports to the CEO;
- continuing professional development programs for Directors;
- the development and implementation of a process for evaluating the performance of the Board, its Committees and individual Directors;
- the process for recruiting a new Director, including evaluating the balance of skills, knowledge, experience, independence and diversity on the Board and, in light of this evaluation, preparing a description of the role and capabilities required for a particular appointment; and
- the appointment and re-election of Directors,

with the objective of having a Board of a size and composition conducive to making appropriate decisions, with the benefit of a variety of perspectives and skills and in the best interests of the Company as a whole. The Committee will also strive to bring transparency, focus and independent judgement to decisions regarding the composition of the Board and to add value to the Board.

The Committee assists and advises the Board on remuneration policies and practices for the Board, the CEO, the CFO, senior executives and other persons whose activities, individually or collectively, materially affect the operations of the Company. The Committee also provides recommendations regarding remuneration-related reporting in the Company's financial statements and remuneration reports.

Non-Committee members, including members of management, may attend meetings of the Committee at the invitation of the Committee Chairperson.

6.5 Corporate Governance Policies

The Board has adopted the following corporate governance policies, each having been prepared having regard to the ASX Recommendations and which will be made available on Hydralyte North America's website at www.hydralyte.com.

6.5.1 Continuous Disclosure Policy

Once listed, the Company will be required to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. The Company is aware of its obligation to keep the market fully informed of any information the Company becomes aware of concerning itself that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

The Company has adopted a Continuous Disclosure Policy and a Communications Policy and established a Disclosure Committee to ensure compliance with these requirements.

6.5.2 Communication with Shareholders

The Company aims to communicate all important information relating to the Company to its Shareholders. Additionally, the Company recognises that potential investors and other interested stakeholders may wish to obtain information about the Company from time to time. To achieve this, the Company communicates information regularly to Shareholders and other stakeholders through a range of forums and publications, including the Company website, at the annual general meeting, through the Company's Annual Report and ASX announcements.

6.5.3 Securities Dealing Policy

The Company has adopted a Securities Dealing Policy which is intended to explain the types of conduct in dealings in securities that are prohibited under the Corporations Act and explain the Company's policy and procedure for the buying and selling of securities that protects the Company, Directors and employees against the misuse of unpublished information which could materially affect the price or value of securities. The policy applies to Directors, officers, senior management and other employees, consultants and contractors of the Hydralyte North America Group (collectively, **Employees**).

The policy provides that Employees must not:

- deal in the Company's securities when they are aware of confidential information that is materially price sensitive or "inside" information;
- deal in the Company's securities when the Company has notified Employees that they must not do so;
- deal in the Company's securities on a speculative or short-term trading basis;
- hedge Company securities acquired under an employee, executive or Director equity plan that have not yet vested or are subject to a holding lock or restriction on dealing under the terms of the plan;
- enter into a margin lending arrangement in respect of the Company's securities; and
- deal in securities in another company where they are aware of "inside" information in relation to that company.

In addition, Directors, key management personnel and other persons who have been advised by the Company Secretary that they are subject to special restrictions (collectively, **Restricted Persons**) and their connected persons must not deal in the Company's securities during any of the following blackout periods (except in exceptional circumstances with approval):

- the period from the close of trading on the ASX on 31 December each year until two business days following the announcement of the Company's full-year results;
- the period from the close of trading on the ASX on 30 June each year until two business days following the announcement of the Company's half-year results;

- while the Company is required to lodge an Appendix 4C (Quarterly Report) with ASX:
  - the period from the close of trading on the ASX on 31 March each year until two business days following the lodgement with ASX of the Appendix 4C for that period; and
  - the period from the close of trading on the ASX on 30 September each year until two business days following the lodgement with ASX of the Appendix 4C for that period;
- the period from 28 days before until the day following the Company's annual general meeting; and
- any other period that the Board specifies from time to time.

Incomplete buy or sell orders which are placed but not completed outside of a blackout period must be completed within 3 trading days and cannot be varied during the blackout period.

Otherwise, trading by Restricted Persons and their connected persons is permitted but must be approved by the Company prior to trading. Restricted Persons and their connected persons must also not deal in financial products issued over Company securities by third parties, unless the Company securities form a component of a listed portfolio or index product.

In all instances, dealing in the Company's securities is not permitted at any time by any person who possesses "inside" information.

6.5.4 Code of Conduct

The Company is committed to a high level of integrity and ethical standards in all business practices. Accordingly, the Board has adopted a formal Code of Conduct which outlines how the Company expects its representatives to behave and conduct business in the workplace and includes legal compliance and guidelines on appropriate ethical standards.

The Code of Conduct also contains the Company's core values, which are sustainability, healthy living, integrity and the highest standards of ethical, responsible and law-abiding behaviour. All employees of the Company (including temporary employees, contractors, Company Directors, officers, consultants and other persons that act on behalf of the Company) must comply with the Code of Conduct.

The objective of the Code of Conduct is to:

- provide a benchmark for professional behaviour throughout the Company;
- articulate the Company's core values;
- support the Company's business reputation and corporate image within the community; and
- make Directors and employees aware of the consequences if they breach the policy.

The Code of Conduct also includes provisions for whistleblower protections for the reporting of fraudulent, unethical or irresponsible behaviour, and prohibitions on fraud, bribery and corruption.

6.5.5 Diversity Policy

The Board has formally adopted a Diversity Policy, which sets out Hydralyte North America's vision for diversity, incorporating a number of different factors including gender, ethnicity, age and socio-economic background. The Diversity Policy has been approved in order to actively facilitate a more diverse and representative management and leadership structure.

The Board will include in its annual report each year a summary of the Company's progress towards achieving the measurable objectives set under the Diversity Policy and the Company's most recent "Gender Equality Indicators" as defined by the *Workplace Gender Equality Act 2012* (Cth) or, where the Company is not required to comply with that Act, the proportion of female employees, senior executives and Board members.

7. Details of the Offer

7. Details of the Offer

7.1 The Offer

This Prospectus relates to the initial public offer of 58,620,690 Shares by Hydralyte North America at the Offer Price to raise AU$17.0 million (before costs and expenses). The Minimum Subscription for the Offer to proceed is AU$17.0 million. The Shares offered under this Prospectus will represent approximately 36.4% of the Shares on issue on Completion of the Offer.

The "free float" (for the purposes of ASX Listing Rule 1.1) will be approximately 56.0% of the Shares on issue at Listing.

The Shares will be fully paid ordinary shares and will, once issued, rank equally with the Shares on issue as at completion of the Restructure. A summary of the rights attaching to the Shares is set out in Section 9.6.

The Offer is not underwritten.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus.

7.1.1 Minimum Subscription

The Minimum Subscription for the Offer is 58,620,690 Shares to raise AU$17.0 million. If the Minimum Subscription is not achieved within three (3) months after the date of this Prospectus, the Company will not allot any Shares and all Application Monies will be returned without interest.

7.1.2 Structure of the Offer

The Offer comprises:

- the Retail Offer, comprising:
  - the General Public Offer, which is open to Australian resident investors and consists of an invitation to apply for Shares at the Offer Price; and
  - the Broker Firm Offer which is open to persons who have received a firm allocation from their Broker and who have a registered address in Australia; and
- the Institutional Offer, which consists of an invitation to certain Institutional Investors in Australia and a number of other eligible jurisdictions to apply for Shares.

7.1.3 Purpose of the Offer and use of proceeds

The purpose of the Offer is to:

- raise funds to invest in brand, marketing, sales channel expansion, product development and to expand the capability of the Hydralyte North America team;
- provide the Company access to capital markets, which it expects will provide additional financial flexibility to pursue further growth opportunities;
- achieve a listing on ASX to broaden the Company's shareholder base and provide a liquid market for its Shares;
- assist the Company in attracting and retaining high quality staff; and
- increase brand awareness that may arise from being a listed entity.

The uses of the funds raised under the Offer are set out in table 7.1 below.

Table 7.1: Uses of Offer Proceeds

Use of funds	Amount in Australian dollars	% of Proceeds
Marketing through online and retail channels, including: • celebrity and influencer costs • online and other advertising • costs of advertising agencies	AU$8.5 million	50.0%
New product development	AU$1.4 million	8.3%
Operating expenses including governance, warehousing and distribution costs and administration expenses	AU$3.4 million	20.0%
Working capital	AU$1.4 million	8.3%
Costs of the Offer	AU$2.3 million	13.3%
Total uses	**AU$17.0 million**	**100%**

The Board reserves the right to vary these uses of funds, acting in the best interests of Shareholders and as circumstances require.

7.1.4 Shareholding structure

The details of the ownership of Shares as at the Prospectus Date and on Completion of the Offer are set out in the table below. This table 7.2 assumes completion of the Restructure and excludes any Shares applied for in the Offer.

Table 7.2: Details of the ownership of Shares

	Shares as at Prospectus Date		Convertible Notes held as at the Prospectus Date	Shareholdings as at Completion of the Offer	
	Shares	**%**	**# of Convertible Notes**	**Shares**	**%**
Radek Sali[1,2]	10,951,779	18.5%	85,000	11,515,791	7.2%
Dan O'Brien[2]	13,941,594	23.5%	150,000	14,936,910	9.3%
Adem Karafili[2]	896,873	1.5%	100,000	1,560,417	1.0%
Regal Emerging Companies Opportunities Fund[2]	5,979,150	10.1%	500,000	9,296,871	5.8%
Other Existing Shareholders[2,3]	27,504,230	46.4%	336,954	29,872,777	18.6%
Convertible Noteholders[4]	–	0.0%	5,328,046	35,221,226	21.9%
New Shareholders[5]	–	0.0%	–	58,622,690	36.4%
Total	**59,273,626**	**100.0%**	**6,500,000**	**161,026,683**	**100.0%**

The shareholdings of each of Radek Sali, Dan O'Brien, Adem Karafili and Regal Emerging Companies Opportunities Fund are held indirectly, through controlled entities or custodians.

1. Shareholdings at Completion of the Offer excludes the 780,049 Shares received as fee for providing services in relation to the Offer.
2. Excludes any Shares subscribed for in the Offer.
3. Excluding Radek Sali, Dan O'Brien, Adem Karafili and Regal Emerging Companies Opportunities Fund.
4. Excluding Radek Sali, Dan O'Brien, Adem Karafili, Regal Emerging Companies Opportunities Fund and Other Existing Shareholders.
5. Includes the 2,000 Shares to be issued under the Cleansing Offer.

Details of the Shares that will be subject to escrow arrangements are set out in Section 9.7.

For personal use only

7.1.5 Options

The details of the ownership of Options on Completion of the Offer are set out in Sections 6.3.2.3, 6.3.4.1 and 6.3.4.2.

7.1.6 Control of the Company

The Directors do not expect that any single Shareholder will control the Company on Completion of the Offer.

7.1.7 Working capital

The Directors believe that following Completion of the Offer, the Company will have sufficient working capital to fulfil the purposes of the Offer and carry out its stated business objectives.

7.1.8 The Cleansing Offer

Under the Cleansing Offer, the Company will offer 2,000 Shares at the Offer Price to raise AU$580.

The Cleansing Offer is being undertaken to remove any restrictions on the sale of Shares issued by the Company on conversion of the Convertible Notes (at a time when the Offer has closed). The Cleansing Offer will remain open after the close of the Offer.

7.2 Terms and conditions of the Offer

Topic	Summary
What is the type of security being offered?	Shares (being fully paid ordinary shares in the capital of the Company).
What are the rights and liabilities attached to the Shares being offered?	A description of the Shares, including the rights and liabilities attaching to them, is set out in Section 9.6.
What is the consideration payable for each Share being offered?	The Offer Price is AU$0.29 per Share.
What is the Offer Period?	The key dates, including details of the Offer Period, are set out in the key dates on page 5 of this Prospectus. No Shares will be issued on the basis of this Prospectus later than the Expiry Date. The key dates are indicative only and may change. Unless otherwise indicated, all times are stated in Melbourne time. The Company, in consultation with the Lead Manager reserves the right to amend any or all of the dates and times subject to the Corporations Act, the ASX Listing Rules and other applicable laws, including closing the Offer (or any part of it) early, extending the Offer, deferring the date of Completion of the Offer, accepting late Applications either generally or in particular cases, allotting Shares at different times to investors, or to withdraw the Offer, without prior notice.
What are the cash proceeds to be raised under the Offer?	AU$17.0 million will be raised from New Shareholders under the Retail Offer and the Institutional Offer.

Topic	Summary
How is the Offer structured?	The Offer comprises: • the Institutional Offer, which consists of an invitation to certain Institutional Investors in Australia and a number of other eligible jurisdictions to apply for Shares; and • the Retail Offer, comprising: – the General Public Offer, which is open to Australian resident investors and consists of an invitation to apply for Shares at the Offer Price; and – the Broker Firm Offer, which is open to persons who have received an invitation from their Broker and who have a registered address in Australia.
What is the minimum Application size under the Offer?	The minimum Application size under the Offer is AU$2,000 (equivalent to 6,897 Shares in aggregate). There is no maximum Application size under the Offer, however the Company and the Lead Manager reserve the right to reject any Application or to allocate to an Applicant a lesser number of Shares than that applied for.
What is the allocation policy?	The allocation of Shares between the Retail Offer and the Institutional Offer will be determined by the Company in consultation with the Lead Manager. The Company, in consultation with the Lead Manager, has discretion regarding the basis of allocation of Shares among Institutional Investors. Under the Retail Offer, a proportion of Shares to be determined by the Company in consultation with Lead Manager will be allocated to Broker Firm Offer Applicants as part of the Broker Firm Offer. Brokers will decide as to how they allocate Shares that they are allocated to their retail clients. The General Public Offer may be subject to scaleback, having regard to the level of demand in the Offer generally.
When will Applicants receive confirmation whether Applications are successful?	It is expected that holding statements will be despatched by standard post on or about Monday, 6 December 2021.
Will the Shares be listed?	Hydralyte North America will apply to ASX for admission to the Official List and quotation of the Shares within seven days of the Prospectus Date, under the code “HPC”. Completion of the Offer is conditional on ASX approving the application and granting permission for the Shares to be quoted on ASX on terms acceptable to the Company. If this approval and permission is not given within three months of the Prospectus Date (or any longer period permitted by law), the Offer will be withdrawn and all monies received from Applicants will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act. The Company will be required to comply with the ASX Listing Rules, subject to any waivers obtained by the Company from time to time. Neither ASX nor ASIC takes responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit the Company to the Official List is not to be taken as an indication of the merits of Hydralyte North America or the Shares offered for subscription.

Topic	Summary
Is the Offer subject to any other conditions?	Completion of the Offer is subject to completion of the Restructure. Completion of the Restructure is expected to occur on Thursday, 2 December 2021. If the Restructure does not complete, the Offer will not proceed. The Offer also has a Minimum Subscription of 58,620,690 Shares to raise gross proceeds of AU$17.0 million. If the Minimum Subscription is not achieved within three (3) months after the date of this Prospectus, the Offer will not proceed and the Application Monies will be returned (without interest).
When are the Shares expected to commence trading?	It is expected that trading of the Shares on the ASX will commence on Thursday, 9 December 2021. It is the responsibility of each Applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive a holding statement do so at their own risk. The Company and the Lead Manager disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their holding statement, whether on the basis of a confirmation of allocation provided by any of them, by the Hydralyte North America Offer Information Line, by a Broker or otherwise.
Is the Offer underwritten?	No, the Offer is not underwritten.
Are there any escrow arrangements?	Yes. Details are provided in Section 9.7.
Has any ASIC relief or ASX waiver or confirmation been obtained?	Yes. Details are provided in Section 9.8.
Are there any tax considerations?	Yes. Refer to Section 9.10.
Are there any brokerage, commission or stamp duty considerations?	No brokerage, commission or stamp duty is payable by Applicants on the acquisition of Shares under the Offer. Please see Section 9.10.5.
Can the Offer be withdrawn?	The Company reserves the right not to proceed with the Offer at any time before the issue of Shares to Successful Applicants. If the Offer does not proceed, Application Monies will be refunded (without interest).
Where to direct any enquiries?	All enquiries in relation to this Prospectus should be directed to the Hydralyte North America Offer Information Line on 1300 288 664 (within Australia) or +61 (2) 9698 5414 (outside Australia) from 9:00am to 5:00pm (Melbourne time), Monday to Friday (excluding public holidays). All enquiries in relation to the Broker Firm Offer should be directed to your Broker. If you are unclear in relation to any matter or are uncertain as to whether Hydralyte North America is a suitable investment for you, you should consult with your stockbroker, accountant or other independent and qualified professional adviser before deciding whether to invest.

7.3 Retail Offer

7.3.1 General Public Offer

7.3.1.1 Who can apply in the General Public Offer?

The General Public Offer is open to Australian resident investors who are not Broker Firm Offer Applicants.

7.3.1.2 How to apply for Shares under the General Public Offer

Applications for Shares under the General Public Offer should be made online.

Applicants should visit the Offer Website at https://investor.automic.com.au/#/ipo/hydralyte and follow the instructions. If you require a paper copy of the Application Form together with the Prospectus, please contact the Hydralyte North America Offer Information Line.

A completed and lodged online Application Form together with payment for the Application Monies constitutes a binding and irrevocable offer to subscribe for the number of Shares specified in the Application Form. The Application Form does not need to be signed to be valid. If the Application Form is not completed correctly or if the accompanying payment is for the wrong amount, it may be treated by the Company as valid. The Directors' decision as to whether to treat such an Application as valid and how to construe, amend or complete the Application Form is final.

The Company and the Lead Manager reserve the right to aggregate any Applications which they believe may be multiple Applications from the same person. The Company may determine a person to be eligible to participate in the Offer, and may amend or waive the Offer application procedures or requirements, in its discretion and in compliance with applicable laws.

7.3.1.3 How to pay

Applicants should apply online with payment made electronically via BPAY®. Investors will be directed to use an online Application Form at https://investor.automic.com.au/#/ipo/hydralyte and make payment by BPAY®. Applicants will be given a BPAY® biller code and a customer reference number (CRN) unique to the online Application once the online Application Form has been completed.

BPAY® payments must be made from an Australian dollar account of an Australian institution.

You should be aware that your financial institution may implement earlier cut off times with regard to electronic payment and you should take this into consideration when making payment. None of the Company, the Lead Manager or the Share Registry takes any responsibility for any failure to receive Applications Monies or payment before the Offer closes arising as a result of, among other things, delays in processing of payments by financial institutions.

For more information, Applicants should refer to the Offer Website at https://investor.automic.com.au/#/ipo/hydralyte or contact the Hydralyte North America Offer Information Line on 1300 288 664 (within Australia) or +61 (2) 9698 5414 (outside Australia) from 9:00 am to 5:00 pm (Melbourne time), Monday to Friday (excluding public holidays).

7.3.2 Broker Firm Offer

7.3.2.1 Who can apply in the Broker Firm Offer?

The Broker Firm Offer is open to clients of participating Brokers who have a registered address in Australia and who have received an invitation from a Broker to acquire Shares under this Prospectus. Investors who have been offered a firm allocation by a Broker will be treated as an Applicant under the Broker Firm Offer in respect of that allocation.

You should contact your Broker to determine whether you can receive an allocation of Shares under the Broker Firm Offer.

The Broker Firm Offer is not a general public offer and is not open to persons in the United States.

7.3.2.2 How to apply for Shares under the Broker Firm Offer

Applications for Shares may only be made on an Application Form attached to or accompanying this Prospectus or any replacement or supplementary prospectus. Applicants must complete and lodge their Broker Firm Offer Application Form with the Broker from whom they received their invitation. Broker Firm Offer Application Forms must be completed in accordance with the instructions given to you by the Broker and the instructions set out on the Broker Firm Offer Application Form.

Applicants should contact their Broker about the minimum and maximum Application amount. The Company and the Lead Manager reserve the right to aggregate any Applications which they believe may be multiple Applications from the same person. The Company may determine a person to be eligible to participate in the Broker Firm Offer, and may amend or waive the Broker Firm Offer application procedures or requirements, in its discretion and in compliance with applicable laws.

Applicants must lodge their Broker Firm Offer Application Form and Application Monies with the relevant Broker in accordance with the Broker's directions in order to receive an allocation of Shares. Applicants under the Broker Firm Offer must not send their Broker Firm Offer Application Forms to the Share Registry.

7.3.2.3 How to pay

Applicants under the Broker Firm Offer must pay their Application Monies to their Broker in accordance with instructions provided by the Broker.

7.3.3 Allocation policy under the Retail Offer

Under the Retail Offer, a proportion of Shares will be allocated to Broker Firm Offer Applicants as part of the Broker Firm Offer. Brokers will decide as to how they allocate Shares that they are allocated to their retail clients.

If the Retail Offer is oversubscribed, the Company retains the right to scale back Applications at its absolute discretion.

7.3.4 How do I confirm my allocation?

In order to confirm your allocation under the General Public Offer, Applicants should contact the Hydralyte North America Offer Information Line on 1300 288 664 (within Australia) or +61 (2) 9698 5414 (outside Australia) from 9:00 am to 5:00 pm (Melbourne time), Monday to Friday (excluding public holidays). Institutional Investors should contact the Lead Manager.

Applicants under the Broker Firm Offer should contact their Broker to confirm their allocation.

The Company and the Lead Manager disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their holding statement, whether on the basis of a confirmation of allocation provided by any of them, by the Share Registry or otherwise.

7.3.5 Is there a minimum or maximum Application size?

Applications under the Offer must be for a minimum of AU$2,000 of Shares and in multiples of AU$1,000 thereafter. There is no maximum Application Size.

7.4 Offer Period, Applications and refunds

7.4.1 Offer Period

The Retail Offer opens at 9:00am (Melbourne time) on Thursday, 11 November 2021 and is expected to close at 5:00pm (Melbourne time) on Friday, 26 November 2021. The Company and the Lead Manager may elect to close the Retail Offer (or any part of it) early, extend the Offer or any part of it, or accept late Applications either generally or in particular cases.

For Broker Firm Offer participants, your Broker may impose an earlier closing date. Applicants under the Broker Firm Offer are therefore encouraged to submit their Applications as early as possible.

You should be aware that your financial institution may implement earlier cut off times with regard to electronic payment and you should take this into consideration when making payment. None of the Company, the Lead Manager or the Share Registry takes any responsibility for any failure to receive Applications Monies or payment before the Retail Offer closes arising as a result of, among other things, delays in processing of payments by financial institutions.

7.4.2 Applications and refunds

The Company reserves the right to decline any Application in whole or in part, without giving any reason. Applicants whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will receive a refund of all or part of their Application Monies, as applicable. Interest will not be paid on any Application Monies refunded.

Applicants whose Applications are accepted in full will receive the whole number of Shares calculated by dividing the Application Monies paid by the Offer Price. Where the Offer Price does not divide exactly into the Application Monies paid, the number of Shares to be allocated will be rounded up. No refunds pursuant solely to rounding will be provided.

If the amount of the Application Monies that you pay is less than the amount specified on your Application Form, you may be taken to have applied for such lower amount of Shares that your cleared Application Monies will pay for (and to have specified that amount on your Application Form), or your Application may be rejected.

You should ensure that sufficient funds are held in the relevant account(s) to cover the amount of your BPAY® payment.

Acceptance of an Application will give rise to a binding contract on the terms and conditions set out in this Prospectus and the Application Form. To the extent permitted by applicable law, an Application is irrevocable.

The Company and the Lead Manager reserve the right to reject any Application, including an Application which is not correctly completed or which is submitted by a person who they believe is ineligible to participate in the Offer, or to waive or correct any errors made by the Applicant in completing their Application.

7.4.3 The Cleansing Offer

The Cleansing Offer opens on the Opening Date and closes on the Cleansing Offer Closing Date.

Applications for Shares under the Cleansing Offer should only be made if you are invited to do so by the Company.

7.5 Institutional Offer

7.5.1 Invitations to Bid

Under the Institutional Offer, Institutional Investors in Australia, New Zealand, Hong Kong, Singapore, the United Kingdom and certain other eligible jurisdictions are invited to bid for an allocation of Shares under this Prospectus. The Lead Manager will separately advise Institutional Investors of the Application procedures for the Institutional Offer.

7.5.2 Allocation policy under the Institutional Offer

The allocation of Shares between the Institutional Offer and the Retail Offer is determined by the Company in consultation with the Lead Manager. The Company, in consultation with the Lead Manager, has discretion regarding the basis of allocation of Shares among Institutional Investors.

Participants in the Institutional Offer have been advised of their allocation of Shares, if any, by the Lead Manager. The allocation policy was influenced, but not constrained, by the following factors:

- number of Shares bid for by particular Applicants;
- the timeliness of the bid by particular Applicants;
- the Company's desire for an informed and active trading market following Completion of the Offer;
- the Company's desire to establish a wide spread of institutional Shareholders;
- overall anticipated level of demand under the General Public Offer, Broker Firm Offer and Institutional Offer;
- the size and type of funds under management of particular Applicants;
- the likelihood that particular Applicants will be long-term securityholders; and
- other factors that the Company and the Lead Manager considered appropriate.

7.6 Acknowledgements

It is the responsibility of Applicants outside Australia to obtain all necessary approvals for the allotment and issue of Shares pursuant to this Prospectus. The return of a completed Application Form will be taken by the Company to constitute a representation and warranty by the Applicant that all relevant approvals have been obtained.

Each Applicant under the Offer will be deemed to have:

- agreed to become a member of the Company and to be bound by the terms of the Constitution and the terms and conditions of the Offer;
- acknowledged having personally received a printed or electronic copy of this Prospectus (and any supplementary or replacement prospectus) including or accompanied by the Application Form and having read them all in full;

- declared that all details and statements in their Application Form are complete and accurate;
- declared that the Applicant, if a natural person, is over 18 years of age and have full legal capacity and power to perform all its rights and obligations under the Application Form;
- acknowledged that, once the Company, the Lead Manager, the Share Registry or a Broker receives an Application Form, it may not be withdrawn;
- applied for the number of Shares at the Australian dollar amount shown on the front of the Application Form, or such lesser amount as represented by the Application Monies paid;
- agreed to being allocated and issued the number of Shares applied for (or a lower number allocated in a way described in this Prospectus), or no Shares at all;
- authorised the Company, the Lead Manager and their respective officers or agents, to do anything on behalf of the Applicant necessary for Shares to be allocated to the Applicant, including to act on instructions received by the Share Registry upon using the contact details in the Application Form;
- acknowledged that the Company has no current intention to pay dividends, and that if any dividends are paid in the future (about which there is no guarantee) they are unlikely to be franked;
- acknowledged that the information contained in this Prospectus (or any supplementary or replacement prospectus) is not financial product advice or a recommendation that Shares are suitable for the Applicant, given the investment objectives, financial situation or particular needs (including financial and taxation issues) of the Applicant;
- acknowledges that the Shares have not, and will not be, registered under the securities laws in any other jurisdictions outside Australia and accordingly, the Shares may not be offered, sold or otherwise transferred except in accordance with an available exemption from, or in a transaction not subject to, the registration requirements of applicable securities laws;
- declared that the Applicant is a resident of Australia (except as applicable to the Institutional Offer), or otherwise satisfies the requirements in Section 9.11; and
- acknowledged and agreed that the Offer may be withdrawn by the Company or may otherwise not proceed in the circumstances described in this Prospectus.

7.7 Discretion regarding the Offer

The Company may withdraw the Offer at any time before the issue and allotment of Shares to successful Applicants under the Offer. If the Offer does not proceed, all Application Monies received from Applicants will be refunded (without interest). The Company also reserves the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications or bids either generally or in particular cases, reject any Application, or allocate to any Applicant fewer Shares than those applied for.

7.8 Ownership restrictions

The sale and purchase of Shares in the Company is regulated by Australian laws that restrict the level of ownership or control by any one person (either alone or in combination with others). This Section 7.8 contains a general description of these laws.

7.8.1 Corporations Act

The takeover provisions in Chapter 6 of the Corporations Act restrict acquisitions of shares in listed companies, and unlisted companies with more than 50 members, if the acquirer's (or another party's) voting power would increase to above 20%, or would increase from a starting point that is above 20% and below 90%, unless certain exceptions apply.

The Corporations Act also imposes notification requirements on persons having voting power of 5% or more in the Company.

7.8.2 Foreign Acquisitions and Takeovers Act and Foreign Investment Policy

Generally, the *Foreign Acquisitions and Takeovers Act 1975* (Cth) (**FATA**) applies to acquisition of shares and voting power in a company of 20% or more by a single foreign person and its associates (**Substantial Interest**), or 40% or more by two or more unassociated foreign persons and their associates (**Aggregate Substantial Interest**), where the acquisition meets a threshold value (which varies by investor type and industry). Where a foreign person holds a Substantial Interest in the Company or foreign persons hold an Aggregate Substantial Interest in the Company, the Company will be a 'foreign person' for the purposes of FATA.

In addition, FATA applies to acquisitions of a direct interest in an Australian company by foreign governments and their related entities irrespective of the acquisition value. A 'direct interest' is an interest of 10% in the entity but may also include an interest of less than 10% where the investor has entered into business arrangements with the entity, or the investor is in a position to influence or participate in the management and control or policy of the entity. There are exemptions that can apply to certain acquisitions.

Where FATA applies to the acquisition, the acquisition may not occur unless notice of it has been given to the federal treasurer and the federal treasurer has either notified that there is no objection to the proposed acquisition (with or without conditions) or a statutory period has expired without the federal treasurer objecting.

An acquisition to which the FATA applies may be the subject of a divestment order by the federal treasurer unless the process of notification, and either a non-objection notification or expiry of a statutory period without objection, has occurred. Criminal offences and civil penalties can apply to failing to give notification of certain acquisitions, undertaking certain acquisitions without a no-objection notification or contravening a condition in a no-objection notification.

7.9 Restrictions on distribution

No action has been taken to register or qualify this Prospectus, the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia. The Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state or other jurisdiction in the United States and may not be offered, sold, pledged or transferred in the United States except in accordance with an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and any other applicable laws.

This Prospectus may only be distributed in Australia and, outside Australia, to persons to whom the Offer may be lawfully made in accordance with the laws of the applicable jurisdiction, provided that this Prospectus may not be distributed in the United States.

The Offer is not an offer or invitation in any jurisdiction where, or to any person to whom, such an offer or invitation would be unlawful.

Each Applicant will be taken to have represented, warranted and agreed as follows:

- it understands that the Shares have not been, and will not be, registered under the US Securities Act and may not be offered, sold or resold in the United States, except in a transaction exempt from, or not subject to, registration under the US Securities Act and any other applicable securities laws;
- it is not in the United States;
- it has not and will not send this Prospectus or any other material relating to the Offer to any person in the United States; and
- it will not offer or sell the Shares in the United States or in any other jurisdiction outside Australia except in transactions exempt from, or not subject to, registration under the US Securities Act and in compliance with all applicable laws in the jurisdiction in which the Shares are offered and sold.

Each Applicant under the Institutional Offer is required to make certain representations, warranties and covenants set out in the confirmation of allocation letter distributed to it.

7.10 ASX listing, registers and holding statements

7.10.1 Application to ASX for listing of Hydralyte North America and quotation of Shares

Hydralyte North America will apply to ASX for admission to the Official List and quotation of the Shares on ASX under the code "HPC". The application for admission must be made within seven days of the Prospectus Date.

A copy of this Prospectus has been lodged with ASIC. Neither ASX nor ASIC takes responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit Hydralyte North America to the Official List is not to be taken as an indication of the merits of Hydralyte North America or the Shares offered for subscription.

If permission is not granted for the Shares to be quoted on ASX on terms acceptable to the Company within three months of the Prospectus Date (or any later date permitted by law), all Application Monies received by the Company in connection with the Offer will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act.

The Company will be required to comply with the ASX Listing Rules, subject to any waivers obtained by the Company from time to time.

7.10.2 CHESS and issuer sponsored holdings

Hydralyte North America will apply prior to Listing, to participate in the ASX's Clearing House Electronic Sub-register System (**CHESS**) and will comply with the ASX Listing Rules and the ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on ASX under which transfers are effected in an electronic form.

When the Shares become approved financial products (as defined in the ASX Settlement Operating Rules), holdings will be registered in one of two sub-registers, being an electronic CHESS sub-register or an issuer sponsored sub-register. For all successful Applicants who have provided a Holder Identification Number (**HIN**), the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by a participant in CHESS will be registered on the CHESS sub-register. All other Shares will be registered on the issuer sponsored sub-register.

Following Completion of the Offer, Shareholders will be sent a holding statement that sets out the number of Shares that have been allocated to them. This statement will also provide details of a Shareholder's HIN for CHESS holders or, where applicable, the Securityholder Reference Number (**SRN**) of issuer sponsored holders.

Shareholders will subsequently receive statements showing any changes to their Shareholding. Share certificates will not be issued.

Shareholders will receive subsequent statements during the first week of the following month if there has been a change to their holding on the register and as otherwise required under the ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring broker in the case of a holding on the CHESS sub-register or through the Share Registry in the case of a holding on the issuer sponsored sub-register. The Company and the Share Registry may charge a fee for these additional issuer sponsored statements.

8. Independent Limited Assurance Report

8. Independent Limited Assurance Report

The Directors
Level 42, Rialto South Tower
525 Collins Street
Melbourne VIC 3000

3 November 2021

Dear Directors

Investigating Accountant's Report

Independent Limited Assurance Report on The Hydration Pharmaceuticals Company Limited historical and pro forma historical financial information and Financial Services Guide

We have been engaged by The Hydration Pharmaceuticals Company Limited (the **Company**) to report on the historical financial information and pro forma financial information of the company, as defined below, for inclusion in the prospectus (**Offer Document**) dated on or about 3 November 2021 and relating to the proposed initial public offering of fully paid ordinary shares in the Company and listing of the Company on the Australia Securities Exchange (**Offer**).

Expressions and terms defined in the Offer Document have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian financial services licence under the Corporations Act 2001. PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers holds the appropriate Australian financial services licence under the Corporations Act 2001. This report is both an Investigating Accountant's Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

Scope

You have requested PricewaterhouseCoopers Securities Ltd to review the following historical financial information of the Company (the responsible party) included in the Offer Document:

Historical Financial Information

- Statement of Financial Position as at 30 June 2021;
- Statements of Financial Performance for the years ended 31 December 2019 (FY19) and 31 December 2020 (FY20) and for the six-month periods ended 30 June 2020 (1H FY20) and 30 June 2021 (1H FY21); and
- Statements of Cash Flows for the years ended FY19 and FY20 and 1H FY20 and 1H FY21.

The historical financial information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting

PricewaterhouseCoopers Securities Ltd, ACN 003 311 617, ABN 54 003 311 617, Holder of Australian Financial Services Licence No 244572
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331 MELBOURNE VIC 3001
T: +61 3 8603 1000, F: +61 3 8603 1999, www.pwc.com.au

pwc

Standards and the Company's adopted accounting policies. The historical financial information has been extracted from the financial reports of the Company for the years ended 31 December 2019 (FY19) and 31 December 2020 (FY20), which were audited by the Australian Firm of PricewaterhouseCoopers ("PwC Australia"), and the financial reports of the Company for the six months ended 30 June 2020 (1H FY20) and 30 June 2021 (1H FY21), which were reviewed by PwC Australia, both in accordance with the Australian Auditing Standards. PwC Australia issued unmodified audit opinions with respect to the FY19 and FY20 financial statements and issued an unmodified review conclusion with respect to the 1H FY21 financial statements. However, without modifying its opinions and conclusions with respect to each set of financial statements, PwC Australia drew attention to the Company's ability to continue as a going concern being dependent on its success in raising additional capital. PwC Australia noted that there was, at the time its opinions and conclusions were issued, a material uncertainty that cast significant doubt about the Company'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.

The historical financial information is presented in the Offer Document in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

Pro Forma historical financial information

- pro forma historical Statement of Financial Position as at 30 June 2021;
- pro forma historical Statements of Financial Performance for FY19 and FY20, 1H FY20 and 1H FY21 and the 12 months ended 30 September 2020 (LTM Sep20) and the three months ended 30 September 2020 (Q3 FY20); and
- pro forma historical Statements of Cash Flows for FY19 and FY20 and for 1H FY20 and 1H FY21.

The pro forma historical financial information has been derived from the historical financial information of the Company, after adjusting for the effects of pro forma adjustments described in section 4 of the Offer Document. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies applied to the historical financial information and the events or transactions to which the pro forma adjustments relate, as described in section 4 of the Offer Document, as if those events or transactions had occurred as at the date of the historical financial information. Due to its nature, the pro forma historical financial information does not represent the Company's actual or prospective financial position, financial performance, and cash flows.

Pro Forma Forecast

- the pro forma forecast Statements of Financial Performance of the Company for the 12 months ending 30 September 2021 (LTM Sep21) and the three months ending 30 September 2021 (Q3 FY21), described in section 4 of the Offer Document.

The Pro Forma Forecast has been derived from the Company's Forecast, after adjusting for the effects of the pro forma adjustments described in section 4 of the Offer Document. The stated basis of preparation used in the preparation of the Pro Forma Forecast being the recognition and measurement principles contained in Australian Accounting Standards applied to the forecast and the events or transactions to which the pro forma adjustments relate, as described in section 4 of the Offer Document, as if those events or transactions had occurred as at date of the forecast financial information. Due to its nature, the Pro Forma Forecast does not represent the company's actual prospective financial performance for the year ending 30 September 2021 or the three months ending 30 September 2021.

Directors' responsibility

The directors of the Company are responsible for the preparation of the Historical Financial Information and Pro Forma Historical Financial Information, including its basis of preparation and the selection and determination of pro forma adjustments made to the Historical Financial Information and included in the Pro Forma Historical Financial Information.

The directors of the Company are also responsible for the preparation of the Forecast, including its basis of preparation and the best-estimate assumptions underlying the Forecast. They are also responsible for the preparation of the Pro Forma Forecast, including its basis of preparation and the selection and determination of the pro forma adjustments made to the Forecast and included in the Pro Forma Forecast This includes responsibility for its compliance with applicable laws and regulations and for such internal controls as the directors determine are necessary to enable the preparation of historical financial information, pro forma historical financial information, a forecast and a pro forma forecast that are free from material misstatement.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the Historical Financial Information, the Pro Forma Historical Financial Information, the Forecast and Pro Forma Forecast, the best-estimate assumptions underlying the Forecast and Pro Forma Forecast, and the reasonableness of the Forecast and Pro Forma Forecast themselves, based on the procedures performed and the evidence we have obtained . We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

Conclusions

Historical financial information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the historical financial information of the Company, as described in section 4 of the Offer Document, and comprising:

- Statement of Financial Position as at 30 June 2021;

- Statements of Financial Performance for FY19, FY20, 1H FY20 and 1H FY21; and
- Statements of Cash Flows for FY19, FY20, 1H FY20 and 1H FY21

are not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 4 of the Offer Document being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies.

Pro Forma historical financial information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the pro forma historical financial information of the Company as described in section 4 of the Offer Document, and comprising:

- pro forma historical Statement of Financial Position as at 30 June 2021;
- pro forma historical Statements of Financial Performance for FY19, FY20, 1H FY20, 1H FY21, LTM Sep20 and Q3 FY20; and
- pro forma historical Statements of Cash Flows for FY19, FY20, 1H FY20 and 1H FY21

are not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 4 of the Offer Document being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies applied to the historical financial information and the events or transactions to which the pro forma adjustments relate, as described in section 4 of the Offer Document, as if those events or transactions had occurred as at the date of the historical financial information.

Pro Forma Forecast

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

- the directors' best-estimate assumptions used in the preparation of the pro forma forecast Statements of Financial Performance of the Company for LTM Sep21 and Q3 FY21 do not provide reasonable grounds for the Pro Forma Forecast; and
- in all material respects, the Pro Forma Forecast:
  - is not properly prepared on the basis of the directors' best-estimate assumptions, as described in section 4 of the Offer Document; and
  - is not presented fairly in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the company's adopted accounting policies, applied to the Forecast and the pro forma adjustments as if those adjustments had occurred as at the date of the forecast; and
- the Pro Forma Forecast itself is unreasonable.

Pro Forma Forecast

The Pro Forma Forecast has been prepared by management and adopted by the directors in order to provide prospective investors with a guide to the potential financial performance of the Company for the year ending 30 September 2021, and the three months ending 30 September 2021. There is a considerable degree of subjective judgment involved in preparing forecasts since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Forecast and Pro Forma Forecast since anticipated events or transactions frequently do not occur as expected and the variation may be material.

The directors' best-estimate assumptions on which the Pro Forma Forecast is based relate to future events and/or transactions that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of the Company. Evidence may be available to support the directors' best-estimate assumptions on which the Pro Forma Forecast are based however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the directors' best-estimate assumptions. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in the Company, which are detailed in the Offer Document, and the inherent uncertainty relating to the Pro Forma Forecast. Accordingly, prospective investors should have regard to the investment risks and sensitivities as described in sections 5 and 4.5 of the Offer Document. The sensitivity analysis described in section 4.5 of the Offer Document considers the impact on the Pro Forma Forecast of changes in key best-estimate assumptions. We express no opinion as to whether the Pro Forma Forecast will be achieved.

The Pro Forma Forecast has been prepared by the directors for the purpose of the Offer Document. We disclaim any assumption of responsibility for any reliance on this report, or on the Pro Forma Forecast to which it relates, for any purpose other than that for which it was prepared. We have assumed, and relied on representations from certain members of management of the Company, that all material information concerning the prospects and proposed operations of the Company has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

Notice to investors outside Australia

Under the terms of our engagement this report has been prepared solely to comply with Australian Auditing Standards applicable to review engagements.

This report does not constitute an offer to sell, or a solicitation of an offer to buy, any securities. We do not hold any financial services licence or other licence outside Australia. We are not recommending or making any representation as to suitability of any investment to any person.

Restriction on Use

Without modifying our conclusions, we draw attention to section 4 of the Offer Document, which describes the purpose of the financial information, being for inclusion in the prospectus. As a result, the financial information may not be suitable for use for another purpose.

Consent

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this assurance report in the public document in the form and context in which it is included.

Liability

The liability of PricewaterhouseCoopers Securities Ltd is limited to the inclusion of this report in the Offer Document. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or omissions from the Offer Document.

Independence or Disclosure of Interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of this Offer other than the preparation of this report and participation in due diligence procedures for which normal professional fees will be received.

Financial Services Guide

We have included our Financial Services Guide as Appendix A to our report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our report.

Yours faithfully

Iain Yuile

Iain Yuile
Authorised Representative of
PricewaterhouseCoopers Securities Ltd

Appendix A – Financial Services Guide

PRICEWATERHOUSECOOPERS SECURITIES LTD

FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 3 November 2021

1. About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) ("**PwC Securities**") has been engaged by The Hydration Pharmaceuticals Company Limited (the "**Company**") to provide a report in the form of an Independent Accountant's Report in relation to the historical and pro forma forecast financial information (the "**Report**") for inclusion in the Offer Document dated on or about 3 November 2021 relating to the proposed initial public offering of ordinary shares in the Company and listing on the Australian Stock Exchange.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

2. This Financial Services Guide

This Financial Services Guide ("**FSG**") is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

3. Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.

4. **General financial product advice**

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

5. **Fees, commissions and other benefits we may receive**

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our fees are charged are $425,000 (excluding GST).

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

6. **Associations with issuers of financial products**

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to, the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business.

7. **Complaints**

If, for any reason, you are not satisfied with the advice or service you receive from PwCS or from our authorised representatives, you are entitled to make a complaint.

If you wish to make a complaint please initially lodge your complaint with your adviser. We have established procedures to ensure all complaints are resolved quickly and fairly. A copy of our internal complaints handling procedure can be provided to you upon request.

If you do not receive a satisfactory outcome to your complaint, you have the right to contact the Australian Financial Complaints Authority ("**AFCA**"). AFCA provides independent financial services complaint resolution that is free to consumers.

Australian Financial Complaints Authority
GPO Box 3, Melbourne VIC 3001
Tel: 1800 931 678 (Free Call)

E-mail: info@afca.org.au
Website: www.afca.org.au

PwCS is a member of AFCA. You will not be charged for using the AFCA service.

8. Contact Details

PwC Securities can be contacted by sending a letter to the following address:

Mr. Iain Yuile
PricewaterhouseCoopers Securities Ltd
2 Riverside Quay,
SOUTHBANK VIC 3006

9. Additional information

9. Additional information

9.1 Registration of the Company

The Company was registered in the State of Victoria, Australia on 24 July 2017 as a proprietary company limited by shares.

The Company converted to a public company limited by shares on 5 October 2017.

9.2 Company tax status

The Company will be taxed in Australia as a public company. The accounts of the Hydralyte North America Group will have a 31 December year end.

9.3 Corporate and capital structure

9.3.1 The Restructure

Hydralyte North America currently has multiple classes of shares on issue, being Ordinary Shares and Class A Shares.

In connection with the Offer, Hydralyte North America will undertake a restructure (the **Restructure**), through which:

- all existing Ordinary Shares of the Company will be cancelled for nil consideration;
- all Class A Shares of the Company will be converted into Ordinary Shares (thereby becoming the issued share capital of the Company); and
- all options over Class A Shares will be varied such that they become options over Ordinary Shares.

In addition, a liquidation amount attaching to the Class A Shares will be cancelled for nil consideration.

The conversion of Class A Shares will be done on a proportional basis, such that following the Restructure all Class A Shareholders will hold Shares in the same proportion as their current Class A Shares in the Company. Completion of the Restructure will occur shortly before Completion of the Offer and admission to the Official List will be conditional on completion of the Restructure.

Accordingly, the Ordinary Shares on issue at the Prospectus Date will be cancelled and the Class A Shares on issue on the Prospectus Date will be converted to Ordinary Shares by the time of Completion of the Offer. These Ordinary Shares will only be on issue on completion of the Restructure.

Unless otherwise specified, this Prospectus is prepared as if the Restructure has occurred.

Table 9.1: Overview of impact of Restructure on capital structure of the Company

Security	As at Prospectus Date (pre-Restructure)	On Listing (post-Restructure)
Ordinary Shares	7,200,000 Ordinary Shares	Nil
Class A Shares	49,566,926 Class A Shares	59,273,626 Ordinary Shares
Options**	5,788,000 Options over Ordinary Shares	38,689,619 Options over Ordinary Shares
	4,603,346 Options over Class A Shares	Nil Options over Class A Shares
Convertible Notes	US$6,500,000 (face value only, excluding accrued interest)	43,130,367 Ordinary Shares
IPO investors***	N/A	58,622,690 Ordinary Shares
Performance Rights**	N/A	6,288,028 Performance Rights (subject to hurdles)

** Additional Options over Ordinary Shares and Performance Rights issued to management as part of restructured equity incentive plan and Board in lieu of director fees during 2021. The Options over Ordinary Shares include a range of strike prices up to and including AU$1.34.

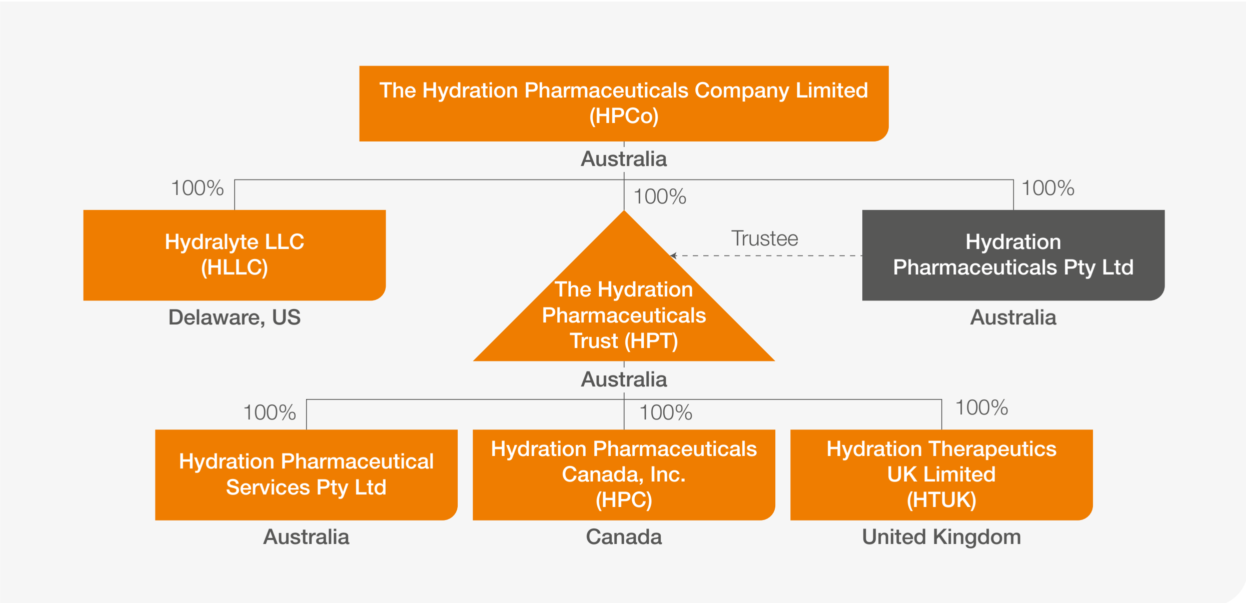
*** IPO investors includes 2,000 shares issued under the Cleansing Offer.

For personal use only

9.3.2 Corporate structure

The following diagram shows the entities comprising the Hydralyte North America Group on completion of the IPO and the Restructure.

Figure 9.2: Corporate structure diagram



On Completion of the Offer, all of the entities comprising the Hydralyte North America Group:

- are wholly owned (directly or indirectly) by the Company; and
- undertake the business of the Company as described in this Prospectus.

9.3.3 Corporate history

HPT was established on 12 November 2009, and was used to carry out the distribution of Hydralyte products globally following the sale the Hydralyte ANZ business to Care Pharmaceuticals in 2014.

In 2015, US$14,000,000 of capital was raised via the issuance of 14,000,000 units in HPT.

In July and August 2017, the Hydralyte North America Group undertook a corporate restructure whereby HPT was corporatised via a swap of shares for units. As part of this process, the Company was incorporated as a proprietary company limited by shares on 24 July 2017. At this stage, units in HPT were exchanged for Class A Shares in the Company carrying a liquidation preference, with founders receiving part of their unit rollover as Ordinary Shares.

The Company converted from a proprietary company to a public company on 5 October 2017.

The Company then raised capital in a series of capital raisings, as follows:

- in 2017 a total of US$13,452,187 was raised by the issue of 16,815,234 Class A Shares (representing 20,108,167 Ordinary Shares on completion of the Restructure);
- in 2019 a total of US$3,042,677 was raised by the issue of 7,606,692 Class A Shares (representing 9,096,312 Ordinary Shares on completion of the Restructure) together with 3,803,346 options over Class A Shares issued with an exercise price of US$0.40 on a free attaching basis (representing 4,548,155 Options over Ordinary Shares with an exercise price of AU$0.45 on a post-Restructure basis);
- in 2021 a total of US$6,500,000 was raised by the issue of 6,500,000 Convertible Notes in the Company. The Convertible Notes will be converted into Ordinary Shares prior to Listing.

The Company is undertaking the Restructure in conjunction with the Listing. Details of the Restructure are set out in Section 9.3.1.

9.4 Convertible Notes

On 9 March 2021, the Company granted a Convertible Note Deed Poll in favour of holders of convertible notes from time to time issued under the Convertible Note Deed Poll (**Convertible Noteholders**). On 18 March 2021, the Company issued convertible notes under the Convertible Note Deed Poll to Convertible Noteholders for total proceeds of US$6.5 million (AU$8.3 million at the time) (**Convertible Notes**).

The purpose of issuing the Convertible Notes was to raise capital for the Company to facilitate future growth.

The key terms of the Convertible Notes are as follows:

- the Convertible Notes are denominated in United States dollars, have a face value of US$1 per Convertible Note, are unsecured and mature two years after issuance;
- interest at a rate of 10.0% per annum accrues on the face value of the Convertible Notes, capitalising quarterly, which is payable on conversion or redemption;
- on Listing, the amount owing under the Convertible Notes will be converted into Australian dollars at an exchange rate of USD:AUD 1.33 (an AUD:USD exchange rate of 0.7515) and then automatically applied to the subscription for Offer Shares at a price which is the lower of:
  - a valuation cap price (which will not apply); and
  - a conversion discount (to the Offer Price) starting at 18% and increasing by 1% every month after issuance of the Convertible Notes, capped at 30%;
- the Convertible Notes are redeemable for cash:
  - if an event of default occurs;
  - if certain events occur prior to Listing; or
  - on maturity (if the Noteholder does not elect to convert the Convertible Notes into shares at that time);
- all of the Convertible Notes will be mandatorily converted on Listing and there will be no Convertible Notes on issue at that time.

The Convertible Notes will convert into approximately 43,130,367 Shares at a discount of 26% to the Offer Price resulting in an effective issue price of AU$0.2146.

The capital structure of the Company as disclosed in this Prospectus assumes that Completion of the Offer, conversion of the Convertible Notes and completion of the Restructure occurs in accordance with the key dates set out in this Prospectus. If Completion of the Offer is delayed, additional Shares may be issued on conversion of the Convertible Notes.

9.5 Material contracts

The Directors consider that there are a number of contracts which are significant or material to the Company or of such nature that an investor may wish to have details of them when making an assessment of whether to apply for Shares. The main provisions of these contracts are summarised below, or elsewhere in this Prospectus. These summaries do not purport to be complete and are qualified by the text of the contracts themselves.

9.5.1 Lead Manager Mandate

The Company and the Lead Manager have entered into a mandate agreement, pursuant to which the Company has appointed the Lead Manager to act as the exclusive manager of the Offer and to allocate Shares by agreement with the Company. The following is a summary of the principal provisions of the Lead Manager Mandate.

Fees and expenses

On settlement of the Offer, the Company must pay the Lead Manager:

- a management fee of 1.5% of the gross proceeds of the Offer, payable in cash;
- a capital raising fee of 4% of the gross proceeds of the Offer, payable in cash; and

- the following Options (**Adviser Options**):
  - 1.5 million Options with an exercise price of AU$0.5075 each (being equivalent to 1.75x the Offer Price) and expiring 36 months after the date of Listing; and
  - 1.5 million Options with an exercise price of AU$0.6525 each (being equivalent to 2.25x the Offer Price) and expiring 36 months after the date of Listing.

The Company has agreed to reimburse the Lead Manager for all reasonable costs and expenses incurred as part of the Offer.

Termination

The Lead Manager Mandate will continue until 18 December 2021, unless terminated earlier or extended by mutual written agreement.

The Company or the Lead Manager may terminate the Lead Manager Mandate by giving written notice to the other. The termination will take effect upon receipt by the other party of the written notice.

In the event of expiry or termination, the Lead Manager will only be entitled to receive payment in full of any fees and legal and out-of-pocket expenses that have accrued or been incurred which have not yet been invoiced or paid.

Representations, warranties and undertakings

The Lead Manager Mandate contains warranties, representations and undertakings standard for an agreement of this nature.

The representations and warranties relate to matters such as disclosures and accuracy of information, compliance with applicable laws (including the ASX Listing Rules), documents to be prepared and due diligence investigations in connection with the Offer, approvals, validity of issued securities and conduct.

The Company provides undertakings such as agreeing to procure that appropriate due diligence investigations are undertaken by the DDC.

Indemnity

The Company agrees to keep the Lead Manager and certain of its affiliated parties indemnified from losses suffered in connection with the Offer, subject to customary exclusions (including gross negligence, recklessness, misconduct, wilful default or fraud).

9.5.2 IP Licence Deed

In 2014, the ‘Hydralyte’ intellectual property and branding rights in Australia and New Zealand, and the Australian and New Zealand (**ANZ**) business were sold to Prestige Consumer Healthcare Inc, via its Australian subsidiary entity Care Pharmaceuticals Pty Limited (ACN 009 200 604) (**Care Pharmaceuticals**). As part of the sale transaction, the then-current operating entity (the trustee of a trust, HPT) retained the IP that it owned (including the ‘Hydralyte’ brand name) outside of ANZ. It also acquired a licence back from Care Pharmaceuticals of rights to use the manufacturing IP, know-how, technical information, confidential information and documentation related to the Hydralyte products (**Hydralyte IP**) outside of ANZ via an intellectual property licence deed (**IP Licence Deed**).

The IP Licence Deed was further amended post the subsequent IP sale transaction to Care Pharmaceuticals in January 2020 to address the change in territories in which Care Pharmaceuticals had exclusive rights.

The following table 9.3 is a summary of key terms of the IP Licence Deed.

Table 9.3: Summary of IP Licence Deed

Licence	HPT has been granted a perpetual, irrevocable, freely assignable (subject to assignee signing agreement with Care Pharmaceuticals), royalty free licence to: • use the Hydralyte IP to sell its products on an exclusive basis; and • to manufacture, modify, adapt and otherwise exploit the products on a non-exclusive basis, each in the Company Territories. Each of HPT and Care Pharmaceuticals may also manufacture the products in and transport them through the other party's territory, provided those products are not sold in the other party's territory.
Hydralyte IP	The licence covers a defined set of 'Licensor IP', consisting of: • all intellectual property rights relating to the 'Hydralyte' business and a defined list of Hydralyte products, including materials protected by copyright, all confidential information, and broadly defined technical information and know-how relating to the defined products; • manufacturing IP, defined as intellectual property rights in various listed studies, validations, guidelines, specifications and procedures; and • any product developments, improvements, modifications, adaptations, innovations or inventions related to the defined Hydralyte products that were carried out by or on behalf of HPT prior to completion of the sale under the 2020 sale to Care Pharmaceuticals.
Term	In perpetuity.
Company Territories	The regions of North America, South America, China (including Hong Kong but excluding Taiwan) and Europe (including the United Kingdom but excluding Turkey).
Care Territories	All of the world excluding the Company Territories, which specifically includes Australia, New Zealand, Asia (excluding China and Hong Kong but including Taiwan), the Middle East (including Turkey) and Africa.
Restraint and Cooperation	HPT and Care Pharmaceuticals have each undertaken not to (and to procure that sub-distributors and sub-manufacturers do not): • knowingly sell product directly or indirectly for use outside of their respective territories; • export the product for use outside of their respective territories; • fill orders for product knowing that such orders are intended for use out of their respective territories; • register any trade mark, domain name, corporate name, logo or label in connection with the product in any jurisdiction outside of their respective territories; or • use or permit the use, outside their respective territories, of any trade mark, domain name, corporate name, logo or label that is deceptively or confusingly similar to any trade mark used by the other party relating to any oral rehydration products, other than as permitted to manufacture and transport the product in and through the other party's territories. HPT and Care Pharmaceuticals also agree to cooperate on a non-binding basis regarding creative and strategic sales and marketing approaches, and new product innovations.
Royalties	No royalty, commission or amount is payable by HPT to Care Pharmaceuticals in respect of any manufacturing, sale or exploitation of the product within the Company Territories.

9.5.3 Alpex Pharma – Manufacturing Agreement

Table 9.4: Summary of Alpex Manufacturing Agreement

Counterparty	Alpex Pharma SA (**Alpex**)
Nature of agreement	Hydration Pharmaceuticals Pty Ltd ACN 608 236 424 as trustee of The Hydration Pharmaceuticals Trust (**HPT**) has engaged Alpex to develop, manufacture and package a defined list of oral rehydration products sold by HPT (**Products**) based on specifications supplied by HPT. Alpex is responsible for obtaining all governmental approvals for required the manufacturing of the Products, while HPT is responsible for obtaining all authorisations required for the importation, marketing, sale, distribution or use of the Products. The Products were initially limited to effervescent tablets in four flavours. Additional Products may be added by mutual agreement.
Term and expiry	The Term commenced on 1 January 2017 and remains in effect until terminated by either party.
Termination	In addition to standard termination rights (e.g. material breach not remedied within 30 days; force majeure), either party may terminate without cause by giving 12 months' written notice.
Contracted minimum volume	None.

9.5.4 Aphena Pharmaceuticals – Manufacturing and Packaging Agreement

Table 9.5: Summary of Aphena Manufacturing and Packaging Agreement

Counterparty	Aphena Pharma Solutions – Maryland, LLC (**Aphena**)
Nature of agreement	Hydralyte LLC has engaged Aphena to develop, manufacture and package a defined list of oral rehydration products sold by Hydralyte LLC (**Products**) based on specifications supplied by Hydralyte LLC. Aphena is responsible for all necessary permits and licences for the manufacturing and packaging of the Products. Hydralyte LLC is responsible for obtaining all governmental approvals required for any aspect of the development, manufacturing, distribution and sale of the Products. Hydralyte LLC is permitted to add Products to the defined list in its discretion.
Term and expiry	The Term is from 2 May 2019 until 1 May 2022, and the agreement will not be extended. The Company is transitioning to a new manufacturing partner.
Termination	In addition to standard termination rights (e.g. material breach not remedied within 30 days; insolvency; force majeure), either party can terminate for cause on the occurrence of certain standard events. Hydralyte LLC can also terminate the agreement upon 90 days' notice if there are product delivery issues. Neither party can terminate without cause.
Contracted minimum volume	None.

9.5.5 Emerson – Services Outsourcing Agreement and Sales Representation Agreement

Table 9.6: Summary of Emerson Services Outsourcing Agreement

Counterparty	Emerson Healthcare LLC (**Emerson**)
Nature of agreement	Hydralyte LLC has engaged Emerson to provide logistical and administrative services for a defined list of Hydralyte LLC's products in the United States, including effervescent tablets, sachets and water-based solution products. The services include freight, warehouse labour and storage. Hydralyte LLC is permitted to add products to the defined list in its discretion.
Term and expiry	Initial Term of 6 months commencing on 1 December 2015, following which the agreement automatically renews for successive further 6-month terms unless either party terminates with at least 6 months' written notice.
Termination	In addition to standard termination rights (e.g. material breach not remedied within 30 days (or 3 days for payment default) and force majeure), either party can terminate the agreement without cause, with at least 6 months' prior written notice. Hydralyte LLC may terminate the agreement without cause on less than 6 months' notice provided Hydralyte LLC pays a termination fee (equivalent to the average daily services fee over the past 6 months) for each day by which the notice period is less than 6 months.
Contracted minimum volume	None.

Table 9.7: Summary of Emerson Sales Representation Agreement

Counterparty	S. Emerson Group, Inc. (**Emerson Group**)
Nature of agreement	Hydralyte LLC has engaged Emerson Group to act as its sales representative and perform certain sales functions with respect to a defined list of Hydralyte LLC's products in the United States, including effervescent tablets, sachets and water-based solution products. Services include promoting the products to customers, representing the products in all classes of trade (e.g. club stores, drug wholesalers), sales promotion planning, and transmitting purchase orders to Hydralyte LLC for fulfilment. Hydralyte LLC is permitted to add products to the defined list in its discretion.
Term and expiry	Initial Term of 6 months commencing on 1 December 2015, following which the agreement automatically renews for successive further 6-month terms unless either party terminates with at least 6 months' written notice.
Termination	In addition to standard termination rights (e.g. material breach not remedied within 30 days, force majeure), either party can terminate the agreement without cause (including on change of control detailed below), with at least 6 months' prior written notice. Hydralyte LLC may terminate the agreement without cause on less than 6 months' notice provided Hydralyte LLC pays a termination fee for each day by which the notice period is less than 6 months.
Contracted minimum volume	None.

9.5.6 MCP – Distribution Agreement

Table 9.8: Summary of MCP Distribution Agreement

Counterparty	M.C.P. McCaughey Consumer Products Management Inc. (**MCP**)
Nature of agreement	Hydration Pharmaceuticals Canada, Inc. (**Hydralyte Canada**) has engaged MCP to be the distributor of a defined list of Hydralyte Canada's products (**Products**) in Canada to the retail market (including food, drug, mass market club and wholesalers). MCP will: • devote its best efforts to promote the sale of Products in Canada, including regular communications with customers, forecasting and demand planning, and assisting Hydralyte Canada with its marketing plans; and • perform all order processing, handling, warehousing, shipping, invoicing, collections and customer service functions. Hydralyte Canada is responsible for organizing product registration of the Products, including obtaining all registrations and licences from Health Canada. Hydralyte Canada is permitted to add Products to the defined list in its discretion.
Term and expiry	The Term is from 28 May 2020 until 27 May 2023. After that point, the agreement will automatically renew annually.
Termination	There are mutual standard termination rights within the contract which enable both parties to terminate the agreement following unremedied material breach (after 10 days), bankruptcy or where the party is no longer a corporation in good standing. Either party can terminate without cause by providing 120 days' written notice.
Contracted minimum volume	None.

9.5.7 Amazon Services – Business Solutions Agreement

Table 9.9: Summary of Amazon US and Amazon Canada Business Solutions Agreements

Counterparty	Amazon.com Services LLC (**Amazon US**) or Amazon.com.ca, Inc. (**Amazon Canada** and, together with Amazon US, **Amazon**)
Nature of agreement	Each Hydralyte entity has subscribed to Amazon's online service and has engaged Amazon to sell and distribute products through its online platform in the relevant jurisdiction – the United States in respect of Hydralyte LLC, and Canada in respect of Hydralyte Inc. Hydralyte may fulfil its own orders, or otherwise utilise Amazon's fulfilment services (for an additional cost). The two agreements are identical, other than certain country-specific details.
Term and expiry	Agreement commenced on the date a completed registration was provided to Amazon, and continues indefinitely until terminated.
Termination	Both parties can terminate without cause: Hydralyte at any time with immediate effect; and Amazon on 30 days' notice.
Contracted minimum volume	None.

9.5.8 Progressive Logistics – Distribution Contract

Table 9.10: Summary of Progressive Logistics Distribution Contract

Counterparty	Progressive Logistics, Inc. (**Progressive**)
Nature of agreement	Hydralyte LLC obtains logistics (handling and storage) services from Progressive on a purchase order basis. The purchase orders are governed by standard terms and conditions provided by Progressive.
Term and expiry	N/A
Termination	Either party may terminate the agreement on 30 days' written notice. This includes that Progressive can require Hydralyte LLC to remove any goods from its warehouse on 30 days' written notice. If the goods are not removed at the end of the notice period, Progressive may sell them. If the goods are a hazard to other party, Progressive may sell or otherwise dispose of the goods on reasonable notification to Hydralyte LLC.
Contracted minimum volume	There is a minimum handling charge per lot and a minimum storage charge per lot per month.

9.5.9 Fulfyld – Fulfillment and Packaging Service Agreement

Table 9.11: Summary of Fulfyld Fulfillment and Packaging Service Agreement

Counterparty	Fulfyld, LLC (**Fulfyld**)
Nature of agreement	Hydralyte LLC has engaged Fulfyld to provide fulfillment, warehousing and packaging services. The agreement operates on a purchase order basis, whereby Hydralyte LLC must provide 48 hours' advance shipment notice of any items being sent to the Fulfyld warehouse.
Term and expiry	The agreement commenced upon execution by both parties, and continues indefinitely until terminated.
Termination	Either party may terminate without cause by providing 60 days' written notice. Any orders that are cancelled after fulfilment or collection are subject to a cancellation charge.
Contracted minimum volume	None.

9.5.10 ShipBob – Warehousing and Fulfillment Agreement

Table 9.12: Summary of ShipBob Warehousing and Fulfillment Agreement

Counterparty	ShipBob Inc. (**ShipBob**)
Nature of agreement	ShipBob has agreed to provide fulfillment and warehousing services for the shipment of goods sold by Hydralyte LLC. Services include receipt, storage, packaging and shipment.
Term and expiry	The agreement commenced on 2 June 2021. There is an initial Term of 1 year, following which the agreement automatically renews for successive further 1-year terms unless either party gives notice not to renew no less than 60 days before the end of the Term.
Termination	The contract provides standard termination clauses allowing termination by either party in an event of default (not remedied within 30 days). Either party may terminate without cause on 30 days' prior notice (or 10 days in the case non-payment by Hydralyte LLC). ShipBob can immediately terminate the agreement if the goods obtained from Hydralyte LLC contain any hazardous or dangerous materials or violate any applicable laws or standards. If Hydralyte LLC terminates for any reason other than an uncured breach by ShipBob, Hydralyte LLC must pay to ShipBob the minimum monthly fulfilment fee multiplied by the number of months remaining in the Term.
Contracted minimum volume	Hydralyte LLC must pay a minimum monthly fulfilment fee. To the extent that Hydralyte LLC fails to meet the minimum spend amount in any month, ShipBob is entitled to increase the invoice to the minimum amount.

9.5.11 WPIC – China eCommerce Program Statement of Work

Table 9.13: Summary of WPIC China eCommerce Program Statement of Work

Counterparty	WPIC Marketing Inc. (**WPIC**)
Nature of agreement	Hydralyte North America has entered into a Statement of Work with WPIC to expand distribution of its products into China. The e-commerce program developed by WPIC will include the development and management of a Chinese-language Tmall Global Store webpage by WPIC. WPIC will also plan and exercise a merchandising strategy, and establish and operate a customer service program for the Tmall Global Store.
Term and expiry	The arrangement will have an initial term of 18 months.
Termination	Not applicable.
Payment	In addition to various set-up and monthly management fees, Hydralyte North America will pay to WPIC a fixed percentage of the revenue earned though sales on the Tmall Global Store.

9.5.12 Company licences, permits and authorisations

The Company must comply with all regulatory regimes in the countries in which it operates its business. These regulations vary from jurisdiction to jurisdiction, and, accordingly, the Company has different processes in place to ensure regulatory compliance in each of the United States and Canada.

In Canada, the Company's products are considered natural health products (**NHP**). Health Canada regulates NHPs through the Canadian Natural Health Products Regulations (SOR/2003-196) (**NHP Regulations**), and a product licence is required before an NHP can be sold in Canada. The Hydralyte North America Group applies for and holds these licences for each product with assistance from appropriate consultants. The Company also ensures that its contracted manufacturers hold the relevant Health Canada manufacturing approvals, and that procedures are in place with each manufacturer to ensure manufacturing compliance with all Health Canada regulations.

In the United States, the Company's products are considered either medical foods or dietary supplements (depending on the product), both of which are governed by the FDA. In respect of:

- medical foods, the FDA operates on a compliance-based system, whereby the Group self-complies with FDA regulations and the FDA may do random checks to ensure the regulations are appropriately followed; and
- dietary supplements, the FDA operates on a compliance-based system but must be notified 30 days prior to the first marketing of a dietary supplement that contains structure-function claims on its label The Company ensures that its contracted manufacturers hold the relevant FDA manufacturing approvals, and works with regulatory consultants on formulation and label compliance.

9.6 Summary of rights and liabilities attached to Shares and other material provisions of the Constitution

9.6.1 Introduction

The rights and liabilities attaching to ownership of Shares arise from a combination of the Constitution, statute, the ASX Listing Rules and general law.

A summary of the significant rights, liabilities and obligations attaching to the Shares and a description of other material provisions of the Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that the Company is admitted to the Official List of the ASX.

9.6.2 Escrow restrictions

In the event that ASX determines that certain Shares should be classified as 'restricted securities', a Shareholder must not dispose of those restricted securities (and the Company must refuse to acknowledge a disposal) during the applicable escrow period, except as permitted by the ASX Listing Rules. Shareholders who hold restricted securities are taken to have agreed that the restricted securities are kept on the Company's issuer sponsored sub-register and to have a holding lock applied for the duration of the applicable escrow period. Shareholders will not be entitled to participate in any return of capital on restricted securities during the applicable escrow period except as permitted by the ASX Listing Rules.

9.6.3 Proportional takeover

The ASX Constitution contains provisions requiring Shareholder approval in relation to any proportional takeover bid. These provisions will cease to apply unless renewed by Shareholders passing a special resolution by the third anniversary of either the date those rules were adopted by the Company or the date those rules were last renewed in accordance with the Corporations Act.

9.6.4 Voting at a general meeting

At a general meeting of the Company, every Shareholder present in person or by proxy, representative or attorney has one vote on a show of hands and, on a poll, one vote for each Share held (with adjusted voting rights for partly paid shares). If the votes are equal on a proposed resolution, the Chairperson of the meeting has a casting vote, in addition to his or her deliberative vote.

9.6.5 Meetings of members

Each Shareholder is entitled to receive notice of, attend and vote at general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, Corporations Act and ASX Listing Rules. The Company must give at least 28 days' written notice of a general meeting.

9.6.6 Dividends

The Board may pay any interim and final dividends that, in its judgement, the financial position of the Company justifies. The Board may also pay any dividend required to be paid under the terms of issue of a Share, fix a record date for a dividend and decide the method of payment.

9.6.7 Transfer of Shares

Subject to the Constitution and to any restrictions attached to a Shareholder's Shares, Shares may be transferred by proper ASTC transfer (effected in accordance with the ASX Settlement Operating Rules, *Corporations Regulations 2001* (Cth) and ASX Listing Rules) or by a written transfer in any usual form or in any other form approved by the Board and permitted by the Corporations Act and ASX requirements. The Board may decline to register, or prevent registration of, a transfer of Shares or apply a holding lock to prevent a transfer in accordance with the Corporations Act or the ASX Listing Rules.

9.6.8 Issues of further Shares

The Board may, subject to the Constitution, Corporations Act and the ASX Listing Rules issue, allot or grant options for, or otherwise dispose of, Shares in the Company on such terms as the Board decides.

9.6.9 Winding up

If the Company is wound up, then subject to the Constitution, the Corporations Act and any rights or restrictions attached to any Shares or classes of shares, Shareholders will be entitled to a share in any surplus property of the Company in proportion to the number of Shares held by them. If the Company is wound up, the liquidator may, with the sanction of a special resolution, divide among the Shareholders the whole or any part of the Company's property and decide how the division is to be carried out as between Shareholders or different classes of shareholders.

9.6.10 Non-marketable parcels

In accordance with the ASX Listing Rules, the Board may sell Shares that constitute less than a marketable parcel by following the procedures set out in the Constitution. A marketable parcel of shares is defined in the ASX Listing Rules and is generally, a holding of shares with a market value of not less than AU$500.

9.6.11 Variation of class rights

The procedure set out in the Constitution must be followed for any variation of rights attached to the Shares. Under the Constitution, and subject to the Corporations Act and the terms of issue of a class of shares, the rights attached to any class of shares may be varied:

- with the written consent of the holders of 75% of the shares of the class; or
- by a special resolution passed at a separate meeting of the holders of shares of the class.

9.6.12 Directors – Appointment and retirement

Under the Constitution, the Board is comprised of a minimum of three Directors and a maximum of nine Directors, unless the Company resolves otherwise at a general meeting. Directors are elected or re-elected at general meetings of the Company.

No Director (excluding the CEO) may hold office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected. The Board may also appoint any eligible person to be a Director either as an addition to the existing Directors or to fill a casual vacancy, who will then hold office until the conclusion of the next annual general meeting of the Company following his or her appointment.

9.6.13 Directors – Voting

Questions arising at a meeting of the Board must be decided by a majority of votes cast by the Directors present and entitled to vote on the matter. If the votes are equal on a proposed resolution, the Chairman of the meeting has a casting vote in addition to his or her deliberative vote, unless there are only two Directors present or entitled to vote in which case the Chairman of the meeting does not have a second or casting vote and the proposed resolution is taken as lost. A Director may attend and vote by proxy at a meeting of the Board if the proxy has been appointed in writing by the appointer.

9.6.14 Directors – Remuneration

Under the Constitution, the Board may decide the remuneration from the Company to which each Director is entitled for his or her services as a Director but the total aggregate amount provided to all Non-Executive Directors of the Company for their services as Directors must not exceed in any financial year the amount fixed by the Company in general meeting. The remuneration of a Director (who is not the CEO or an executive Director) must not include a commission on, or a percentage of, profits or operating revenue. The current maximum aggregate sum of Non-Executive Director remuneration is US$350,000.

Any change to that maximum aggregate amount needs to be approved by Shareholders.

Directors are entitled to be paid for all travelling and other expenses they incur in attending to the Company's affairs, including attending and returning from general meetings of the Company or meetings of the Board or of Board Committees. Any Director who performs extra services, makes any special exertions for the benefit of the Company or otherwise performs services which, in the opinion of the Board, are outside the scope of ordinary duties of a Non-Executive Director, may be remunerated for the services (as determined by the Board) out of the funds of the Company.

Directors' remuneration is discussed in Section 6.

9.6.15 Powers and duties of Directors

The business and affairs of the Company are to be managed by or under the direction of the Board, which (in addition to the powers and authorities conferred on it by the Constitution) may exercise all powers and do all things that are within the power of the Company and that are not by the Constitution or by law directed or required to be done by the Company in its general meeting.

9.6.16 Preference shares

The Company may issue preference shares including preference shares which are, or at the option of the Company or holder are, liable to be redeemed or converted into ordinary shares. The rights attaching to preference shares are those set out in the Constitution or have been otherwise approved by special resolution of the Company.

9.6.17 Indemnities

The Company must indemnify each Director and executive officer on a full indemnity basis and to the full extent permitted by law against all losses, liabilities, costs, charges and expenses incurred by the person as an officer of the Company.

The Company may, to the extent permitted by law, purchase and maintain insurance or pay, or agree to pay, a premium for insurance for each officer of the Company against any liability incurred by that person as an officer of the Company or of a related body corporate, including, but not limited to, a liability for negligence or for reasonable costs and expenses incurred in defending or responding to proceedings (whether civil or criminal and whatever the outcome).

9.6.18 Access to records

The Company may enter into contracts with a Director or former Director agreeing to provide continuing access for a specified period after the Director ceases to be a Director to board papers, books, records and documents of the Company which relate to the period during which the Director or former Director was a Director on such terms and conditions as the Board thinks fit. The Company may procure that its subsidiaries provide similar access to board papers, books, records or documents.

9.6.19 Amendment

The Constitution can only be amended by special resolution passed by at least three-quarters of Shareholders present (in person or by proxy, attorney or representative) and entitled to vote on the resolution at a general meeting of the Company.

9.7 Escrow arrangements

9.7.1 Escrow

As a condition of Listing, ASX has classified certain Shares as restricted securities (including certain Shares held by Radek Sali, Dan O'Brien and Adem Karafili). Certain Existing Shareholders and the Convertible Noteholders will be issued Restriction Notices or have entered (or will enter) into ASX escrow deeds with the Company in relation to certain Shares that the relevant Shareholders will hold on Completion of the Offer. In addition, certain Existing Shareholders have also entered into voluntary escrow arrangements with the Company in relation to certain Shares that they will hold on Completion of the Offer.

The voluntary escrow restrictions have the effect of applying voluntary escrow restrictions to Shares which are not subject to mandatory escrow restrictions. The voluntary escrow arrangements are:

- in respect of certain Existing Shareholders, a total of 50% of the Shares held on conversion of their Class A Shares for a period of 6 months, and the balance of the Shares held on conversion of their Class A Shares for a period of 12 months; and
- in respect of certain other Existing Shareholders, a total of 50% of the Shares held on conversion of their Class A Shares for a period of 18 months, and the balance of the Shares held on conversion of their Class A Shares for a period of 24 months (excluding those Shares subject to mandatory ASX restrictions).

An "escrow" is a restriction on sale, disposal, or encumbering of, or certain other dealings in respect of, the Shares concerned for the period of the escrow, subject to certain exceptions set out in the escrow deeds. The effect of the mandatory restriction deeds is that the escrowed Shares cannot be dealt for the duration of the escrow period, subject to the exceptions described below.

Table 9.14: Escrowed Shareholders

The table below sets out the periods during which certain Existing Shareholders and holders of Convertible Notes are restricted from dealing in their Shares pursuant to the mandatory and voluntary escrow arrangements. The table is presented on a post-Restructure basis, assuming conversion of the Convertible Notes. It does not include any Shares subscribed for under the Offer.

Shareholder	Number of Shares held on Listing	Escrow Period					Number of Escrowed Shares	% of Shareholding Escrowed on Listing
		18 March 2022	9 June 2022	9 December 2022	9 June 2023	9 December 2023		
Radek Sali	11,515,791	–	–	–	5,475,890	5,649,877	11,125,767	97%
Dan O'Brien	14,936,910	–	–	–	2,896,957	11,351,675	14,248,632	95%
Adem Karafili	1,560,417	–	–	–	448,437	653,128	1,101,565	71%
Regal Emerging Companies Opportunities Fund	9,296,871	806,092	2,989,575	3,206,941	–	–	7,002,608	75%
Other Existing Shareholders	29,872,777	575,476	8,351,023	8,506,203	747,394	4,070,781	22,250,876	74%
Other Convertible Noteholders	35,221,226	7,593,387	–	2,047,592	–	1,224,150	10,865,129	31%
Total	**102,403,993**	**8,974,955**	**11,340,598**	**13,760,736**	**9,568,677**	**22,949,612**	**66,594,577**	**65%**

All of the Options (and Shares issued on exercise of the Options) held by the following persons (or their nominees) will be subject to escrow for a period of 2 years from Listing:

- Radek Sali – 3,683,708 Options;
- Dan O'Brien – 629,375 Options;
- Adem Karafili – 1,974,739 Options;
- Jonathan West – 650,000 Options; and
- Adam Gregory – 450,000 Options.

9.7.2 Release of escrow

There are limited circumstances in which the mandatory and voluntary escrow may be released, namely:

- to allow the holder to accept a takeover bid for Hydralyte North America in accordance with the Corporations Act provided that offer is for all the ordinary securities of Hydralyte North America and holders of not less than 50% of Shares not subject to escrow have then accepted the takeover bid; and
- to allow the Escrowed Shares to be acquired under an amalgamation or scheme of arrangement or other reorganisation or acquisition of share capital under the Corporations Act.

9.8 ASX waivers, in-principle advice and ASIC relief

The Company has obtained the following waivers and in-principle advices from ASX in relation to the Offer:

- a confirmation from ASX that it would be likely to grant a waiver of ASX Listing Rule 1.1 condition 12 to the extent necessary to permit the Company to have on issue Performance Rights with an exercise price of less than AU$0.20, on the condition that the material terms and conditions of the Performance Rights are clearly disclosed in the Prospectus; and
- on 9 October 2021, the Company received in-principle advices from the ASX that based solely on the information provided and the facts known as at the time, ASX is not aware of any reasons that would cause Hydralyte North America not to have a structure and operations suitable for a listed entity for the purposes of ASX Listing Rule 1.1 condition 1 or that would cause ASX to exercise its discretion to refuse admission to the official list under ASX Listing Rule 1.19. The receipt of this advice is not a guarantee that Hydralyte North America will be admitted to the Official List – it must still meet all of the requirements for admission and quotation set out in Chapters 1 and 2 of the ASX Listing Rules to ASX's satisfaction.

No exemptions, modifications or relief have been obtained from ASIC in connection with the Offer.

9.9 Legal proceedings

The Directors are not aware of any civil litigation, arbitration proceedings or administrative appeals, or criminal or governmental prosecutions of a material nature instituted, pending or threatened in which the Company is directly or indirectly concerned which is likely to have a material adverse effect on the business or financial position of the Company.

9.10 Australian taxation considerations

The comments below provide a general summary of Australian tax issues for Australian tax resident Shareholders (**Australian Shareholders**) who acquire Shares under this Prospectus. The categories of Australian Shareholders considered in this summary are limited to individuals, certain companies, trusts and complying superannuation funds, each of whom hold their Shares on capital account for income tax purposes.

These comments do not apply to:

- Australian Shareholders that hold their Shares on revenue account or as trading stock for income tax purposes;
- Australian Shareholders that are banks, insurance companies, managed investment trusts or partnerships;
- Australian Shareholders who are exempt from Australian tax;

- Australian Shareholders who are subject to the Investment Manager Regime in Subdivision 842-I of the *Income Tax Assessment Act 1997* (Cth);
- Australian Shareholders who acquired their Shares pursuant to an employee share or option scheme or in return for services; or
- Shareholders that are not Australian tax residents or are tax residents of another country.

This summary also does not cover the consequences for Australian Shareholders who are subject to the Taxation of Financial Arrangements rules contained in Division 230 of the *Income Tax Assessment Act 1997* (Cth).

The precise implications of ownership or disposal of the Shares will depend upon each Shareholder's specific circumstances. Shareholders, including Australian Shareholders, should seek their own professional advice on the taxation implications of acquiring, owning and disposing of Shares, taking into account their specific circumstances.

Tax laws are complex and subject to ongoing change. The comments below are based on the *Income Tax Assessment Act 1936* (Cth), the *Income Tax Assessment Act 1997* (Cth), the *Taxation Administration Act 1953* (Cth), the *A New Tax System (Goods and Services Tax) Act 1999* (Cth), relevant stamp duty legislation, applicable case law and published Australian Taxation Office and State/Territory Revenue Authority rulings, determinations and statements of administrative practice at the date of this Prospectus. The tax consequences discussed below may alter if there is a change to the tax law or their interpretation after the date of this Prospectus. If there is a change, including a change having retrospective effect, the income tax, stamp duty and goods and services tax (**GST**) consequences of the share issue should be reconsidered by Australian Shareholders in light of the changes. The summary provided below does not take into account the tax laws of countries other than Australia.

This summary is general in nature and is not intended to be an authoritative or complete statement of the applicable law. This summary does not constitute financial product advice as defined in the *Corporations Act 2001* (Cth). The Company and its advisors disclaim all liability to any Shareholder or other party for all costs, loss, damage and liability that the Shareholder or other party may suffer or incur arising from, relating to or in any way connected with the contents of this summary or the provision of this summary to the Shareholder or other party or the reliance on this summary by the Shareholder or other party.

9.10.1 Dividends received by Australian Shareholders

Dividends distributed by the Company on a Share will constitute assessable income of an Australian Shareholder. Australian Shareholders should include the dividend in their assessable income in the year the dividend is paid for taxation purposes, together with any franking credit attached to that dividend provided that the Shareholder is a "qualified person". To the extent a dividend distributed by the Company is unfranked, the Australian Shareholders should include the dividend in their assessable income in the year of receipt and claim no franking tax offset.

Where a franking credit is included in an Australian Shareholder's assessable income, the Australian Shareholder will generally be entitled to a corresponding tax offset against tax otherwise payable on the Australian Shareholder's taxable income.

To be eligible for the tax offset, an Australian Shareholder must be a "qualified person". Broadly, to be a "qualified person", an Australian Shareholder must satisfy the "holding period" rule, including if necessary, the "related payment" rule.

The "holding period" rule broadly requires that an Australian Shareholder hold the Shares "at risk" for at least 45 days continuously (measured as the period commencing the day after the Australian Shareholder acquires the Shares and ending on the 45th day after the Shares become ex-dividend, excluding the days of acquisition and disposal). Any day on which an Australian Shareholder has a materially diminished risk of loss or opportunity for gain (through transactions such as granting options or warrants over Shares or entering into a contract to sell the Shares) will not be counted as a day on which the Australian Shareholder held the Shares "at risk".

This "holding period" rule is subject to certain exceptions, including that it will not apply to an Australian Shareholder who is an individual whose tax offset entitlement (from all franked distributions received in the relevant income year) does not exceed AU$5,000 for the relevant income year. Special rules apply to trusts and beneficiaries.

Under the “related payment” rule, a different testing period applies where an Australian Shareholder (or one of their “associates”) has made, or is under an obligation to make, a related payment in relation to a dividend. In broad terms, the “related payment” rule will apply if an Australian Shareholder or any of their “associates” passes, or is under an obligation to pass, the benefit of the franked dividend to another person. Under the “related payment” rule, the Australian Shareholder will need to hold the Shares “at risk” for a continuous period of 45 days as set out above but within the period commencing on the 45th day before, and ending on the 45th day after, the day the Shares become ex-dividend. The exception outlined above relating to the tax offset entitlement not exceeding AU$5,000 for the relevant income year does not apply in relation to the “related payment” rule.

Further, there are special integrity measures such as dividend washing rules, which can apply such that no tax offset is available (nor is an amount, equivalent to the amount of any relevant tax offset otherwise available, required to be included in assessable income) for a dividend received. Australian Shareholders should consider the impact of these as well as other integrity measures which may apply to the claiming of tax offsets, having regard to their own facts and circumstances.

Individuals and Complying Superannuation Entities

Where an Australian Shareholder is an Australian resident individual or complying superannuation entity, the Australian Shareholder is required to include both the dividend and any associated franking credit in its assessable income, subject to being a “qualified person”. A tax offset, equal to any franking credit attached to the dividend, is then allowed against tax payable on the Australian Shareholder’s taxable income.

Where an Australian Shareholder is an Australian resident individual or a complying superannuation entity, the Australian Shareholder will generally be entitled to a refund of tax to the extent that the franking credit tax offset exceeds the Australian Shareholder’s income tax liability for the income year.

Shareholders, including Australian Shareholders, who are individuals or complying superannuation entities should seek specific advice regarding the tax consequences of dividends received in respect of Shares held.

Corporate Shareholders

Where an Australian Shareholder is a company, the Australian Shareholder is required to include both the dividend and associated franking credit in its assessable income, subject to being a “qualified person”. A tax offset is then allowed up to the amount of the franking credit on the dividend. A corporate Australian Shareholder should be entitled to a credit in its own franking account to the extent of the franking credit attached to the dividend received. Such corporate Australian Shareholders can then pass on the benefit of franking credits to their own Shareholder(s) on the payment of dividends. Excess franking credits received cannot generally give rise to a refund, but may be able to be converted into carry forward tax losses in certain circumstances.

Shareholders, including Australian Shareholders, that are companies should seek specific advice regarding the tax consequences of dividends received in respect of the Shares they hold and the calculation and availability of carry forward tax losses arising from excess tax offsets.

Trusts

Australian Shareholders who are trustees (other than trustees of complying superannuation entities) should include both the dividend amount and any associated franking credit in assessable income for the purpose of determining the net income of the trust. Subject to being a “qualified person”, the relevant beneficiary of the trust, to whom trust income is distributed and who is “presently entitled” to the trust income, may be entitled to a tax offset equal to the beneficiary’s share of the franking credit received by the trust.

Shareholders, including Australian Shareholders, which are trustees (and the beneficiaries of any corresponding trust) should seek specific advice regarding the tax consequences of dividends received in respect of Shares held.

9.10.2 Disposal of Shares by Australian Shareholders

The disposal of a Share by an Australian Shareholder will be a capital gains tax (CGT) event. The Australian Shareholder will make a capital gain where the capital proceeds received on the disposal of the Share exceed the cost base of the Share, and will make a capital loss where the reduced cost base of the Share exceeds the capital proceeds received from the disposal of that Share.

Broadly, the cost base and reduced cost base of a Share will be equal to the amount paid to acquire the Share (including certain other costs, such as incidental costs of acquisition and disposal). In the case of an arm's length on-market sale, the capital proceeds will generally be the cash proceeds from the sale.

Generally, all capital gains and losses made by an Australian Shareholder for an income year, plus any net capital losses carried forward from an earlier income year, will need to be aggregated to determine whether the Australian Shareholder has made a net capital gain or net capital loss for the year. A net capital gain is included in an Australian Shareholder's assessable income whereas a net capital loss is carried forward and may be available to be offset against capital gains of later years (subject to the satisfaction of any applicable loss recoupment rules).

If an Australian Shareholder is an individual, complying superannuation entity or trust, and has held (for income tax purposes) the Shares for at least 12 months or more before disposal of the Shares and certain other requirements have been met, the Australian Shareholder may be entitled to apply a "CGT discount" against the net capital gain made on the disposal of the Shares. Where the CGT discount applies, any net capital gain arising to individuals and entities acting as trustees (other than a trust that is a complying superannuation entity) may be reduced by one half. Where an Australian Shareholder is a complying superannuation entity, any net capital gain may be reduced by one third. The reduced amount is included in assessable income.

Where the Australian Shareholder is the trustee of a trust that has held (for income tax purposes) the Shares for more than 12 months before disposal, the CGT discount may flow through to the beneficiaries of the trust if those beneficiaries are not companies and are Australian tax residents. Shareholders, including Australian Shareholders, which are trustees (and the beneficiaries of any corresponding trust) should seek specific advice regarding the tax consequences of distributions to beneficiaries who may qualify for a "CGT discount".

9.10.3 Tax File Numbers

Australian Shareholders are not required to quote their Tax File Number (**TFN**) or, where relevant, Australian Business Number (**ABN**) to the Company. However, if a valid TFN, a valid ABN or exemption details are not provided to the Company, Australian income tax may be required to be deducted by the Company from distributions and/or unfranked dividends at the maximum marginal tax rate for Australian resident individuals plus any relevant levy (such as the Medicare levy). Australian tax should not be required to be deducted by the Company in respect of fully franked dividends.

Australian Shareholders may be able to claim a tax credit or rebate (as applicable) in respect of any tax withheld on dividends in their income tax returns.

An Australian Shareholder that holds Shares as part of an enterprise may quote their ABN instead of their TFN.

9.10.4 GST Implications

No GST should be payable by Australian Shareholders in respect of the acquisition or disposal of their Shares, regardless of whether or not the Australian Shareholder is registered for GST.

Australian Shareholders may not be entitled to claim full input tax credits in respect of any GST included in the costs they have incurred in connection with their acquisition or disposal of the Shares. Separate GST advice should be sought by Australian Shareholders in this respect, relevant to their particular circumstances.

No GST should be payable by Australian Shareholders on receiving dividends distributed by the Company.

9.10.5 Stamp duty implications

No duty should be payable by an Australian Shareholder on the issue or acquisition of Shares pursuant to the Offer. Investors should seek their own advice as to the impact of stamp duty in their own particular circumstances.

For personal use only

9.11 Foreign selling restrictions

This document does not constitute an offer of Shares in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person and Shares may not be offered or sold in any country outside Australia except as provided below.

Hong Kong

WARNING: This document has not been, and will not be, registered as a Prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the **SFO**). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the Shares have not been and will not be offered or sold in Hong Kong other than to 'professional investors' (as defined in the SFO and any rules made under that ordinance).

No advertisement, invitation or document relating to the Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors. No person allotted Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the Offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 (the **FMC Act**). The Shares are not being offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) other than to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

Singapore

This document and any other materials relating to the Shares have not been, and will not be, lodged or registered as a Prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Shares, may not be issued, circulated or distributed, nor may the Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an 'institutional investor' (as defined in the SFA) or (ii) an 'accredited investor' (as defined in the SFA). If you are not an investor falling within one of these categories, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

United Kingdom

Neither this document nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no Prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (**FSMA**)) has been published or is intended to be published in respect of the Shares.

The Shares may not be offered or sold in the United Kingdom by means of this document or any other document, except in circumstances that do not require the publication of a Prospectus under section 86(1) of the FSMA. This document is issued on a confidential basis in the United Kingdom to 'qualified investors' within the meaning of Article 2can of the UK Prospectus Regulation. This document may not be distributed or reproduced, in whole or in part, nor may its contents be disclosed by recipients, to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received in connection with the issue or sale of the Shares has only been communicated or caused to be communicated, and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (FPO), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together, relevant persons). The investment to which this document relates is available only to relevant persons. Any person who is not a relevant person should not act or rely on this document.

9.11.1 General foreign selling restrictions

The offer of Shares under this Prospectus does not constitute a public offer in any jurisdiction outside Australia. This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to permit otherwise a public offering of the Shares in any jurisdiction outside Australia. The distribution of this Prospectus outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

9.12 Costs of the Offer

The total expenses of the Offer (inclusive of GST) are estimated to be approximately US$1,400,000 and are expected to be applied towards the items set out below.

Table 9.15: Cash costs of the Offer

Item of expenditure	Cost (USD)
Lead Manager, selling and management fees	$760,000
Legal fees	$161,000
Tax and accounting fees	$341,000
Marketing, printing and distribution	$119,000
Other costs	$19,000
Total	**$1,400,000**

Table 9.16: Equity issued as fees in connection with the Offer

Item of expenditure	Cost
Lead Manager equity grants	3,000,000 Adviser Options

9.13 Consents to be named and disclaimers of responsibility

Each of the parties referred to below is a consenting party and, to the maximum extent permitted by law, expressly disclaims all liabilities in respect of, makes no representations regarding and takes no responsibility for any statements in or omissions from this Prospectus, other than the reference to its name in the form and context in which it is named and a statement or report included in this Prospectus with its consent as specified below.

Each of the parties listed below has given and has not, at the time of lodgement of the Prospectus with ASIC, withdrawn its written consent to being named in the form and content in which it is named and to the inclusion of statements or reports in this Prospectus that are specified below in the form and context in which the statements or reports appear:

- BW Equities has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as the Lead Manager in the form and context in which it is named;
- Becketts Lawyers Pty Ltd has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as Australian legal adviser (other than in relation to taxation or stamp duty matters) to the Company in relation to the Offer in the form and context in which it is named;
- PricewaterhouseCoopers Securities Ltd has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as the Investigating Accountant in the form and context in which it is named and to the inclusion in this Prospectus of its Independent Limited Assurance Report in the form and context in which it is included;
- PricewaterhouseCoopers has given, and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as auditor, in respect of Hydralyte North America in the form and context in which it is named;
- Automic has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as the Share Registry in the form and context in which it is named; and
- S. Emerson Group, Inc has given, and not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to the inclusion in the Prospectus of information contained its report titled 'Driving VMS growth by exploiting Target Consumer Benefit segments' published in February 2021 in the form and context in which it is included.

9.14 Governing law

This Prospectus and the contracts that arise from the acceptance of the Applications and bids under this Prospectus are governed by the law applicable in Victoria, Australia and each Applicant under this Prospectus submits to the non-exclusive jurisdiction of the courts of Victoria, Australia.

9.15 Statement of Directors

Each Director of the Company has authorised the issue of this Prospectus and has consented to the lodgement of this Prospectus with ASIC in accordance with section 720 of the Corporations Act.

This Prospectus is signed by a Director of The Hydration Pharmaceuticals Company Limited in accordance with section 351 of the Corporations Act.

Appendix A: Significant Accounting Policies

Appendix A: Significant Accounting Policies

Basis of preparation

The principal accounting policies adopted in the preparation of the financial information included in Section 4 of the Prospectus are set out below. These accounting policies are consistent with the general-purpose financial reports of Hydration Pharmaceuticals Company Limited for the year ended 31 December 2020 which were audited in accordance with Australian Auditing Standards. The financial information has been extracted from the audited financial statements, which have been prepared in accordance with the requirements of the Corporations Act, Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board.

(a) Foreign currency translation

Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in USD ($), which is The Hydration Pharmaceuticals Company Limited's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

(b) Basis for consolidation

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost. Intragroup assets, liabilities, equity, income, expenses and cashflows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements. Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a December financial year end.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the parent has control. Control is established when the parent 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 relevant activities of the entity.

Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position,
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(c) Revenue and other income

Sales of goods are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

Goods are often sold with discounts, rebates and promotional incentives. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated discounts, rebates and promotional incentives which are highly dependent or inter-related with the sales contracts such that the customer could not benefit from one without other. They are therefore not accounted for as a separate performance obligation. Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Accumulated experience is used to estimate and provide for such discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Customers are primarily invoiced upon shipment of goods and consideration is payable when invoiced.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants are recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Interest income

Interest income is recognised using the effective interest method.

(d) Income Tax

The tax expense recognised in the consolidated statement of profit or loss and other comprehensive income comprises current income tax expense.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (loss) for the year and is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and laws that have been enacted or substantively enacted by the end of the reporting period. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred tax is provided on temporary differences which are determined by comparing the carrying amounts of tax bases of assets and liabilities to the carrying amounts in the consolidated financial statements.

Deferred tax is not provided for the following:

- The initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
- Taxable temporary differences arising on the initial recognition of goodwill.
- Temporary differences related to investment in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised.

Current and deferred tax is recognised as income or an expense and included in profit or loss for the period except where the tax arises from a transaction which is recognised in other comprehensive income or equity, in which case the tax is recognised in other comprehensive income or equity respectively.

(e) Government legislated tax (Sales tax/HST/GST)

Revenues, expenses and assets are recognised net of the amount of associated Government legislated tax (Sales Tax/HST/GST), unless the Government legislated tax (Sales Tax/HST/GST) incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of Government legislated tax (Sales Tax/HST/GST) receivable or payable. The net amount of Government legislated tax (Sales Tax/HST/GST) recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

(f) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities 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, and bank overdrafts.

(g) Trade and other receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. They are generally due for settlement within 30 days of invoicing and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value.

The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less loss allowance. The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of previous sales and the corresponding historical credit losses experienced.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost of inventory is determined using the standard costs basis and is net of any rebates and discounts received. Net realisable value is estimated using the most reliable evidence available at the reporting date and inventory is written down through an obsolescence provision if necessary.

(i) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment.

Depreciation

Property, plant and equipment, excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the Group, commencing when the asset is ready for use.

Depreciation Rates

The estimated useful lives used for each class of depreciable asset are shown below:

Fixed asset class	Useful life
Plant and Equipment	1 year
Furniture, Fixtures and Fittings	1 year
Computer Equipment	1 year

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

(j) Financial instruments

Financial instruments are recognised initially on the date that the Group becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

(k) Financial assets

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification

On initial recognition, the Group classifies its financial assets into the following categories, those measured at:

- amortised cost

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets.

Amortised cost

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows are solely payments of principal and interest on the principal amount outstanding.

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment.

Interest income, foreign exchange gains or losses and impairment are recognised in profit or loss. Gain or loss on derecognition is recognised in profit or loss.

Impairment of financial assets

Impairment of financial assets is recognised on an expected credit loss (ECL) basis for the following assets:

- financial assets measured at amortised cost

When determining whether the credit risk of financial assets has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment and including forward looking information.

The Group uses the presumption that an asset which is more than 30 days past due has seen a significant increase in credit risk.

The Group uses the presumption that a financial asset is in default when:

- the other party is unlikely to pay its credit obligations to the Group in full, without recourse to the Group to actions such as realising security (if any is held); or
- the financial assets is more than 90 days past due.

Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows expected to be received. This is applied using a probability weighted approach.

Trade receivables and contract assets

Impairment of trade receivables and contract assets have been determined using the simplified approach in AASB 9 which uses an estimation of lifetime expected credit losses. The Group has determined the probability of non-payment of the receivable and contract asset and multiplied this by the amount of the expected loss arising from default.

The amount of the impairment is recorded in a separate allowance account with the loss being recognised in finance expense. Once the receivable is determined to be uncollectable then the gross carrying amount is written off against the associated allowance.

Where the Group renegotiates the terms of trade receivables due from certain customers, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in profit or loss.

Other financial assets measured at amortised cost

Impairment of other financial assets measured at amortised cost are determined using the expected credit loss model in AASB 9. On initial recognition of the asset, an estimate of the expected credit losses for the next 12 months is recognised. Where the asset has experienced significant increase in credit risk then the lifetime losses are estimated and recognised.

(l) Financial liabilities

The Group measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.

The financial liabilities of the Group comprise trade payables, bank and other loans and lease liabilities.

(m) Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost of disposal and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting year.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(n) Leases

The Group leases premises for a period of one year but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date, and
- amounts expected to be payable by the Group under residual value guarantees.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses the rate charged by the parent entity for the loan to the Group adjusted to reflect changes in financing conditions since the financing was received and makes adjustments specific to the lease, e.g. term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

Extension and termination

Extension and termination options are included in a number of property and equipment 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 and termination options held are exercisable only by the Group and not by the respective lessor.

Residual value guarantees

The group sometimes provides residual value guarantees in relation to equipment leases.

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(p) Employee benefits

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 consolidated entity in respect of services provided by employees up to the end of the reporting period.

(q) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured at the present value of management's best estimate of the outflow required to settle the obligation at the end of the reporting period. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the unwinding of the discount is taken to finance costs in the consolidated statement of profit or loss and other comprehensive income.

(r) Contributed equity

Ordinary Shares and Class A shares are classified as equity. Incremental costs directly attributable to the issue of Ordinary Shares and share options which vest immediately are recognised as a deduction from equity, net of any tax effects.

(s) Share-based payments

The Group provides share-based compensation benefits to selected employees and directors. The fair value of options granted are recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(t) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting year but not distributed at the end of the reporting year.

(u) Rounding of amounts

The Group is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Instrument to the nearest dollar.

(v) Parent entity financial information

The financial information for the parent entity, Hydration Pharmaceuticals Company Limited, has been prepared on the same basis as the consolidated financial statements except as disclosed below.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the consolidated financial statements of the parent entity. Dividends received from associates are recognised in the parent entity profit or loss, rather than being deducted from the carrying amount of these investments.

Tax consolidation legislation

The Hydration Pharmaceuticals Company Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group.

Each entity in the tax consolidated group accounts for their own current and deferred tax amounts. These tax amounts are measured using the 'stand-alone taxpayer' approach to allocation.

Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the parent entity.

The tax consolidated group has entered into a tax funding agreement whereby each entity within the group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding agreement are recognised as either a contribution by, or distribution to the head entity.

Appendix B: Glossary

Appendix B: Glossary

Term	Meaning
AU$	an Australian dollar
AAS or **Australian Accounting Standards**	the Australian Accounting Standards and other authoritative pronouncements issued by the AASB
AASB	the Australian Accounting Standards Board
Adviser Options	the 3,000,000 Options to acquire Shares granted to BW Equities pursuant to the Lead Manager Mandate (as described at Section 9.5.1)
Applicant	a person who submits an Application
Application	an application made to subscribe for Shares offered under this Prospectus
Application Form	the application form attached to or accompanying this Prospectus relating to the Offer (including the electronic form provided by an online Application facility)
Application Monies	the amount of money accompanying an Application Form submitted by an Applicant
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited or the securities exchange that it operates, as the context requires
ASX Listing Rules	the listing rules of ASX, as amended, modified or waived from time to time
ASX Recommendations	the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (4th edition)
ASX Settlement	ASX Settlement Pty Limited (ABN 49 008 504 532)
ASX Settlement Operating Rules	the operating rules of ASX Settlement
Australian Shareholders	Australian tax resident Shareholders
Automic	Automic Pty Ltd (ACN 152 260 814)
Board	the board of directors of the Company
BPAY®	the payment mechanism used to pay Application Monies online
Broker	any ASX participating organisation selected by the Lead Manager and Hydralyte North America to act as a broker to the Offer
Broker Firm Offer	the offer of Shares under this Prospectus to Australian resident retail clients of Brokers who have received an invitation from their Broker, provided that such clients are not in the United States, as described in Section 7.3
Broker Firm Offer Applicants	a person who submits an Application under the Broker Firm Offer
Broker Firm Offer Application Form	the Application Form made available with a copy of this Prospectus, identified as the Broker Firm Offer Application Form
BW Equities	BW Equities Pty Ltd (ACN 146 642 462)
Care Pharmaceuticals	Care Pharmaceuticals Pty Limited (ACN 009 200 604)
Care Territories	all of the world excluding the Company Territories, which specifically includes Australia, New Zealand, Asia (excluding China and Hong Kong but including Taiwan), the Middle East (including Turkey) and Africa
CGT	capital gains tax

Term	Meaning
Chairman	the chairman of the Board
CHESS	Clearing House Electronic Sub-register System operated in accordance with the Corporations Act. See Section 7.10.2
Class A Share	a Class A Share in the capital of the Company, which will be converted to Ordinary Shares under the Restructure
Class A Shareholder	a registered holder of Class A Shares
Cleansing Offer	the offer of 2,000 Shares at the Offer Price to raise AU$580 pursuant to this Prospectus
Cleansing Offer Closing Date	the date on which the Cleansing Offer is expected to close, being Monday, 6 December 2021
Closing Date	the date on which the Retail Offer is expected to close, being Friday, 26 November 2021
Company	The Hydration Pharmaceuticals Company Limited (ACN 620 385 677)
Company Territories	the territories in which Hydralyte North America has retained its intellectual property rights under the IP Licence Deed, being North America, South America, China (including Hong Kong but excluding Taiwan) and Europe (including the United Kingdom but excluding Turkey)
Completion of the Offer	the completion of allocation and issue of Shares to Successful Applicants under this Prospectus
Constitution	the constitution of the Company
Convertible Note Deed Poll	the convertible note deed poll executed by the Company in favour of the Convertible Noteholders dated 9 March 2021, as described at Section 9.4
Convertible Notes	the convertible notes issued to Convertible Noteholders under the Convertible Note Deed Poll, as described at Section 9.4
Convertible Noteholders	the investors who subscribed for Convertible Notes pursuant to the Convertible Note Deed Poll which will convert into Shares in the Company on Completion of the Offer
Corporations Act	*Corporations Act 2001* (Cth)
Director	a director of the Company
Enterprise Value	the sum of market capitalisation on Listing at the Offer Price and pro forma net debt
Escrowed Shareholders	the holders of Shares that are escrowed, as described in Section 9.7
Escrowed Shares	the Shares which are subject to escrow restrictions as described in Section 9.7
Existing Shareholders	existing registered holders of Class A Shares as at the date of this Prospectus
Expiry Date	13 months after the Prospectus Date
Exposure Period	the seven day period after the Prospectus Date, which may be extended by ASIC by a further period of seven days, during which no Applications may be processed by the Company
FDA	the United States Federal Drug Authority
Financial Information	the Historical Financial Information and the Forecast Financial Information
FMCG	Fast-Moving Consumer Goods

Term	Meaning
Forecast Financial Information	as defined in Section 4.1
Functional Beverages	drinks that are non-alcoholic in nature and are added with various health-enhancing ingredients
Functional Beverages Market	a broad market covering all Functional Beverage products
FY	the abbreviation for a financial year, which ends on 31 December for the Company
General Public Offer	the offer under this Prospectus to apply for Shares made to retail investors in Australia who are not Broker Firm Offer Applicants
GST	goods and services tax
Healthy Hydration Solutions	hydration solution products sold by participants in the Healthy Hydration Solutions Market
Healthy Hydration Solutions Market	the market which represents the overlap of the: • OTC Consumer Healthcare Market • Functional Beverage Market; and • VMS Market
Historical Financial Information	as defined in Section 4.1
HPT	the Hydration Pharmaceuticals Trust
Hydralyte IP	manufacturing IP, know-how, technical information, confidential information and documentation related to the 'Hydralyte' products
Hydralyte North America	the Company
Hydralyte North America Group or **Group**	the Company and its subsidiaries
Hydralyte North America Offer Information Line	1300 288 664 or +61 (2) 9698 5414
IFRS	International Financial Reporting Standards
Independent Limited Assurance Report	the report of the Investigating Accountant as set out in Section 8
Institutional Investors	investors who are: • wholesale clients under section 761G of the Corporations Act and either "professional investors" or "sophisticated investors" under sections 708(11) and 708(8) of the Corporations Act; or • institutional investors in certain other jurisdictions, as agreed by the Company and the Lead Manager, to whom offers of Shares may lawfully be made without the need for a lodged or registered prospectus or other form of disclosure document or filing with, or approved by, any government agency (except one with which the Company is willing in its discretion to comply)
Institutional Offer	the invitation to Institutional Investors under this Prospectus to acquire Shares, as described in Section 7.5

Term	Meaning
Investigating Accountant	PricewaterhouseCoopers Securities Ltd (ACN 003 311 617)
IP	intellectual property
IP Licence Deed	an intellectual property licence deed between Care Pharmaceuticals and G F O'Brien (Dan O'Brien) as trustee of the HPT dated 30 April 2014 and amended and restated on 31 January 2020, as described in Section 9.5.2
IPO	the initial public offering of Shares under this Prospectus
Lead Manager	BW Equities
Lead Manager Mandate	the mandate agreement between the Company and the Lead Manager, as described at Section 9.5.1
Licensed IP	certain IP licensed from Care Pharmaceuticals under the IP Licence Deed
Listing	admission of the Company to the Official List and quotation of the Shares
LTI	long-term incentives
Management	the executive management team of the Company, as described at Section 6.2.1
Melbourne time	the time in Melbourne, Victoria
Minimum Subscription	the minimum amount to be raised under the Offer made by this Prospectus, being AU$17.0 million
NAPRA	Canada's National Association of Pharmacy Regulatory Authorities
New Shareholders	Shareholders who are issued Shares under the Offer
NHP Regulations	the Canadian Natural Health Products Regulations (SOR/2003-196)
NPAT	net profit after tax
Offer	the offer of Shares under this Prospectus to: • Australian resident retail investors; and • Institutional Investors in Australia and certain other eligible jurisdictions, as described in Section 7.1
Offer Period	the period from the Opening Date to the Closing Date
Offer Price	AU$0.29 per Share
Offer Website	https://investor.automic.com.au/#/ipo/hydralyte
Official List	the official list of entities that ASX has admitted to and not removed from listing
Opening Date	the date on which the Retail Offer opens, which is expected to be Thursday, 11 November 2021
Options	options to acquire Shares, including the Adviser Options
Oral Rehydration Solutions Market	a market focused on providing oral rehydration solutions to help replenish important salts and fluids lost due to illness
Ordinary Share	a Share
OTC	over-the-counter

Term	Meaning
OTC Consumer Healthcare	consumer healthcare products sold OTC
OTC Consumer Healthcare Market	a broad market covering all consumer healthcare products available OTC
Performance Rights	a right to acquire a Share for nil exercise price on satisfaction (or waiver) of the relevant performance condition(s)
Plan	the equity incentive plan defined in Section 6.3.2.2
Prospectus	this document (including the electronic form of this Prospectus) and any supplementary or replacement prospectus in relation to this document
Prospectus Date	the date on which a copy of this Prospectus is lodged with ASIC, being Wednesday, 3 November 2021
PwCS	PricewaterhouseCoopers Securities Ltd
Restricted Person	a person subject to special restrictions under the Company's Securities Dealing Policy
Restriction Notice	a restriction notice issued to a Shareholder in accordance with the ASX Listing Rules notifying them of any applicable mandatory escrow periods in respect of the Shares held by that Shareholder
Restructure	the restructure of the Company which will occur prior to Completion of the Offer, details of which are set out in Section 9.3.1
Retail Offer	comprises the Broker Firm Offer and the General Public Offer
S&OP	Supply and Operations Planning
SDM	Shoppers Drug Mart, a national chain pharmacy in Canada
Share	a fully paid ordinary share in the capital of the Company
Shareholder	a registered holder of Shares
Shareholding	a Shareholder's holding of Shares
Share Registry	Automic Pty Ltd (ACN 152 260 814), which can be contacted on 1300 288 664 (within Australia) or +61 (2) 9698 5414 (outside Australia)
STI	short-term incentives
Successful Applicant	an Applicant who is issued Shares under the Offer
TFN	tax file number
$** or **US$	a United States dollar
United States or **US**	United States of America
US Securities Act	the Securities Act 1933, as amended
VMS	vitamin and mineral supplements
VMS Market	a market comprising all VMS products
WHO	World Health Organisation

Hydralyte™

The Hydration Pharmaceuticals Company Limited
ACN 620 385 677

BROKER FIRM OFFER APPLICATION FORM

Broker Code **Adviser Code**

Applicants who received this Offer from their broker must return their Application Form and Application Monies back to their broker

This Application Form is important. If you are in doubt as to how to deal with it, please contact your stockbroker or professional advisor without delay.
You should read the The Hydration Pharmaceuticals Company Limited Prospectus dated 3 November 2021 and any relevant supplementary Prospectus (if applicable), carefully before completing this Application Form. The Corporations Act prohibits any person from passing on this Application Form (whether in paper or electronic form) unless it is attached to or accompanies a complete and unaltered copy of the Prospectus and any relevant supplementary Prospectus (whether in paper or electronic form).

Standard Application and Pay by EFT

Enter your details below (clearly in capital letters using pen) and return in accordance with the instructions on page 2 of the form.

1. **Number of Shares applied for** , ,

Application payment (multiply box 1 by $0.29 per Share

A$, , . 0 0

2. **Applicant name(s) and postal address (Refer to Naming Standards overleaf)**

Post Code:

3. **Contact details**

Telephone Number

( )

Contact Name (PLEASE PRINT)

Email Address

By providing your email address, you elect to receive all communications despatched by the Company electronically (where legally permissible).

4. **CHESS Holders Only – Holder Identification Number (HIN)**

X

Note: if the HIN is incorrect or the name and address details in section 2 does not match exactly with your registration details held at CHESS, any Shares issued as a result of your Application will be held on the Issuer Sponsored subregister.

5. **TFN/ABN/Exemption Code**

Applicant #1 Applicant #2 Applicant #3

If NOT an individual TFN/ABN, please note the type in the box
C = Company; P = Partnership; T = Trust; S = Super Fund

AUTOMIC GROUP

YOUR PRIVACY
Automic Pty Ltd (ACN 152 260 814) trading as Automic Group advises that Chapter 2C of the Corporation Act 2001 requires information about you as a securityholder (including your name, address and details of the Shares you hold) to be included in the public register of the entity in which you hold Shares. Primarily, your personal information is used in order to provide a service to you. We may also disclose the information that is related to the primary purpose and it is reasonable for you to expect the information to be disclosed. You have a right to access your personal information, subject to certain exceptions allowed by law and we ask that you provide your request for access in writing (for security reasons). Our privacy policy is available on our website – www.automic.com.au

CORRECT FORMS OF REGISTRABLE TITLE

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual	Mr John Richard Sample	J R Sample
Joint Holdings	Mr John Richard Sample & Mrs Anne Sample	John Richard & Anne Sample
Company	ABC Pty Ltd	ABC P/L or ABC Co
Trusts	Mr John Richard Sample <Sample Family A/C>	John Sample Family Company
Superannuation Funds	Mr John Sample & Mrs Anne Sample <Sample Family Super A/C>	John & Anne Superannuation Fund
Partnerships	Mr John Sample & Mr Richard Sample <Sample & Son A/C>	John Sample & Son
Clubs/Unincorporated Bodies	Mr John Sample <Health Club A/C>	Health Club
Deceased Estates	Mr John Sample <Estate Late Anne Sample A/C>	Anne Sample (Deceased)

INSTRUCTIONS FOR COMPLETING THE FORM

YOU SHOULD READ THE PROSPECTUS CAREFULLY BEFORE COMPLETING THIS BROKER FIRM OFFER APPLICATION FORM.

This is an Application Form for fully paid ordinary Shares in The Hydration Pharmaceuticals Company Limited ACN 620 385 677 (**Company**) made under the terms set out in the Prospectus dated 3 November 2021.

The Broker Firm Offer is open to Australian resident retail clients of Brokers who have received a firm allocation to apply for Shares under the Broker Firm Offer. If you have been offered a firm allocation by a Broker, you will be treated as an Applicant under the Broker Firm Offer in respect of that allocation. You should contact your Broker to determine whether they may allocate Shares to you under the Broker Firm Offer.

Capitalised terms not otherwise defined in this document have the meaning given to them in the Prospectus. The Prospectus contains important information relevant to your decision to invest and you should read the entire Prospectus before applying for Shares. If you are in doubt as to how to deal with this Application Form, please contact your accountant, lawyer, stockbroker or other professional adviser. To meet the requirements of the Corporations Act, this Application Form must not be distributed unless included in, or accompanied by, the Prospectus and any supplementary Prospectus (if applicable). While the Prospectus is current, the Company will send paper copies of the Prospectus, and any supplementary Prospectus (if applicable) and an Application Form, on request and without charge.

1. **Shares Applied For & Payment Amount** - Enter the number of Shares & the amount of the application monies payable you wish to apply for.
2. **Applicant Name(s) and Postal Address** - ONLY legal entities can hold Shares. The Application must be in the name of a natural person(s), companies or other legal entities acceptable by the Company. At least one full given name and surname is required for each natural person. Refer to the table above for the correct forms of registrable title(s). Applicants using the wrong form of names may be rejected. Next, enter your postal address for the registration of your holding and all correspondence. Only one address can be recorded against a holding.
3. **Contact Details** - Please provide your contact details for us to contact you between 9:00am and 5:00pm (AEST) should we need to speak to you about your application. In providing your email address you elect to receive electronic communications. You can change your communication preferences at any time by logging in to the Investor Portal accessible at https://investor.automic.com.au/#/home
4. **CHESS Holders** - If you are sponsored by a stockbroker or other participant and you wish to hold Shares allotted to you under this Application on the CHESS subregister, enter your CHESS HIN. Otherwise leave the section blank and on allotment you will be sponsored by the Company and a "Securityholder Reference Number" ('SRN') will be allocated to you.
5. **TFN/ABN/Exemption** - If you wish to have your Tax File Number, ABN or Exemption registered against your holding, please enter the details. Collection of TFN's is authorised by taxation laws but quotation is not compulsory and it will not affect your Application.
6. **Payment** - Your broker will confirm the payment instructions to make your EFT payment after you've submitted your application form.

DECLARATIONS

BY SUBMITTING THIS APPLICATION FORM WITH THE APPLICATION MONIES, I/WE DECLARE THAT I/WE:

- Have received a copy of the Prospectus, either in printed or electronic form and have read the Prospectus in full;
- Have completed this Application Form in accordance with the instructions on the form and in the Prospectus;
- Declare that the Application Form and all details and statements made by me/us are complete and accurate;
- I/we agree to provide further information or personal details, including information related to tax-related requirements, and acknowledge that processing of my application may be delayed, or my application may be rejected if such required information has not been provided;
- Agree and consent to the Company collecting, holding, using and disclosing my/our personal information in accordance with the Prospectus; and
- Where I/we have been provided information about another individual, warrant that I/we have obtained that individual's consent to the transfer of their information to the Company;
- Acknowledge that once the Company accepts my/our Application Form, I/we may not withdraw it;
- Apply for the number of Shares that I/we apply for (or a lower number allocated in a manner allowed under the Prospectus);
- Acknowledge that my/our Application may be rejected by the Company in its absolute discretion;
- Authorise the Company and their agents to do anything on my/our behalf necessary (including the completion and execution of documents) to enable the Shares to be allocated;
- Am/are over 18 years of age;
- Agree to be bound by the Constitution of the Company;
- Acknowledge that neither the Company nor any person or entity guarantees any particular rate of return of the Shares, nor do they guarantee the repayment of capital; and
- Give the acknowledgements in Section 7.6 of the Prospectus.

LODGEMENT INSTRUCTIONS

The Broker Firm Offer is expected to open on Thursday, 11 November 2021 and is expected to close on Friday, 26 November 2021. The Directors reserve the right to withdraw the Offer, close the Offer early or extend the Offer period.

If you have been contacted by your Broker regarding the Broker Firm Offer, you should ask your Broker for information about how and when to lodge this Application Form, and how to make your EFT payment. Generally, you will lodge this Application Form and EFT payment with your Broker in accordance with their instructions. Do NOT lodge this Application form with the Share Registry.

Your Broker must receive your completed Application Form and Application Monies (if applicable) in time to arrange settlement on your behalf by the relevant Closing Date for the Broker Firm Offer.

ASSISTANCE

Need help with your application, no problem. Please contact Automic on:

PHONE:
1300 288 664 within Australia
+61 (2) 9698 5414 from outside Australia

LIVE WEBCHAT:
Go to www.automicgroup.com.au

EMAIL:
corporate.actions@automicgroup.com.au

BROKER FIRM OFFER APPLICATION FORM

Hydralyte™

The Hydration Pharmaceuticals Company Limited
ACN 620 385 677

Broker Code	Adviser Code

Applicants who received this Offer from their broker must return their Application Form and Application Monies back to their broker

This Application Form is important. If you are in doubt as to how to deal with it, please contact your stockbroker or professional advisor without delay.
You should read the The Hydration Pharmaceuticals Company Limited Prospectus dated 3 November 2021 and any relevant supplementary Prospectus (if applicable), carefully before completing this Application Form. The Corporations Act prohibits any person from passing on this Application Form (whether in paper or electronic form) unless it is attached to or accompanies a complete and unaltered copy of the Prospectus and any relevant supplementary Prospectus (whether in paper or electronic form).

Standard Application and Pay by EFT

Enter your details below (clearly in capital letters using pen) and return in accordance with the instructions on page 2 of the form.

1. Number of Shares applied for

, ,

Application payment (multiply box 1 by $0.29 per Share

A$, , . 0 0

2. Applicant name(s) and postal address (Refer to Naming Standards overleaf)

Post Code:

3. Contact details

Telephone Number

( )

Contact Name (PLEASE PRINT)

Email Address

By providing your email address, you elect to receive all communications despatched by the Company electronically (where legally permissible).

4. CHESS Holders Only – Holder Identification Number (HIN)

X

Note: if the HIN is incorrect or the name and address details in section 2 does not match exactly with your registration details held at CHESS, any Shares issued as a result of your Application will be held on the Issuer Sponsored subregister.

5. TFN/ABN/Exemption Code

Applicant #1

Applicant #2

Applicant #3

If NOT an individual TFN/ABN, please note the type in the box
C = Company; P = Partnership; T = Trust; S = Super Fund

AUTOMIC GROUP

YOUR PRIVACY

Automic Pty Ltd (ACN 152 260 814) trading as Automic Group advises that Chapter 2C of the Corporation Act 2001 requires information about you as a securityholder (including your name, address and details of the Shares you hold) to be included in the public register of the entity in which you hold Shares. Primarily, your personal information is used in order to provide a service to you. We may also disclose the information that is related to the primary purpose and it is reasonable for you to expect the information to be disclosed. You have a right to access your personal information, subject to certain exceptions allowed by law and we ask that you provide your request for access in writing (for security reasons). Our privacy policy is available on our website – www.automic.com.au

CORRECT FORMS OF REGISTRABLE TITLE

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual	Mr John Richard Sample	J R Sample
Joint Holdings	Mr John Richard Sample & Mrs Anne Sample	John Richard & Anne Sample
Company	ABC Pty Ltd	ABC P/L or ABC Co
Trusts	Mr John Richard Sample <Sample Family A/C>	John Sample Family Company
Superannuation Funds	Mr John Sample & Mrs Anne Sample <Sample Family Super A/C>	John & Anne Superannuation Fund
Partnerships	Mr John Sample & Mr Richard Sample <Sample & Son A/C>	John Sample & Son
Clubs/Unincorporated Bodies	Mr John Sample <Health Club A/C>	Health Club
Deceased Estates	Mr John Sample <Estate Late Anne Sample A/C>	Anne Sample (Deceased)

INSTRUCTIONS FOR COMPLETING THE FORM

YOU SHOULD READ THE PROSPECTUS CAREFULLY BEFORE COMPLETING THIS BROKER FIRM OFFER APPLICATION FORM.

This is an Application Form for fully paid ordinary Shares in The Hydration Pharmaceuticals Company Limited ACN 620 385 677 (**Company**) made under the terms set out in the Prospectus dated 3 November 2021.

The Broker Firm Offer is open to Australian resident retail clients of Brokers who have received a firm allocation to apply for Shares under the Broker Firm Offer. If you have been offered a firm allocation by a Broker, you will be treated as an Applicant under the Broker Firm Offer in respect of that allocation. You should contact your Broker to determine whether they may allocate Shares to you under the Broker Firm Offer.

Capitalised terms not otherwise defined in this document have the meaning given to them in the Prospectus. The Prospectus contains important information relevant to your decision to invest and you should read the entire Prospectus before applying for Shares. If you are in doubt as to how to deal with this Application Form, please contact your accountant, lawyer, stockbroker or other professional adviser. To meet the requirements of the Corporations Act, this Application Form must not be distributed unless included in, or accompanied by, the Prospectus and any supplementary Prospectus (if applicable). While the Prospectus is current, the Company will send paper copies of the Prospectus, and any supplementary Prospectus (if applicable) and an Application Form, on request and without charge.

1. **Shares Applied For & Payment Amount** - Enter the number of Shares & the amount of the application monies payable you wish to apply for.
2. **Applicant Name(s) and Postal Address** - ONLY legal entities can hold Shares. The Application must be in the name of a natural person(s), companies or other legal entities acceptable by the Company. At least one full given name and surname is required for each natural person. Refer to the table above for the correct forms of registrable title(s). Applicants using the wrong form of names may be rejected. Next, enter your postal address for the registration of your holding and all correspondence. Only one address can be recorded against a holding.
3. **Contact Details** - Please provide your contact details for us to contact you between 9:00am and 5:00pm (AEST) should we need to speak to you about your application. In providing your email address you elect to receive electronic communications. You can change your communication preferences at any time by logging in to the Investor Portal accessible at https://investor.automic.com.au/#/home
4. **CHESS Holders** - If you are sponsored by a stockbroker or other participant and you wish to hold Shares allotted to you under this Application on the CHESS subregister, enter your CHESS HIN. Otherwise leave the section blank and on allotment you will be sponsored by the Company and a "Securityholder Reference Number" ('SRN') will be allocated to you.
5. **TFN/ABN/Exemption** - If you wish to have your Tax File Number, ABN or Exemption registered against your holding, please enter the details. Collection of TFN's is authorised by taxation laws but quotation is not compulsory and it will not affect your Application.
6. **Payment** - Your broker will confirm the payment instructions to make your EFT payment after you've submitted your application form.

DECLARATIONS

BY SUBMITTING THIS APPLICATION FORM WITH THE APPLICATION MONIES, I/WE DECLARE THAT I/WE:

- Have received a copy of the Prospectus, either in printed or electronic form and have read the Prospectus in full;
- Have completed this Application Form in accordance with the instructions on the form and in the Prospectus;
- Declare that the Application Form and all details and statements made by me/us are complete and accurate;
- I/we agree to provide further information or personal details, including information related to tax-related requirements, and acknowledge that processing of my application may be delayed, or my application may be rejected if such required information has not been provided;
- Agree and consent to the Company collecting, holding, using and disclosing my/our personal information in accordance with the Prospectus; and
- Where I/we have been provided information about another individual, warrant that I/we have obtained that individual's consent to the transfer of their information to the Company;
- Acknowledge that once the Company accepts my/our Application Form, I/we may not withdraw it;
- Apply for the number of Shares that I/we apply for (or a lower number allocated in a manner allowed under the Prospectus);
- Acknowledge that my/our Application may be rejected by the Company in its absolute discretion;
- Authorise the Company and their agents to do anything on my/our behalf necessary (including the completion and execution of documents) to enable the Shares to be allocated;
- Am/are over 18 years of age;
- Agree to be bound by the Constitution of the Company;
- Acknowledge that neither the Company nor any person or entity guarantees any particular rate of return of the Shares, nor do they guarantee the repayment of capital; and
- Give the acknowledgements in Section 7.6 of the Prospectus.

LODGEMENT INSTRUCTIONS

The Broker Firm Offer is expected to open on Thursday, 11 November 2021 and is expected to close on Friday, 26 November 2021. The Directors reserve the right to withdraw the Offer, close the Offer early or extend the Offer period.

If you have been contacted by your Broker regarding the Broker Firm Offer, you should ask your Broker for information about how and when to lodge this Application Form, and how to make your EFT payment. Generally, you will lodge this Application Form and EFT payment with your Broker in accordance with their instructions. Do NOT lodge this Application form with the Share Registry.

Your Broker must receive your completed Application Form and Application Monies (if applicable) in time to arrange settlement on your behalf by the relevant Closing Date for the Broker Firm Offer.

ASSISTANCE

Need help with your application, no problem. Please contact Automic on:

PHONE:
1300 288 664 within Australia
+61 (2) 9698 5414 from outside Australia

LIVE WEBCHAT:
Go to www.automicgroup.com.au

EMAIL:
corporate.actions@automicgroup.com.au

Corporate directory

Company's Registered Office

The Hydration Pharmaceuticals Company Limited

Level 42, Rialto South Tower
525 Collins Street
Melbourne VIC 3000

Lead Manager

BW Equities Pty Ltd

Level 30, 360 Collins Street
Melbourne VIC 3000

Australian Legal Adviser

Becketts Lawyers Pty Ltd

Level 21, 90 Collins Street
Melbourne VIC 3000

Hydralyte North America Offer Information Line

Within Australia
1300 288 664

Outside Australia
+61 (2) 9698 5414

Investigating Accountant

PricewaterhouseCoopers Securities Ltd

Level 19/2 Riverside Quay
Southbank VIC 3006

Auditor

PricewaterhouseCoopers

Level 19/2 Riverside Quay
Southbank VIC 3006

Share Registry

Automic Pty Ltd

Level 5, 126 Phillip Street
Sydney NSW 2000

1300 288 664 (within Australia)

+61 (2) 9698 5414 (outside Australia)

Offer Website

https://investor.automic.com.au/#/ipo/hydralyte

Company Website

hydralyte.com

Hydralyte®