The Hydration Pharmaceuticals Company Limited

ACN 620 385 677

Consolidated Financial Statements

For the Year Ended 31 December 2019

The Hydration Pharmaceuticals Company Limited

ACN 620 385 677

Directors' Report

31 December 2019

The directors present their report, together with the consolidated financial statements of the Group, being Company and its controlled entities, for the financial year ended 31 December 2019.

Directors

The names of each person who has been a director during the year and to the date of this report are:

Adem Karafili	
Geoffrey Frederick Dan O'Brien	
Jonathan West	
Adam Gregory	
Radek Sali	
Scott Emerson	
John Wylie	(appointed on 5 February 2019 and resigned on 14 June 2019)
Maja Sliwinski	(appointed on 5 February 2019 and removed on 14 June 2019)
Charles Daniel Whiting	(resigned on 5 February 2019)

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

Principal activities

The principal activities of the Group during the financial year were wholesale suppliers and online retailers of Hydralyte products in North America. The Group owns distribution rights to Hydralyte for the world outside of Australia, New Zealand, Asia (excluding China, which includes Hong Kong but excludes Taiwan), Africa and the Middle East (excluding Turkey). The Group, however, is largely focused on the US and Canada.

No significant change in the nature of these activities occurred during the year.

Operating results

The consolidated loss of the Group amounted to $3,434,151 (2018: $9,602,288).

Dividends paid or recommended

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

Significant changes in state of affairs

As at 31 December 2019, the Group has net assets of $2,385,772 (2018:$2,617,350) and a working capital surplus of $2,435,616 (2018:$2,662,782). The Group has also experienced operating losses of $3,434,151 (2018:$9,602,288) and operating cash outflows of $2,781,297 (2018:$5,395,365) during the financial year ending on that date as a result of being a rapidly growing startup company.

The Group has forecasted results for the year ending 31 December 2021 and are expecting a loss of approximately $5 million, which includes additional costs related to a potential IPO, and the Group aim to breakeven in late 2023. In order to achieve breakeven and further profitability, the Group requires new capital and is working towards a potential Initial Public Offering (IPO) on the ASX, targeting the second half of 2021. Increased cash expenditure will be incurred leading into and beyond the potential IPO period. In the first quarter of 2021, the Group raised $6.5 million through a series of convertible notes from the current and new investors as a pre-IPO raise.

Significant changes in state of affairs (continued)

As with startups, and as a result of this matter, there is a material uncertainty that may 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. However, the directors believe that the Group will be successful in the above matters, will execute another capital raise to bridge the gap to break even, and, accordingly, have prepared the financial report on a going concern basis.

The COVID-19 outbreak was declared a pandemic by the World Health Organisation in March 2020. The outbreak and the response of Governments in dealing with the pandemic is interfering with general activity levels within the community and the economy. Following the COVID-19 outbreak, the company has continued its business operations. The situation is unprecedented and management continues to consider the potential implications of COVID-19, which may include disruptions to the supply chain, availability of employees and changes in customer demand. The company continued top line growth through 2020 while facing COVID-19 headwinds at bricks and mortar stores. Due to COVID-19, e-commerce sales have shown positive growth but brick and mortar stores have seen a drop in demand due to supply chain delays and increased costs for freight and logistics.

There have been no other significant changes in the state of affairs of the Group during the year.

Events after the reporting date

A Canadian lockdown has negatively impacted bricks and mortar sales in the first half of 2021. Nevertheless, we expect continued top line growth for the year 2021 as Canadian bricks and mortar weakness is offset by continued strong Amazon growth and the launch of our Canadian website.

In first quarter of 2021, the company raised $6.5 million through a series convertible notes from the current and new investors as a pre-IPO raise.

The Group is working towards a potential Initial Public Offering (IPO) on the ASX, targeting second half of 2021. Increased cash expenditure will be incurred leading into and beyond the potential IPO period. Further details around the potential IPO are in planning stages, while IPO preparation has commenced.

In the process of raising capital through convertible notes closed in Q1 2021, it became evident that the capital structure of the company is overly complex, creating a deterrent in the capital raising process. The company is currently laying out a capital restructure for simplification.

Except as disclosed above, no other matter or circumstance has arisen since 31 December 2019 that has significantly affected the company's operations, results or state of affairs, or may do so in future years .

Likely developments and expected results of operations

The directors expect that the Group will continue to carry out its principal activities as detailed above. There are no other known or likely developments which the directors foresee which they wish to disclose at this time.

Environmental regulation

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory.

Directors' Report
31 December 2019

Indemnification and insurance of officers and auditors

The Group has indemnified each director and previous directors, on a full indemnity basis and to the full extent permitted by law, against any and all losses or other liabilities suffered or incurred by the director as an officer of the Group or of a related body corporate, including any liability arising out of in connection with any negligence, breach of duty or breach of trust. The indemnity stipulates that the Group will meet the full amount of any such liabilities, including costs and expenses, and remains in full force and effect until released by the director. The indemnities are contained in Deeds of Indemnity, Insurance and Access, which also give each officer access to the Group's books and records.

No insurance premiums have been paid during the period for the directors of the Group.

Proceedings on behalf of Group

No person has applied for leave of court under Section 237 of the *Corporations Act 2001* to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the Corporations Act 2001.

Signed in accordance with a resolution of the Board of Directors:

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Adem Karafili
Executive Chairman

Melbourne

13 October 2021

The Hydration Pharmaceuticals Company Limited

ACN 620 385 677

Contents

These consolidated financial statements are the consolidated financial statements of The Hydration Pharmaceuticals Company Limited and its controlled entities. The consolidated financial statements are presented in USD ($).

The Hydration Pharmaceuticals Company Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 2,
6 Palmer Parade
Cremorne VIC 3121

A description of the nature of the Group's operations and its principal activities is included in the directors' report on page 1, which is not part of these consolidated financial statements. The consolidated financial statements were authorised for issue by the directors on 13 October 2021. The directors have the power to amend and reissue the consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2019

	Note	2019 $	Unaudited 2018 $
Revenue	4	**2,962,825**	4,161,182
Cost of sales		**(1,586,729)**	(4,236,444)
Gross profit		**1,376,096**	(75,262)
Other income	4	**392**	9,199
Sales and marketing expenses		**(1,591,572)**	(2,186,713)
Administrative expenses		**(1,206,213)**	(3,715,049)
Employee benefits expense		**(1,966,988)**	(3,202,588)
Depreciation and amortisation expense		**(11,727)**	(77,179)
Bad debts expense		**(91)**	(483)
Foreign exchange losses		**(23,169)**	(332,693)
Finance costs		**(10,879)**	(21,520)
Loss before income tax		**(3,434,151)**	(9,602,288)
Income tax expense	6	**-**	-
Loss for the year		**(3,434,151)**	(9,602,288)
Other comprehensive income, net of income tax			
Exchange differences on translating foreign controlled entities		**(17,647)**	343,111
Other comprehensive income/(loss) for the year, net of tax		**(17,647)**	343,111
Total comprehensive loss for the year		**(3,451,798)**	(9,259,177)

The accompanying notes form part of these consolidated financial statements.

The Hydration Pharmaceuticals Company Limited

ACN 620 385 677

Consolidated Statement of Financial Position

As At 31 December 2019

	Note	2019 $	Unaudited 2018 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	7	**2,736,056**	2,535,970
Trade and other receivables	8	**595,511**	513,550
Inventories	9	**780,055**	1,063,122
Other assets	10	**79,497**	128,011
TOTAL CURRENT ASSETS		**4,191,119**	4,240,653
NON-CURRENT ASSETS			
Property, plant and equipment	11	**8,750**	-
TOTAL NON-CURRENT ASSETS		**8,750**	-
TOTAL ASSETS		**4,199,869**	4,240,653
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12	**1,753,530**	1,557,053
Other financial liabilities	13	**1,973**	20,818
TOTAL CURRENT LIABILITIES		**1,755,503**	1,577,871
NON-CURRENT LIABILITIES			
Provisions	14	**58,594**	45,432
TOTAL NON-CURRENT LIABILITIES		**58,594**	45,432
TOTAL LIABILITIES		**1,814,097**	1,623,303
NET ASSETS		**2,385,772**	2,617,350
EQUITY			
Contributed equity	15	**16,494,829**	13,452,152
Reserves	16	**564,236**	404,340
Accumulated losses	17	**(14,673,293)**	(11,239,142)
TOTAL EQUITY		**2,385,772**	2,617,350

The accompanying notes form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2019

2019

	Note	Contributed Equity $	Accumulated Losses $	Foreign Currency Translation Reserve $	Other Reserves $	Total $
Balance at 1 January 2019		**13,452,152**	**(11,239,142)**	**343,111**	**61,229**	**2,617,350**
Loss for the year		**-**	**(3,434,151)**	**-**	**-**	**(3,434,151)**
Other comprehensive income	16	**-**	**-**	**(17,647)**	**-**	**(17,647)**
Transactions with owners in their capacity as owners						
Contribution of equity, net of transaction costs	15	**3,042,677**	**-**	**-**	**-**	**3,042,677**
Employee share schemes	16	**-**	**-**	**-**	**177,543**	**177,543**
Balance at 31 December 2019		**16,494,829**	**(14,673,293)**	**325,464**	**238,772**	**2,385,772**

Unaudited 2018

	Note	Contributed Equity $	Accumulated Losses $	Foreign Currency Translation Reserve $	Other Reserves $	Total $
Balance at 1 Jnuary 2018		13,452,152	(1,636,854)	-	-	11,815,298
Loss for the year		-	(9,602,288)	-	-	(9,602,288)
Other comprehensive income	16	-	-	343,111	-	343,111
Transactions with owners in their capacity as owners						
Employee share schemes	16	-	-	-	61,229	61,229
Balance at 31 December 2018		13,452,152	(11,239,142)	343,111	61,229	2,617,350

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2019

	Note	2019 $	Unaudited 2018 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers (inclusive of GST)		**3,133,492**	3,522,036
Payments to suppliers and employees (inclusive of GST)		**(5,903,819)**	(8,895,881)
Interest paid		**(10,970)**	(21,520)
Net cash used in operating activities	23	**(2,781,297)**	(5,395,365)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		**(20,477)**	-
Net cash used in investing activities		**(20,477)**	-
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of shares		**3,042,677**	-
Net cash provided by financing activities		**3,042,677**	-
Net increase/(decrease) in cash and cash equivalents held		**240,903**	(5,395,365)
Effects of exchange rate changes on cash and cash equivalents		**(40,817)**	(34,715)
Cash and cash equivalents at the beginning of year		**2,535,970**	7,966,050
Cash and cash equivalents at the end of financial year	7	**2,736,056**	2,535,970

The accompanying notes form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

NOTE CONTENTS

PAGE

Notes to the Financial Statements

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

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

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

The financial report was authorised for issue by the Directors on 13 October 2021.

1 Basis of Preparation

Special purpose financial report

In the Directors' opinion, the Group is not a reporting entity since there are unlikely to exist users of the consolidated financial statements who are not able to command the preparation of reports tailored so as to satisfy specifically all of their information needs.

The consolidated financial statements have been prepared in accordance with the recognition and measurement requirements of the Australian Accounting Standards and Accounting Interpretations, and the disclosure requirements of AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies*, *Changes in Accounting Estimates and Errors* and AASB 1054 *Australian Additional Disclosures*.

Historical cost convention

The consolidated financial statements have been prepared on an accruals basis and are based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Significant accounting policies adopted in the preparation of these consolidated financial statements are presented below and are consistent with prior reporting periods unless otherwise stated.

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time in their annual reporting period commencing 1 January 2019:

• AASB 16 Leases

The Group has applied AASB 16 Leases for the first time in their annual reporting period commencing 1 January 2019. The Group did not have any non-cancellable operating lease commitments from the date of commencement and therefore the application of this new standard has not had an impact on amounts or disclosures recognised in the financial report.

1 Basis of Preparation (continued)

New accounting standards and interpretations

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Group has decided not to early adopt these Standards.

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material [AASB 101 and AASB 108]
- AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet issued in Australia [AASB 1054]
- Conceptual Framework for Financial Reporting and AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework.

Going concern

As at 31 December 2019, the Group has net assets of $2,385,772 (2018:$2,617,350) and a working capital surplus of $2,435,616 (2018:$2,662,782). The Group has also experienced operating losses of $3,434,151 (2018:$9,602,288) and operating cash outflows of $2,781,297 (2018:$5,395,365) during the financial year ending on that date as a result of being a rapidly growing startup company.

The Group has forecasted results for the year ending 31 December 2021 and are expecting a loss of approximately $5 million, which includes additional costs related to a potential IPO, and the Group aim to breakeven in late 2023. In order to achieve breakeven and further profitability, the Group requires new capital and is working towards a potential Initial Public Offering (IPO) on the ASX, targeting the second half of 2021. Increased cash expenditure will be incurred leading into and beyond the potential IPO period. In the first quarter of 2021, the Group raised $6.5 million through a series of convertible notes from the current and new investors as a pre-IPO raise.

As with startups, and as a result of this matter, there is a material uncertainty that may 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. However, the directors believe that the Group will be successful in the above matters, will execute another capital raise to bridge the gap to break even, and, accordingly, have prepared the financial report on a going concern basis.

2 Summary of Significant Accounting Policies

(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.

2 Summary of Significant Accounting Policies (continued)

(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 consolidated 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.

A list of controlled entities is contained in Note 20 to the consolidated financial statements.

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.

2 Summary of Significant Accounting Policies (continued)

(c) Revenue and other income (continued)

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 invoiced on a monthly basis 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).

2 Summary of Significant Accounting Policies (continued)

(d) Income Tax (continued)

- 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) Value Added Tax (VAT)

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.

2 Summary of Significant Accounting Policies (continued)

(g) Trade and other receivables (continued)

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 policy

Property, plant and equipment, excluding freehold land, is depreciated on a straight-line basis over the assets useful life to the Group, commencing when the asset is ready for use.

Depreciation Rates

The depreciation rates 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).

2 Summary of Significant Accounting Policies (continued)

(j) Financial instruments (continued)

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.

2 Summary of Significant Accounting Policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

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.

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.

2 Summary of Significant Accounting Policies (continued)

(k) 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.

(l) 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, eg term, country, currency and security.

2 Summary of Significant Accounting Policies (continued)

(l) Leases (continued)

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.

(m) 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.

(n) 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.

2 Summary of Significant Accounting Policies (continued)

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(t) Parent entity financial information

The financial information for the parent entity, Hydration Pharmaceuticals Company Limited, disclosed in note 26 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 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.

2 Summary of Significant Accounting Policies (continued)

(t) Parent entity financial information (continued)

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.

3 Critical Accounting Estimates and Judgments

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the company's accounting policies.

(a) Significant estimates and judgements

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(b) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4 Revenue and Other Income

	2019 $	Unaudited 2018 $
Revenue		
Revenue from contracts with customers	**2,962,825**	4,161,182
	2,962,825	4,161,182

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

4 Revenue and Other Income (continued)

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

	2019	Unaudited 2018
	$	$
US	**1,141,131**	1,258,568
Canada	**1,634,635**	1,560,873
Australia	**187,059**	1,341,741
	2,962,825	4,161,182

	2019	Unaudited 2018
	$	$
Other Income		
- Other income from sales of intellectual properties	**371**	9,129
- Interest revenue	**21**	70
	392	9,199

5 Result for the Year

The result for the year includes the following specific expenses:

	2019	Unaudited 2018
	$	$
Employee benefits expense	**1,966,988**	3,202,588
Depreciation expense	**11,727**	77,179
Expense relating to short-term leases (included in administrative expenses)	**23,559**	12,810

6 Income Tax Expense

(a) The major components of tax expense (income) comprise:

	2019	Unaudited 2018
	$	$
Current tax expense		
Income tax	**-**	-
Deferred tax expense		
Deferred tax	**-**	-
Total income tax expense	**-**	-

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

6 Income Tax Expense (continued)

(b) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable

	2019	Unaudited 2018
	$	$
Loss from continuing operations before income tax expense	**(3,434,151)**	(9,602,288)
Tax at the US tax rate of 21.0% (2018: 21.0%)	**(721,172)**	(2,016,480)
Tax effect of amounts which are not deductible (taxable):		
- Difference in overseas tax rate	**91,707**	(176,019)
- Current year temporary differences not recognised	**(110,590)**	2,192,499
- Current year tax losses not recognised	**740,055**	-
Income tax expense	**-**	-

	2019	Unaudited 2018
	$	$
Unused tax losses for which no deferred tax asset has been recognised	**24,480,916**	-
Potential tax benefit	**4,966,733**	-

The unused tax losses were incurred by the Group where there are uncertainties about the ability to generate taxable income in the foreseeable future. Potential tax benefit were calculated based on the relevant local tax rates by the authorities.

7 Cash and Cash Equivalents

	2019	Unaudited 2018
	$	$
Cash at bank	**2,736,056**	2,535,970
	2,736,056	2,535,970

8 Trade and Other receivables

	2019	Unaudited 2018
	$	$
Trade receivables	**547,861**	499,170
Other receivables	**47,650**	14,380
	595,511	513,550

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

9 Inventories

	2019	Unaudited 2018
	$	$
Finished goods	**832,942**	1,466,938
Provision for obsolete inventory	**(200,990)**	(636,086)
Goods in transit	**148,103**	232,270
	780,055	1,063,122

10 Other Assets

	2019	Unaudited 2018
	$	$
Prepayments	**79,497**	128,011
	79,497	128,011

11 Property, plant and equipment

	2019	Unaudited 2018
	$	$
Plant and equipment		
At cost	**17,500**	-
Accumulated depreciation	**(8,750)**	-
Total plant and equipment	**8,750**	-
Furniture, fixtures and fittings		
At cost	**2,847**	2,726
Accumulated depreciation	**(2,847)**	(2,726)
Total furniture, fixtures and fittings	**-**	-
Computer equipment		
At cost	**2,357**	2,256
Accumulated depreciation	**(2,357)**	(2,256)
Total computer equipment	**-**	-
Total property, plant and equipment	**8,750**	-

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

12 Trade and Other Payables

	2019	Unaudited 2018
	$	$
Trade payables	**376,803**	254,024
Accrued rebates and incentives	**765,289**	502,986
Accrued expenses	**611,438**	800,043
	1,753,530	1,557,053

13 Other Financial Liabilities

	2019	Unaudited 2018
	$	$
Finance lease obligation	**1,973**	20,818
	1,973	20,818

14 Provisions

	2019	Unaudited 2018
	$	$
Provision for leave entitlements	**58,594**	45,432

15 Contributed Equity

	2019	Unaudited 2018	2019	Unaudited 2018
	Shares	Shares	$	$
Class A shares	49,566,926	41,615,234	16,494,829	13,452,152
Ordinary shares	7,200,000	7,200,000	-	-
	56,766,926	48,815,234	16,494,829	13,452,152

(a) Ordinary shares

	Shares	$
Opening balance 1 January 2018	**-**	-
Issue of shares	**7,200,000**	-
Closing balance 31 December 2018	**7,200,000**	-
Opening balance 1 January 2019	**7,200,000**	-
Issue of shares	**-**	-
Closing balance 31 December 2019	**7,200,000**	-

15 Contributed Equity (continued)

(a) Ordinary shares (continued)

The holders of ordinary shares are entitled to participate in dividends and the proceeds on winding up of the Group. On a show of hands at meetings of the Group, each holder of ordinary shares has one vote in person or by proxy, and upon a poll each share is entitled to one vote.

The Group does not have authorised capital or par value in respect of its shares.

(b) Class A shares

	Shares	$
Opening balance 1 January 2018	**-**	13,452,152
Issue of shares	**41,615,234**	-
Closing balance 31 December 2018	**41,615,234**	13,452,152
Opening balance 1 January 2019	**41,615,234**	13,452,152
Issue of shares	**7,951,692**	3,042,677
Closing balance 31 December 2019	**49,566,926**	16,494,829

The holders of Class A shares entitled to participate in dividends and the proceeds on winding up of the Group. On a show of hands at meetings of the Group, each holder of Class A shares has one vote in person or by proxy, and upon a poll each share is entitled to one vote.

The Group does not have authorised capital or par value in respect of its shares.

16 Reserves

(a) Other reserves

	2019	Unaudited 2018
	$	$
Employee share scheme	**238,772**	61,229
	-	-
Movements:		
Employee share sheme		
Opening balance	**61,229**	-
Employee share scheme	**177,543**	61,229
	238,772	61,229

During the financial year, $177,543 (2019: $61,229) of share-based payments were expensed in relation to options granted to employees and directors.

16 Reserves (continued)

(b) Foreign Currency Translation Reserve

	2019	Unaudited 2018
	$	$
Opening balance	**343,111**	-
Other comprehensive income	**(17,647)**	343,111
	325,464	343,111

17 Accumulated Losses

	2019	Unaudited 2018
	$	$
Beginning balance	**(11,239,142)**	(1,636,854)
Loss for the year	**(3,434,151)**	(9,602,288)
	(14,673,293)	(11,239,142)

18 Dividends

No dividends have been paid during the financial year. The directors do not recommend that a dividend be paid in respect of the financial year.

19 Key Management Personnel Remuneration

Key management personnel remuneration included within employee expenses for the year is shown below:

	2019	Unaudited 2018
	$	$
Short-term employee benefits	**671,714**	761,772
Share-based payments	**156,843**	-
	828,557	761,772

20 Interests in Subsidiaries

Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%)* 2019	Percentage Owned (%)* 2018
Subsidiaries:			
Hydration Pharmaceuticals Trust	Australia	**100**	100
Hydration Pharmaceuticals Canada	Canada	**100**	100
Hydralyte LLC	United States	**100**	100
Hydration Pharmaceutical Service Pty Ltd (Dormant)	Australia	**100**	100
Hydration Therapeutics UK Limited (Dormant)	United Kingdom	**100**	100

*The percentage of ownership interest held is equivalent to the percentage voting rights for all subsidiaries.

21 Related Parties

(a) The Group's main related parties are as follows:

The group is controlled by the following entities:

Name	Type	Place of Incorporation	Ownership Interest 2019	Ownership Interest 2018
Woobinda Nominees Pty Ltd ACF the Woobinda Family Trust	Immediate parent	Australia	31%	31%
Super Radek Pty Ltd	Immediate parent	Australia	16%	16%
Merrill Lynch (Australia) Nominees Pty Ltd ACF the Regal Emerging Companies Fund	Immediate parent	Australia	9%	9%

Key management personnel

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

For details of disclosures relating to key management personnel, refer to Note 19.

Other related parties

Other related parties include close family members of key management personnel and entities that are controlled or significantly influenced by those key management personnel or their close family members.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

21 Related Parties (continued)

(b) Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

	2019	Unaudited 2018
	$	$
Purchases of various goods and services from entities controlled by the directors	74,763	142,216

22 Contingencies

In the opinion of the Directors, the Group did not have any contingencies at 31 December 2019 (31 December 2018: $nil).

23 Cash Flow Information

Reconciliation of result for the year to cashflows from operating activities

	2019	Unaudited 2018
	$	$
Loss for the year	**(3,434,151)**	(9,602,288)
Cash flows excluded from loss attributable to operating activities		
Non-cash flows in profit/(loss):		
- depreciation and amortisation expense	**11,727**	77,179
- foreign exchange loss	**23,169**	332,693
- non-cash employee benefits expense	**177,544**	61,229
- provision for obsolete inventory	**(435,096)**	636,086
Changes in assets and liabilities:		
- (increase)/decrease in trade and other receivables	**(81,961)**	(1,022,837)
- increase/(decrease) in trade and other payables	**177,632**	5,904,360
- (increase)/decrease in inventories	**718,163**	(1,699,208)
- increase/(decrease) in other assets	**48,514**	(128,011)
- (increase)/decrease in provisions	**13,162**	45,432
Cashflows from operations	**(2,781,297)**	(5,395,365)

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

24 Segment Information

The Group has one reportable operating segment, being Hydralyte Group. The Group's reportable segments are determined based on (1) financial information reviewed by the chief operating decision maker ("CODM"), being Chief Executive Officer ("CEO"), (2) internal management and related reporting structure, and (3) basis upon which the CEO makes resource allocation decsisions. While the Group operates in different geographies (US, Canada and Australia), the OPM business offered by the Group in each geography is fundamentally same. The CEO evaluates revenue by geography as an important measure of operating performance and growth. However, the costs of the Group are assessed by the CEO on a consolidated basis as many costs are centralised or cross geographical boundaries, and accordingly any measure of profitability by geography is not considered meaningful. The primary measure of profitability used by the CEO is operating profit on a consolidated basis.

The breakdown of revenue by geography and reconciliation of operating profit to net loss for each year is presented as follows:

	2019 $	Unaudited 2018 $
Revenue by geography		
United States	**1,141,131**	1,258,568
Canada	**1,634,635**	1,560,873
Australia	**187,059**	1,341,741
Other income	**392**	9,199
Cost of sales	**(1,586,729)**	(4,236,444)
Sales and marketing expenses	**(1,591,572)**	(2,186,713)
Administrative expenses	**(1,206,213)**	(3,715,049)
Employee benefits expenses	**(1,966,988)**	(3,202,588)
Depreciation and amortisation expense	**(11,727)**	(77,179)
Bad debt expenses	**(91)**	(483)
Operating losses	**(3,400,103)**	(9,248,075)
Foreign exchange losses	**(23,169)**	(332,693)
Finance costs	**(10,879)**	(21,520)
Net loss for the year	**(3,434,151)**	(9,602,288)

25 Auditors' Remuneration

	2019 $	Unaudited 2018 $
Audit and review of financial reports		
- Group	**38,234**	-
- Stand-alone of the parent entity	**15,641**	11,218
Total audit and review of financial reports	**53,875**	11,218
Other services		
- Compilation of stand-alone accounts for the parent entity	**3,476**	3,739
- Tax compliance services	**15,000**	14,000
Total other non-audit services	**18,476**	17,739
Total services provided by PwC	**72,351**	28,957

26 Events Occurring After the Reporting Date

A Canadian lockdown has negatively impacted bricks and mortar sales in the first half of 2021. Nevertheless, we expect continued top line growth for the year 2021 as Canadian bricks and mortar weakness is offset by continued strong Amazon growth and the launch of our Canadian website.

In first quarter of 2021, the Group raised $6.5 million through a series convertible notes from the current and new investors as a pre-IPO raise.

The Group is working towards a potential Initial Public Offering (IPO) on the ASX, targeting second half of 2021. Increased cash expenditure will be incurred leading into and beyond the potential IPO period. Further details around the potential IPO are in planning stages, while IPO preparation has commenced

In the process of raising capital through convertible notes closed in Q1 2021, it became evident that the capital structure of the company is overly complex, creating a deterrent in the capital raising process. The company is currently laying out a capital restructure for simplification.

Except as disclosed above, no other matter or circumstance has arisen since 31 December 2019 that has significantly affected the company's operations, results or state of affairs, or may do so in future years .

27 Parent entity

The following information has been extracted from the books and records of the parent, The Hydration Pharmaceuticals Company Limited and has been prepared in accordance with Australian Accounting Standards.

The financial information for the parent entity, The 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 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.

27 Parent entity (continued)

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.

	2019 $	Unaudited 2018 $
Statement of Financial Position		
Assets		
Current assets	**356,583**	518,792
Non-current assets	**-**	944,741
Total Assets	**356,583**	1,463,533
Liabilities		
Current liabilities	**27,535**	13,759
Total Liabilities	**27,535**	13,759
Equity		
Contributed equity	**16,494,829**	13,452,152
Accumulated losses	**(16,404,553)**	(12,063,607)
Other reserves	**238,772**	61,229
Total Equity	**329,048**	1,449,774
Statement of Profit or Loss and Other Comprehensive Income		
Total profit/(loss) for the year	**(4,340,946)**	(12,063,607)
Total comprehensive income	**(4,340,946)**	(12,063,607)

Contingent liabilities

The parent entity did not have any contingent liabilities as at 31 December 2019 or December 31, 2018.

Contractual commitments

The parent entity did not have any commitments as at 31 December 2019 or December 31, 2018.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

28 Share-based Payments

Set out below are summaries of options granted under the plan:

	2019 Average exercise price per share option $	2019 Number of options	2018 Average exercise price per share option $	2018 Number of options
As at 1 January	-	-	-	-
Granted during the year	0.38	5,620,000	-	-
Exercised during the year	-	-	-	-
Forefeited during the year	-	-	-	-
As at 31 December	0.38	5,620,000	-	-

Options outstanding

As at the date of exercise, the weighted average share price of options exercised during the year was $- (2018: $-).

The weighted average remaining contractual life of options outstanding at year end was xx years (2018: xx). The weighted average exercise price of outstanding shares at the end of the reporting period was $-.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Grant Date	Expiry Date	Exercise price	Share Options 31 December 2019	Share Options 31 December 2018
31 August 2019	31 August 2028	1.00	1,480,000	
31 August 2019	31 August 2024	0.19	666,666	
31 August 2019	31 August 2024	0.17	666,666	
31 August 2019	31 August 2024	0.15	2,806,668	
			5,620,000	
Weighted average remaining contractual life of options outstanding at the end of the period			5.73	-

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 31 December 2019 was 0.12c and 6.0 c. No options were granted in FY18.

Directors have valued options with a 15c strike price at 6.0c per option and those with a $1 strike price at $0.12c per option at grant date. Their fair value has been determined by a Directors Valuation with reference to the price of Class A shares issued close to the time the options were granted.

The Hydration Pharmaceuticals Company Limited

ACN 620 385 677

Directors' Declaration

The directors have determined that the Group is not a reporting entity and that this special purpose consolidated financial report should be prepared in accordance with the accounting policies described in Note 2 to the consolidated financial statements.

The directors of the Group declare that:

1. The consolidated financial statements and notes, as set out on pages 5 to 33, are in accordance with the *Corporations Act 2001* and:

   (a) comply with Accounting Standards as stated in Note 1; and

   (b) give a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 2 to the consolidated financial statements.

2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

....
Adem Karafili
Executive Chairman

Melbourne

13 October 2021

Independent auditor's report

To the members of The Hydration Pharmaceuticals Company Limited

Our opinion

In our opinion the accompanying financial report gives a true and fair view of the financial position of The Hydration Pharmaceuticals Company Limited (the Company) and its controlled entities (together the Group) as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards to the extent described in Note 1 of the financial report.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 31 December 2019
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Independent auditor's report (continued)

To the members of The Hydration Pharmaceuticals Company Limited

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred operating losses of $3,434,151 (2018:$9,602,288) and operating cash outflows of $2,781,297 (2018:$5,395,365) during the year ended 31 December 2019 as a result of being a rapidly growing startup company. The Group is also expecting a loss for the year ending 31 December 2021.

As a result of these matters, the Group requires new capital either through a potential Initial Public Offering (IPO) on the ASX, targeted for the second half of 2021, or through additional capital raises from other sources.

These conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of matter - basis of accounting and restriction on distribution and use

We draw attention to Note 1 in the financial report, which describes the basis of accounting. The financial report has been prepared for internal purposes in connection with the proposed IPO. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for The Hydration Pharmaceuticals Company Limited and its members and should not be distributed to or used by parties other than The Hydration Pharmaceuticals Company Limited and its members. Our opinion is not modified in respect of this matter.

Other matter: prior period financial report not audited

The Group was not required to prepare or lodge an audited financial report for the year ended 31 December 2018. The comparative amounts included in this financial report are therefore unaudited.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards to the extent described in Note 1 of the financial report, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. The directors have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the needs of the members.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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Independent auditor's report (continued)

To the members of The Hydration Pharmaceuticals Company Limited

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers Securities

Paul Lewis
Authorised Representative

Melbourne
13 October 2021