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# **The Hydration Pharmaceuticals Company Limited**

**Interim Financial Reporting**

**30 June 2021**

# The Hydration Pharmaceuticals Company Limited

## Directors' Report

30 June 2021

The directors submit the financial report of the the Group for the half-year ended 30 June 2021.

### Directors

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

Adem Karafili

Geoffrey Frederick Dan O'Brien

Jonathan West

Adam Gregory

Scott Emerson

Radek Sali

### Principal activities

The principal activities of the Group during the financial period 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 period.

### Operating results

The consolidated loss of the Group amounted to \$ 2,205,688 (2020: consolidated income of \$1,064,570).

### Significant changes in the current reporting period

The operating environment in the first half of 2020 was impacted heavily by COVID. The impact extended to closure of retail stores, disruption of supply chains, and an accelerated shift towards e-commerce channels. The net effects of these impacts was negative in Q1 2021. However, the reopening of Canadian retail stores in May 2021 and strong underlying growth in e-commerce in the USA led to record revenue in Q2 2021; up 58% on Q1 2021. While uncertainty persists due to COVID, the company expects continued strong revenue growth year-on-year. Product contribution margins improved in H1 2021 relative to the same period the prior year benefiting from higher sales of new higher margin products.

The financial position and performance of the company was affected by the following key events and transactions during the six months to 30 June 2021:

- Strong growth in revenue, despite COVID, driven by a significant increase in e-commerce revenue which grew its share of revenue from less than 20% in H1 2020 to nearly 30% in H1 2021. The dampening effect of Canadian retail store closures on revenue in Q1 2021 was offset by very strong sales growth in Q2 2021 as the Canadian stores reopened into the traditionally stronger demand summer period.
- The Group is planning an Initial Public Offering (IPO) on the Australian Stock Exchange (ASX) in late 2021. The details of the IPO are currently being resolved as the company prepares for the filing. The related transaction costs of \$464,471 has been capitalised in the Other Assets.
- In March 2021, the company took on \$6.5M in debt in the form of convertible notes. The notes carry a 10% interest rate per annum and the company expects interest and principal on these notes to convert to equity at the time of IPO. More details on the notes are contained in the Borrowings section below.

# The Hydration Pharmaceuticals Company Limited

## Directors' Report

30 June 2021

### Events after the reporting date

The Group is working towards a likely 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 March 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 30 June 2021 that has significantly affected the company's operations, results or state of affairs, or may do so in future years.

This report is signed in accordance with a resolution of the Board of Directors.



Adem Karafili  
Executive Chairman

Melbourne

13 October 2021

# The Hydration Pharmaceuticals Company Limited

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The Hydration Pharmaceuticals Company Limited

**Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income**

**For the Half Year Ended 30 June 2021**

		30 June 2021	30 June 2020
	Note	\$	\$
Revenue	4	2,299,704	1,750,454
Cost of sales		(1,226,417)	(876,996)
Gross Profit		1,073,287	873,458
Other income	4	56	2,750,038
Sales and marketing expenses		(1,619,135)	(853,549)
Administrative expenses		(685,579)	(622,992)
Employee benefits expense	5	(855,201)	(919,416)
Depreciation and amortisation expense	5	(3,337)	(15,423)
Foreign exchange gain/(loss)		158,221	(142,987)
Finance expenses		(274,000)	(4,559)
<b>Profit/(Loss) before income tax</b>		<b>(2,205,688)</b>	1,064,570
Income tax expense		-	-
<b>Profit/(Loss) for the half-year</b>		<b>(2,205,688)</b>	1,064,570
<b>Other comprehensive income, net of income tax</b>			
Exchange differences on translating foreign controlled entities		(2,925)	128,833
<b>Other comprehensive income for the half-year, net of tax</b>		<b>(2,925)</b>	128,833
<b>Total comprehensive income for the half-year</b>		<b>(2,208,613)</b>	1,193,403

The accompanying notes form part of these consolidated financial statements.

The Hydration Pharmaceuticals Company Limited

**Condensed Consolidated Statement of Financial Position**

**As At 30 June 2021**

		30 June 2021	31 December 2020
	Note	\$	\$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	4,460,337	1,644,583
Trade and other receivables	7	1,011,088	787,477
Inventories	8	1,998,041	1,590,026
Other assets	9	905,191	420,278
<b>TOTAL CURRENT ASSETS</b>		<b>8,374,657</b>	<b>4,442,364</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	-	3,337
<b>TOTAL NON-CURRENT ASSETS</b>		<b>-</b>	<b>3,337</b>
<b>TOTAL ASSETS</b>		<b>8,374,657</b>	<b>4,445,701</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	2,522,572	2,424,442
Borrowings	13	6,038,245	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>8,560,817</b>	<b>2,424,442</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term provisions	12	19,603	18,409
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>19,603</b>	<b>18,409</b>
<b>TOTAL LIABILITIES</b>		<b>8,580,420</b>	<b>2,442,851</b>
<b>NET ASSETS/(LIABILITIES)</b>		<b>(205,763)</b>	<b>2,002,850</b>
<b>EQUITY</b>			
Contributed equity	14	16,494,829	16,494,829
Reserves	15	922,052	924,977
Retained earnings	16	(17,622,644)	(15,416,956)
<b>TOTAL EQUITY</b>		<b>(205,763)</b>	<b>2,002,850</b>

The accompanying notes form part of these consolidated financial statements.

## Condensed Consolidated Statement of Changes in Equity

For the Half Year Ended 30 June 2021

		Contributed Equity	Accumulated Losses	Foreign Currency Translation Reserve	Other Reserves	Total
Note		\$	\$	\$	\$	\$
	<b>Balance at 1 January 2021</b>	<b>16,494,829</b>	<b>(15,416,956)</b>	<b>611,074</b>	<b>313,903</b>	<b>2,002,850</b>
	Loss for the half-year	-	(2,205,688)	-	-	(2,205,688)
15	Other comprehensive income	-	-	(2,925)	-	(2,925)
	<b>Transactions with owners in their capacity as owners</b>					
15	Employee share scheme	-	-	-	-	-
	<b>Balance at 30 June 2021</b>	<b>16,494,829</b>	<b>(17,622,644)</b>	<b>608,149</b>	<b>313,903</b>	<b>(205,763)</b>

  

		Contributed Equity	Accumulated Losses	Foreign Currency Translation Reserve	Other Reserves	Total
Note		\$	\$	\$	\$	\$
	<b>Balance at 1 January 2020</b>	<b>16,494,829</b>	<b>(14,673,295)</b>	<b>325,464</b>	<b>238,772</b>	<b>2,385,770</b>
	Profit for the half-year	-	1,064,570	-	-	1,064,570
15	Other comprehensive income	-	-	128,833	-	128,833
	<b>Transactions with owners in their capacity as owners</b>					
15	Employee share scheme	-	-	-	37,566	37,566
	<b>Balance at 30 June 2020</b>	<b>16,494,829</b>	<b>(13,608,725)</b>	<b>454,297</b>	<b>276,338</b>	<b>3,616,739</b>

**Condensed Consolidated Statement of Cash Flows**  
For the Half Year Ended 30 June 2021

		30 June 2021	30 June 2020
	Note	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers (inclusive of GST)		2,142,002	2,140,833
Payments to suppliers and employees (inclusive of GST)		(5,432,775)	(4,353,127)
Interest paid		(17,285)	(4,559)
Net cash used in operating activities	18	<u>(3,308,058)</u>	<u>(2,216,853)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds on disposal of intellectual properties		-	2,750,038
Purchase of property, plant and equipment		-	(20,020)
Net cash provided by investing activities		<u>-</u>	<u>2,730,018</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from borrowings		6,415,000	-
Capitalised borrowing costs		(325,553)	-
Net cash provided by financing activities		<u>6,089,447</u>	<u>-</u>
Net increase in cash and cash equivalents held		2,781,389	513,165
Cash and cash equivalents at beginning of the half-year		1,644,583	2,736,056
Effects of exchange rate changes on cash and cash equivalents		34,365	(14,156)
Cash and cash equivalents at end of the half-year	6	<u>4,460,337</u>	<u>3,235,065</u>



## Notes to the Financial Statements

For the Half Year Ended 30 June 2021

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# The Hydration Pharmaceuticals Company Limited

## Notes to the Financial Statements

For the Half Year Ended 30 June 2021

The 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

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2021 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting.

#### *Going concern*

As at 30 June 2021, the Group has net liabilities of \$205,763 (31 December 2020: net assets of \$2,002,850) and a working capital deficit of \$186,160 (31 December 2020: surplus of \$2,017,922). The Group has also experienced operating losses of \$2,205,688 (30 June 2020: \$1,685,430 excluding other income from sale of intellectual properties) and operating cash outflows of \$3,308,058 (30 June 2020: \$2,216,853) during the financial period ending on that date as a result of being a rapidly growing startup company.

The Group has forecasted results for 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 second half of 2021. Increased cash expenditure will be incurred leading into and beyond the potential IPO period.

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. There were positive and negative impact. 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 company during the period.

### 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.

## Notes to the Financial Statements

For the Half Year Ended 30 June 2021

### 2 Summary of Significant Accounting Policies (continued)

#### (a) Foreign currency translation (continued)

##### *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 half-year 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.

A list of controlled entities is contained in Note 19 to the 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.

## Notes to the Financial Statements

For the Half Year Ended 30 June 2021

### 2 Summary of Significant Accounting Policies (continued)

#### (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. 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.

## Notes to the Financial Statements

For the Half Year Ended 30 June 2021

### 2 Summary of Significant Accounting Policies (continued)

#### (d) Income Tax (continued)

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.

## Notes to the Financial Statements

For the Half Year Ended 30 June 2021

### 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 first-in-first-out 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 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).

## Notes to the Financial Statements

For the Half Year Ended 30 June 2021

### 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 condensed 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 a financial assets has increased significant 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.

## Notes to the Financial Statements

For the Half Year Ended 30 June 2021

### 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 and borrowings.



## Notes to the Financial Statements

For the Half Year Ended 30 June 2021

### 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 costs to sell 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) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period 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.

#### (m) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Where the convertible note consists of an embedded derivative financial liability for the equity conversion feature within a host liability, the embedded derivative is recognised and measured separately from the host liability where it is not closely related. On initial recognition the embedded derivative is measured at fair value, with the residual fair value of the full hybrid instrument assigned to the host liability.

Subsequently, the embedded derivative is measured at fair value through profit or loss, and the host liability is measured at amortised cost using the effective interest rate method until extinguished on conversion or maturity.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated statement of profit or loss as other income or finance costs.

## Notes to the Financial Statements

For the Half Year Ended 30 June 2021

### 2 Summary of Significant Accounting Policies (continued)

#### (m) Borrowings (continued)

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

#### (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.

#### (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 condensed 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.

## Notes to the Financial Statements

For the Half Year Ended 30 June 2021

### 2 Summary of Significant Accounting Policies (continued)

#### (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) New accounting standards for application in future periods

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

### 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 period.

### 4 Revenue and Other Income

	30 June 2021 \$	30 June 2020 \$
<i>Revenue</i>		
- Revenue from contracts with customers	<b>2,299,704</b>	1,750,454
	<b>2,299,704</b>	1,750,454

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

	30 June 2021 \$	30 June 2020 \$
United States	<b>1,073,296</b>	752,085
Canada	<b>1,226,408</b>	998,369
Australia	-	-
	<b>2,299,704</b>	1,750,454

## Notes to the Financial Statements

For the Half Year Ended 30 June 2021

### 4 Revenue and Other Income (continued)

	30 June 2021 \$	30 June 2020 \$
<i>Other Income</i>		
- Other income from sales of intellectual properties	-	2,750,000
- Interest income	56	38
	<u>56</u>	<u>2,750,038</u>

On 6 February 2020, the Group sold the rights to sell Hydralyte products in Asia (excluding China and Hong Kong), the Middle East (including Turkey) and Africa (the Sale Territories) and certain assets relating to the Sale Territories, to Care Pharmaceuticals Pty Ltd for \$2.75M.

### 5 Result for the Period

	30 June 2021 \$	30 June 2020 \$
Employee benefits expense	855,201	919,416
Depreciation and amortisation expense	3,337	15,423

### 6 Cash and Cash Equivalents

	30 June 2021 \$	31 December 2020 \$
Cash at bank	4,460,337	1,644,583
	<u>4,460,337</u>	<u>1,644,583</u>

### 7 Trade and Other Receivables

	30 June 2021 \$	31 December 2020 \$
CURRENT		
Trade receivables	1,010,745	787,134
Other receivables	343	343
	<u>1,011,088</u>	<u>787,477</u>

## Notes to the Financial Statements

For the Half Year Ended 30 June 2021

### 8 Inventories

	30 June 2021	31 December 2020
	\$	\$
Raw materials and consumables	273,588	141,874
Finished goods	1,626,675	1,001,190
Goods in transit	206,685	554,680
Provision for obsolete inventory	(108,907)	(107,718)
	<u>1,998,041</u>	<u>1,590,026</u>

### 9 Other Assets

	30 June 2021	31 December 2020
	\$	\$
CURRENT		
Other assets	440,720	420,278
Prepaid IPO transaction costs	464,471	-
	<u>905,191</u>	<u>420,278</u>

### 10 Property, plant and equipment

	30 June 2021	31 December 2020
	\$	\$
Plant and equipment		
At cost	37,520	35,451
Accumulated depreciation	(37,520)	(32,114)
Total plant and equipment	<u>-</u>	<u>3,337</u>
Furniture, fixtures and fittings		
At cost	2,998	2,915
Accumulated depreciation	(2,998)	(2,915)
Total furniture, fixtures and fittings	<u>-</u>	<u>-</u>
Computer equipment		
At cost	2,481	2,413
Accumulated depreciation	(2,481)	(2,413)
Total plant and equipment	<u>-</u>	<u>3,337</u>
<b>Total property, plant and equipment</b>	<u><u>-</u></u>	<u><u>3,337</u></u>

## Notes to the Financial Statements

For the Half Year Ended 30 June 2021

### 11 Trade and Other Payables

	30 June 2021	31 December 2020
	\$	\$
CURRENT		
Trade payables	591,061	1,177,083
Accrued expense	1,056,725	394,491
Accrued rebates and incentives	832,355	766,502
Other payables	42,431	86,366
	<b>2,522,572</b>	<b>2,424,442</b>

### 12 Provisions

	30 June 2021	31 December 2020
	\$	\$
NON-CURRENT		
Provision for leave entitlements	19,603	18,409
	<b>19,603</b>	<b>18,409</b>

### 13 Borrowings

	30 June 2021	31 December 2020
	\$	\$
CURRENT		
Convertible notes	6,038,245	-
	<b>6,038,245</b>	<b>-</b>

The Group issued 6.5M 10% convertible notes for \$6,500,000 in March 2021. The notes are convertible into shares of the Group in the event of IPO (i.e, automatically) or in the event of asset or share sales. If both events do not happen in 24 months, at the option of the holder, the notes are repayable.

The notes will convert into a variable number of ordinary shares giving effect to a return of the noteholders' principal through an equivalent value of shares at the time of redemption.

In the event of IPO, the face value and accrued interest of the note will be converted into the ordinary shares at the lower of IPO price multiplied by a conversion discount ranging between 70% to 82% (dependent upon timing of IPO) or listing valuation cap price. The listing valuation cap price is calculated based on the agreed valuation of \$25m less specified payments already made by the company.

In the event of asset or share sales the face value and accrued interest of the note will be converted into conversion securities (class A shares if available, if not ordinary shares) at the lower of trade sale valuation cap price (i.e, \$25m) or nominal price of asset sale divided by the number of ordinary shares adjusted by conversion discounts ranging between 70% to 82%. The discount percentage is dependent on the timing of the asset sale or share sale.

## Notes to the Financial Statements

For the Half Year Ended 30 June 2021

### 13 Borrowings (continued)

Management expect that notes to be converted into equity in the event of IPO in late 2021, therefore, classified as current liabilities. Management is of the view that the fair value of the embedded derivative for the conversion option is not material as at 30 June 2021.

The fair value of the convertible notes are not materially different to their carrying amounts due to short-term in nature.

### 14 Contributed Equity

	2021 Shares	2020 Shares	2021 \$	2020 \$
Class A shares	49,566,926	49,566,926	16,494,829	16,494,829
Ordinary shares	7,200,000	7,200,000	-	-
	<b>56,766,926</b>	<b>56,766,926</b>	<b>16,494,829</b>	<b>16,494,829</b>

### 15 Reserves

#### (a) Foreign currency translation reserve

	30 June 2021	30 June 2020
	\$	\$
Opening balance	611,074	325,464
Other comprehensive income	(2,925)	128,833
	<b>608,149</b>	<b>454,297</b>

#### (b) Other reserves

	30 June 2021	30 June 2020
	\$	\$
Opening balance	313,903	238,772
Employee share scheme	-	37,566
	<b>313,903</b>	<b>276,338</b>

### 16 Accumulated losses

	30 June 2021	30 June 2020
	\$	\$
Beginning balance	(15,416,956)	(14,673,295)
Profit/(Loss) for the half-year	(2,205,688)	1,064,570
	<b>(17,622,644)</b>	<b>(13,608,725)</b>

## Notes to the Financial Statements

For the Half Year Ended 30 June 2021

### 17 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 decisions. 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 consolidated basis.

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

	30 June 2021 \$	30 June 2020 \$
<b>Revenue by geography</b>		
United States	1,073,296	752,085
Canada	1,226,408	998,369
Australia	-	-
Other income	56	2,750,038
Cost of sales	(1,226,417)	(876,996)
Sales and marketing expenses	(1,619,135)	(853,549)
Administrative expenses	(685,579)	(622,992)
Employee benefits expenses	(855,201)	(919,416)
Depreciation and amortisation expense	(3,337)	(15,423)
<b>Operating losses</b>	<b>(2,089,909)</b>	1,212,116
Foreign exchange (gains)/losses	158,221	(142,987)
Finance expenses	(274,000)	(4,559)
<b>Net loss for the half-year</b>	<b>(2,205,688)</b>	1,064,570



## Notes to the Financial Statements

For the Half Year Ended 30 June 2021

### 18 Cash Flow Information

Reconciliation of net income to net cash provided by operating activities:

	30 June 2021 \$	30 June 2020 \$
Profit/(Loss) for the half-year	(2,205,688)	1,064,570
Non-cash flows in profit:		
- depreciation and amortisation	3,337	15,423
- foreign exchange (gain)/loss	(158,221)	142,987
- non-cash employee benefits expense	-	37,566
- accrued interest expenses of convertible notes	186,986	-
- amortisation of capitalised debt-raising costs	69,729	-
- provision of obsolete inventory	1,189	(95,106)
- net (gain)/loss on disposal of assets	-	(2,750,038)
Changes in assets and liabilities:		
- (increase)/decrease in trade and other receivables	(223,611)	390,379
- increase in other assets	(484,913)	(507,335)
- (increase)/decrease in inventories	(409,204)	195,363
- decrease in trade and other payables	(88,856)	(666,956)
- increase/(decrease) in provisions	1,194	(43,706)
Cashflows from operations	<u>(3,308,058)</u>	<u>(2,216,853)</u>

### 19 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	
			30 June 2021	2020
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.

## Notes to the Financial Statements

For the Half Year Ended 30 June 2021

### 19 Related Parties (continued)

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

##### *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.

#### (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 Group issued \$6.5M convertible notes in March 2021. \$1.2M of the convertible notes were subscribed by existing shareholders and key management personnel.

The following transactions occurred with related parties:

	30 June 2021	30 June 2020
	\$	\$
Purchases of various goods and services from entities controlled by the directors	-	-

### 20 Dividends

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

### 21 Contingencies

The Company have contractual commitment of \$1,331,360 in relation to Initial Public Offering (IPO) on the ASX at 30 June 2021 (31 December 2020: nil).

### 22 Events Occurring After the Reporting Date

The company is working towards a likely 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 March 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 30 June 2021 that has significantly affected the company's operations, results or state of affairs, or may do so in future years.

## The Hydration Pharmaceuticals Company Limited

### Directors' Declaration

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 4 to 25 are in accordance with the *Corporations Act 2001*, including:
  - (a) complying with Accounting Standard AASB 134: Interim Financial Reporting; and
  - (b) give a true and fair view of the consolidated group's financial position as at 30 June 2021 and of its performance for the half-year ended on that date.
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 with the continuing support of creditors.

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

Director .....

13 October 2021

## **Independent assurance practitioner's review report to the members of The Hydration Pharmaceuticals Company Limited**

### ***Report on the half-year financial report***

#### ***Conclusion***

We have reviewed the half-year financial report of The Hydration Pharmaceuticals Company Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the Condensed consolidated statement of financial position as at 30 June 2021, the Condensed consolidated statement of changes in equity, Condensed consolidated statement of cash flows and Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the accompanying half-year financial report of The Hydration Pharmaceuticals Company Limited does not present fairly, in all material respects, the Group's financial position as at 30 June 2021 and its financial performance and its cash flows for the half-year ended on that date, in accordance with the accounting policies as described in Note 1 to the financial statements.

#### ***Basis for conclusion***

We conducted our review in accordance with ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner who is not the Auditor of the Entity* (ASRE 2400). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

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 the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

#### ***Material uncertainty relating to going concern***

We draw attention to Note 1 in the half-year, which indicates The Group incurred operating losses of \$2,205,688 (30 June 2020: \$1,685,430 excluding other income from intellectual property) and operating cash outflows of \$3,308,058 (30 June 2020: \$2,216,853) during the half-year ended 30 June 2021 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 conclusion is not modified in respect of this matter.



## **Independent assurance practitioner's review report to the members of The Hydration Pharmaceuticals Company Limited (continued)**

### *Emphasis of matter - basis of accounting and restriction on use*

We draw attention to Note 1 in the half-year financial report, which describes the basis of accounting. The half-year financial report has been prepared for internal purposes in connection with the proposed IPO. As a result, the half-year 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 used by parties other than The Hydration Pharmaceuticals Company Limited and its members. Our conclusion is not modified in respect of this matter.

### *Responsibilities of the directors for the half-year financial report*

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with the accounting policies as described in Note 1 to the financial statements and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### *Assurance practitioner's responsibilities for the review of the half-year financial report*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2400 requires us to conclude whether anything has come to our attention that causes us to believe that the half-year financial report does not present fairly, in all material respects, the financial position of the Group as at 30 June 2021 and of its financial performance and its cash flows for the half-year ended on that date in accordance with the accounting policies as described in Note 1 to the financial statements.

A review of a half-year financial report 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 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.

PricewaterhouseCoopers Securities

Paul Lewis  
Authorised Representative

Melbourne  
13 October 2021