Annual report

2022

Contents

All amounts in US$ unless otherwise specified.

Chairman's letter

Dear fellow shareholders,

On behalf of the Board of Directors, it is my pleasure to present the Hydration Pharmaceuticals Company Limited's annual report and financial statements for the year ended 31 December 2021 ("FY2021"). This is the company's inaugural annual report as an ASX-listed company following the completion of a successful listing on the Australian Securities Exchange.

Hydration Pharmaceuticals Company Limited or Hydralyte North America is a consumer products company, focused on the marketing and sale of a range of liquid, tablet and powder solutions to assist with healthy hydration. The company is focused on the large, addressable markets across the United States and Canada, as well as other countries where there is considerable potential.

The company is well positioned to leverage its well-known brand, established in Australia in 2001, and grow its footprint in the healthy hydration solutions category, which generates between US$800 million to US$1.1 billion in annual sales in North America alone.

To capitalise on this unique market opportunity, the company took the decision to list on the ASX in late 2021. As part of its IPO, the company issued approximately 59 million new shares at A$0.29 to raise A$17 million in new capital. This has provided Hydralyte North America with the necessary financial flexibility to capitalise on a number of near term objectives.

Prior to the successful IPO, the company assembled a Board and management team with skills in the beverage and FMCG sectors, as well as public company expertise. It is my pleasure to welcome both Gretta van Riel and Margaret Hardin to the Board. Further, I would like to thank Adem Karafili for his work as Executive Chairman during the period. Adem was instrumental in the company's growth trajectory and has agreed to undertake a role as Non-Executive Director moving forward. I also extend my gratitude to the company's other previous directors for their service, I would like to also note, they remain long term and committed shareholders.

With an exceptional team in place and new funding, we are confident that the company will continue its encouraging financial performance. During FY2021, Hydralyte North America achieved strong revenue growth, driven by sales through established online channels and key retailers, while increasing gross margin and gross profit.

Despite the effects of COVID-19 and lockdowns in our key operating markets, the company has taken a proactive approach towards building a presence in traditional bricks and mortar retail outlets. This included ongoing discussions with our major customers to build stock and ensure no supply chain interruptions. We anticipate that as restrictions continue to ease, customers will focus on proactive, healthy solutions and sales will continue to increase.

Over the last year, we have established an excellent foundation for growth and are well positioned to capitalise. I would like to take this opportunity to thank the company's shareholders for the ongoing support and I look forward to providing further updates on progress throughout the upcoming financial year.

Mr George Livery
Chairman

CEO report

Hydralyte North America completed a transformational period in FY2021. We continued to execute on our development objectives and achieved strong operational and financial results.

Our focus during the period was to continue sales growth in our key operating markets of Canada and the US. Pleasingly we achieved this goal, increasing revenue by 63% to US$6.1 million.

The surge in revenue was driven by a mix of traditional retail and online sales, with ecommerce transactions increasing to 40% of all net sales. Gross margin improved to 46% during FY2021 from 36% in FY2020, allowing the company to increase gross margin by 109% on a dollar basis to US$2.8 million.

With the significant rise in year-on-year revenue, our sales and marketing investment increased to US$3.1 million. This directly reflects Hydralyte North America's ongoing focus of increasing brand awareness, top line growth and broadening stockists. We anticipate that the investment into sales representatives and digital advertising will unlock numerous revenue generating opportunities in the coming months.

While one-off or non-cash items impacted costs, Hydralyte North America's underlying EBITDA for FY2021 was approximately US$4.0 million. During the current period, we expect to increase sales through both traditional retail outlets and online channels, with continued focus on cost control and capital management in order to achieve the goal of breaking even in subsequent years.

To drive sales, work continued towards the development of new products which will build on the products launched during FY2021. Most recently, the company has launched a new strawberry lemonade flavour tablet, which has fast become our best selling product in Canada to date.

To build on this momentum, we plan to launch five new stock keeping units ("SKU") during H1 FY2022. These new product introductions will coincide with targeted marketing campaigns, leveraging our previous investment in digital advertising.

I look forward to providing further updates to shareholders over the course of FY2022. As a final word, I would like to thank all investors that participated in our recent IPO, our existing shareholders, Hydralyte North America's team members, the Board, retail partners and our customers for their loyalty and support.

Oliver Baker
Chief Executive Officer

Review of operations

Hydration solutions company The Hydration Pharmaceuticals Company Limited (ASX: HPC) ("Hydralyte North America" or the "Company") is pleased to provide the following review of operations and financial overview for the 12-month period ended 31 December 2021 ("FY2021").

Hydralyte is a well-known, existing brand that was developed in Australia in 2001 to product a range of electrolyte rich tablets, liquids and powders. Hydralyte North America was formed in 2014 and aims to grow rapidly its footprint in large, new international markets.

Successful initial public offer and ASX listing

Hydralyte North America commenced trading on the Australian Securities Exchange (ASX) on 14 December 2021, following the completion of a successful initial public offer (IPO) to fund growth.

As part of the IPO, the Company issued approximately 59 million new fully paid ordinary shares at A$0.29 per share to raise A$17 million, for an indicative market capitalisation of ~A$46.7 million. Leading Melbourne-based corporate advisory firm, BW Equities acted as sole lead manager to the capital raise.

Hydralyte North America will utilise the funds raised during the IPO to scale up marketing through online and traditional retail channels, progress new product development initiatives and for general working capital purposes.

Board and management changes

During the period, the Company made a number of strategic Board transitions to assist with its proposed IPO and to underpin its growth strategy.

Mr George Livery was appointed as Chairman. Mr Livery is an experienced senior executive, having held a number of roles across various industries for the last 30 years. His career included roles such as the CEO of Village Cinemas Australia, COO of Village International, Commercial Director at Hoyts Ltd, Director of Operations (Non-Academic Services) at University of Sydney's USU, and both Commercial Director at Swisse Vitamins and Director of Strategy & Corporate at Swisse Wellness Group.

Mr Livery also led the corporate integration of Swisse Wellness into the Hong Kong listed H&H Group of companies and enjoyed a dual role during that time as Group Senior VP Legal and Risk. He was also a Fellow of the Australian Marketing Institute.

Ms Gretta van Riel also joined the Board as a Non-Executive Director. Ms van Riel is a serial entrepreneur, having founded five start ups. She has extensive experience in building and scaling ecommerce brands and is an expert in influencer-led marketing and brand development. Ms van Riel was named in the 'Forbes 30 under 20 Asia List of 2018' for previous endeavours, including her Hey Influencers marketing platform, which linked brands and social media influencers to grow relationships.

Subsequent to the end of the period, Hydralyte North America also welcomed Ms Margaret Hardin as an independent Non-Executive Director. Ms Hardin is a global products senior executive, with extensive experience. She has previously scaled two consumer goods companies to generate more than US$100m in revenue, and currently advises founders on growth opportunities.

Most recently, Ms Hardin was CEO of ERGObaby Carrier Inc. During her time with the group, she revived product innovation while managing an omni-channel distributor, retail and ecommerce model across over 60 countries and 19 company-owned websites.

Prior to ERGObaby Carrier Inc., Ms Hardin was CFO during the early stages of US baby and accessories company Munchkin and was progressively promoted to President and COO. She grew the company to a major brand leader in the juvenile industry, where she led sales, acquisitions, brand partnerships and marketing efforts. She oversaw the opening of sales operations in Canada and launched the EMEA headquarters.

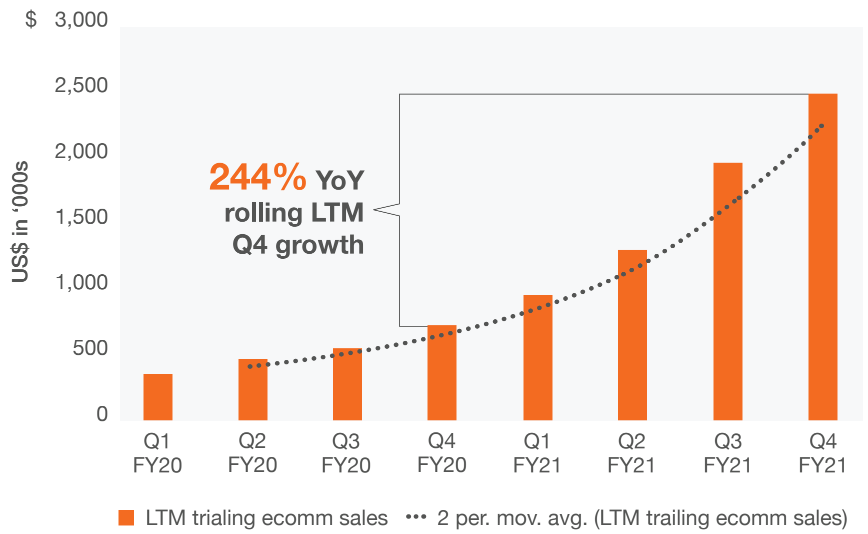
As part of the Hydralyte board transition, Mr Adem Karafili moved from Chairman to Non-Executive Director.

Financial overview

Hydralyte North America achieved net revenue of US$6.1 million during FY2021, a 63% increase on the previous corresponding period (FY2020: US$3.8 million). Revenue growth was underpinned by continued growth on the ecommerce side of the business, which has been the main growth focus of the company in 2021.

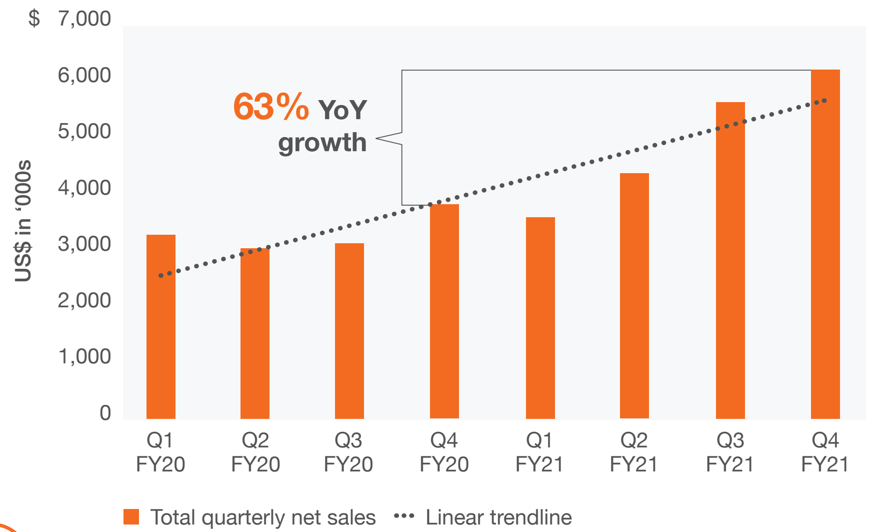
On a trailing four quarter basis, the company achieved 244% year-on-year net sales growth in the ecommerce channel as displayed in the following graph.

LTM trialing ecommerce net sales



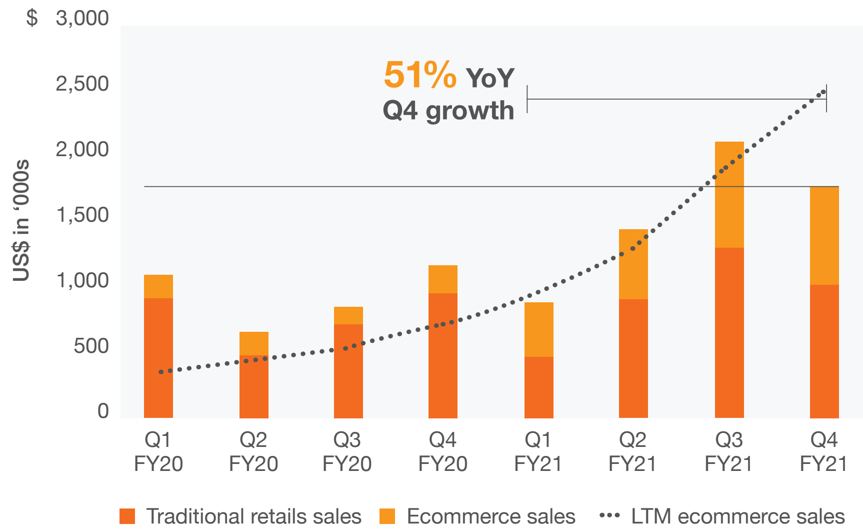
The company achieved 63% year-on-year annual net sales growth for the FY21 period as displayed in the chart below.

LTM trialing total net sales



The following graph displays the consistent growth of ecommerce net sales as a proportion of overall net sales, in line with the Company focus on growing in the ecommerce channels.

Total quarterly net revenue



The Company's gross margin improved by 10 percentage points to 46% in FY2021 as outlined in the table below. This allowed gross profit to increase 109% to US$2.8 million (FY2020: US$1.3million).

2020 to 2021 YoY comparison

	2020	2021	YoY change
Total net revenue	3,757	6,127	63%
Ecommerce revenue	712	2,450	244%
Traditional retail revenue	3,044	3,677	21%
Gross margins	36%	46%	28%

Sales and marketing spend increased 190% to US$5.1 million, which further highlights the Company's focus on sales growth and expansion. With the increase to $5.1 million marketing expense and one-off or non-cash items mainly driven from the pre-IPO and IPO capital raising and IPO listing, Loss for the Year grew to $8.9 million in FY2021 compared to a loss of $0.7 million in FY2020, which included $2.8 million in other income from a sale of territories. One-off or non-cash items are further detailed below.

One-off or non-cash items

The Company was impacted materially by non-recurring costs associated with capital raising activities. Following the removal of non-cash and one-off costs associated with the IPO, Hydralyte North America calculates an underlying EBITDA loss for FY2021 of US$4.0 million. The Company's successful IPO listing followed the issuance of Pre-IPO convertible notes in March 2021. Additional listing expenses also impacted the Company FY2021 profit and loss statement.

The following table outlines the reconciliation of statutory loss for the year FY2021 to the underlying loss for the year of $4.0 million.

Loss for the year		**($8.9m)**	
One-off or non-cash costs:			
Loss on conversion of convertible notes	$1.9m		non-cash
Share based payments triggered on IPO	$1.3m		non-cash
Interest expense on convertible notes	$0.7m		non-cash
IPO broker options expense	$0.1m		non-cash
Costs of pre-IPO raise	$0.3m		
Portion of IPO related expense hitting the P&L	$0.6m		
Total one-off or non-cash items		**$4.9m**	
Underlying EBITDA for the year		**($4.0m)**	

Effects of COVID-19

COVID-19 had a pronounced impact on traditional retail sales during FY2020 and H1 FY2021. Despite this, Hydralyte North America continued to engage favourably with bricks and mortar stockists and other major retail groups regarding inventory build for summer, which is the peak sales period for products.

Outlook

Hydralyte North America has a number of growth initiatives underway to drive additional growth during FY2022. The Company remains focused on ongoing product development for both the US and Canadian markets, and expects to launch five new stock keeping units (SKU's) during the first half. Additional marketing campaigns are also underway, which are expected to provide additional access and exposure to the Company's key target markets during FY2022.

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Hydralyte®

The Hydration Pharmaceuticals Company Limited

Consolidated Financial Statements

For the Year Ended 31 December 2021

The Hydration Pharmaceuticals Company Limited

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For the Year Ended 31 December 2021

The Hydration Pharmaceuticals Company Limited

Directors' Report

31 December 2021

The directors present their report, together with the consolidated financial statements of the Group, being the Company and its controlled entities, for the financial year ended 31 December 2021.

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	Resigned 2nd November 2021
Jonathan West	Resigned 2nd November 2021
Adam Gregory	Resigned 2nd November 2021
Scott Emerson	Resigned 2nd November 2021
Radek Sali	Resigned 2nd November 2021
Campbell Smith	Resigned 2nd November 2021
George Livery	Appointed on 2nd November 2021
Gretta van Riel	Appointed on 2nd November 2021
Margaret Hardin	Appointed on 8th February 2022

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 $(8,951,661) (2020: $(743,663)).

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.

Review of operations

Hydralyte North America is a consumer products company that markets and sells a range of liquid, tablet and powder Healthy Hydration Solutions products into the North American markets of Canada and the United States, under the Hydralyte brand.

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

A review of the operations of the Group during the financial year and the results of those operations show continued strong revenue growth despite the impacts of Covid-19 on its retail store sales. This was achieved through strong growth in e-commerce sales. The business continues to invest heavily in sales and marketing capability to support strong sales growth. This associated with one-off costs associated with the ASX listing in December 2021 has contributed to the business having a loss for the year.

Significant changes in state of affairs

Hydralyte North America commenced trading of the Australian Securities Exchange (ASX) on 14 December 2021, following the completion of a successful initial public offer (IPO) to fund growth.

Directors' Report
31 December 2021

Significant changes in state of affairs (continued)

As part of the IPO, the Company issued 58,622,690 million new fully paid ordinary shares at A$0.29 per share to raise A$17 million, for an indicative market capitalisation of ~A$46.7 million.

The listing was preceded by a US$6.5M pre-IPO convertible note raise. The convertible notes converted to 43,130,367 ordinary shares upon listing.

Leading into the listing, the company conducted a capital restructure through which:

- all existing ordinary shares of the company were cancelled for nil consideration
- all class A shares of the company were converted into ordinary shares
- all options over class A shares were varied such that they become options over ordinary shares

In addition to the restructure, the company modified historical options and issued new options under the ESOP. The details of the changes are outlined in the share based payments details in this report.

Events after the reporting date

No matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial 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.

Information on directors

The following information is current as at the date of this report.

Adem Karafili	Adem is the Chairman and founder of ANGL Korp, his investment vehicle for both ventures and investments. In his previous career, Adem was a highly effective executive across a range of sectors and industries, having spent the last seven years establishing Swisse Wellness as the leading global health and wellness brand before it’s sale to Biostime International for over $1.7 billion. While at Swisse, Adem held senior positions of Chief Financial Officer, Chief Operating Officer and Managing Director. Adem is a CPA, having studied a Bachelor of Business Administration (B.B.A.) - Accounting.
Geoffrey Frederick Dan O'Brien	Dan is the founder of the Hydralyte brand and has extensive experience including executive and non-executive roles with King Island Dairy Limited, Tasman Agriculture Limited, Colly Farms Cotton Limited, SPC Ardmona Limited, Coates Hire Limited, Mattel Asia Pacific and BIL Limited.

Directors' Report
31 December 2021

Information on directors (continued)

Jonathan West	Professor Jonathan West founded the Australian Innovation Research Centre. Prior to that role, Professor West spent 18 years at Harvard University, where he was Associate Professor in the Graduate School of Business Administration. He gained his Doctoral and Master's degrees in Economics at Harvard University, following a Bachelor of Arts majoring in economics and the history and philosophy of science at the University of Sydney, and more recently a PhD in Ancient Greek Philology. Jonathan has served as consultant to and a Board member of major corporations around the world and as an advisor to several governments, particularly in the fields of agribusiness, innovation policy, and economic development. He currently serves as a Chairman of Hexima Limited, a medical biotechnology company; Chairman of the Gowing Brothers Investment Fund; and Board member of the Three Valleys Food Company in Tasmania.
Adam Gregory	Adam Gregory is the CEO/CIO and a founder of Light Warrior; a private investment group. Prior to founding Light Warrior, Adam was an Executive Director within the Investment Banking Division of Goldman Sachs, where he was Co-head of the Consumer, Retail and Healthcare Group for Australia and New Zealand. Adam is a Chartered Accountant and holds a Bachelor of Commerce from The University of Melbourne.
Scott Emerson	Scott Emerson is the founder and CEO of The Emerson Group, a consumer products equity organization and top 6 US healthcare provider based in Wayne, PA. Scott has 30+ years experience with CPG companies, including Johnson and Johnson, Unilever and Novartis Consumer Health.
Radek Sali	Radek is the Chairman and a founder of Light Warrior Group, an investment group committed to creating shared value by investing in businesses that are socially responsible and environmentally conscious. Radek stands as one of Australia's most successful businessmen and a serial entrepreneur in the health and wellness sector. He revolutionised the Swisse Wellness group by making the category aspirational, pioneering the use of brand ambassadors. As CEO Radek created a positive working culture and charted record sales. Then in 2015 Radek helped negotiate the sale of the group to Hong Kong listed Biostime for over $1.7 billion, one of the biggest private company transactions in Australian history.
George Livery	George has enjoyed senior executive roles across numerous industries for the last 30 years, both domestically and internationally. A C-level executive for the last 25 years, George's career has included CEO of Village Cinemas Australia, COO of Village International, Commercial Director at Hoyts Ltd, Director of Operations (Non-Academic Services) at University of Sydney's USU, both Commercial Director at Swisse Vitamins and Director of Strategy & Corporate at Swisse Wellness Group. George also led the corporate integration of Swisse Wellness into the Hong Kong listed H&H Group of companies and enjoyed a dual role during that time as Group Senior VP Legal and Risk. He was also a Fellow of the Australia Marketing Institute. George was formerly executive chair, and is currently non-executive director, of ASX-listed Bod Australia Limited (ASX: BDA). He is currently non-executive chair of a private company called Buy Aussie Now.
Gretta van Riel	Gretta is a serial entrepreneur, having founded five start-ups including SkinnyMe Tea, the 5TH Watches and Drop Bottle. Gretta has extensive experience in building and scaling eCommerce brands and is expert in influencer-led online marketing campaigns and brand development. Gretta was named in the "Forbes 30 Under 30 Asia List of 2018", which noted that "her most recent venture is an influencer marketing platform called Hey Influencers, which helps link and grow relationships between brands and social media influencers, something van Riel clearly knows a thing or two about". Gretta has a Bachelor of Arts with First Class Honours in Media and Communications from the University of Melbourne and resides in Melbourne.

Information on directors (continued)

Campbell Smith

Campbell is an Investment Analyst at Light Warrior and joined the group in March 2020. Prior to joining Light Warrior, Campbell worked in the Investment Banking Division of UBS in Melbourne, focusing predominately on M&A in the Industrials, Agriculture and Gaming spaces. Before he joined UBS, Campbell completed a Bachelor of Commerce (Finance and Economics) degree at The University of Melbourne.

Margaret Hardin

Ms Hardin is a global products senior executive, with extensive experience. She has previously scaled two consumer goods companies to generate more than US$100m in revenue, and currently advises founders on growth opportunities. Most recently, Ms Hardin was CEO of ERGObaby Carrier Inc. During her time with the group, she revived product innovation while managing an omni-channel distributor, retail and ecommerce model across over 60 countries and 19 company-owned websites. Prior to ERGObaby Carrier Inc., Ms Hardin was CFO during the early stages of US baby and accessories company Munchkin and was progressively promoted to President and COO. She grew the company to a major brand leader in the juvenile industry, where she led sales, acquisitions, brand partnerships and marketing efforts. She oversaw the opening of sales operations in Canada and launched the EMEA headquarters.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 31 December 2021, and the number of meetings attended by each director were:

	Directors' Meetings		Audit, Risk & Compliance Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
George Livery	2	2	1	1
Adem Karafili	8	8	1	1
Gretta van Riel	2	2	1	1
Scott Emerson	6	-	-	-
Geoffrey Frederick Dan O'Brien	6	6	-	-
Jonathan West	6	6	-	-
Adam Gregory	6	6	-	-
Radek Sali	-	-	-	-
Campbell Smith	-	-	-	-
Margaret Hardin	-	-	-	-

Company Secretary

The following person held the position of Group Secretary at the end of the financial year:

Carly Hodges has been the Company Secretary since 18 May 2021. Carly Hodges is the Manager of Corporate Governance at cdPlus Corporate Services, which provides outsourced corporate governance and company secretarial services to both private and public companies. In addition, she is an Associate Lawyer at Coghlan Duffy & Co Lawyers, specialising in corporate law and equity capital markets. Carlie holds a Bachelor of Science and a Bachelor of Laws from Deakin University, a Master of Arts in Medical Ethics and Law from King's College London, a Graduate Diploma of Applied Corporate Governance from the Governance Institute of Australia, and is admitted as a lawyer in the state of Victoria.

Directors' Report
31 December 2021

Indemnification and insurance of officers and auditors

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of The Hydration Pharmaceuticals Company Limited.

Proceedings on behalf of company

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.

Remuneration report

(a). ***Key management personnel covered in this report***

This report details the nature and amount of remuneration of each Director of The Hydration Pharmaceuticals Company Limited and all other Key Management Personnel.

For the purposes of this report, Key Management Personnel (KMP) are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any Director (whether Executive or otherwise) of the Company.

Names	Position	Appointment/Resignation
Directors		
Adem Karafili	Non-Executive Director	
Geoffrey Frederick Dan O'Brien	Non-Executive Director	Resigned 2nd November 2021
Jonathan West	Non-Executive Director	Resigned 2nd November 2021
Adam Gregory	Non-Executive Director	Resigned 2nd November 2021
Scott Emerson	Non-Executive Director	Resigned 2nd November 2021
Radek Sali	Non-Executive Director	Resigned 2nd November 2021
Campbell Smith	Alternative Non-Executive Director	Resigned 2nd November 2021
George Livery	Independent, Non-Executive Director	Appointed 2nd November 2021
Gretta van Riel	Independent, Non-Executive Director	Appointed 2nd November 2021
Other Key Management Personnel		
Oliver Baker	CEO	
Chris Kavanaugh	CFO	

(b). ***Remuneration policy and link to performance***

Remuneration of all Non-Executive Directors and Officers of the Company is determined by the Board following recommendation by the Remuneration and Nomination Committee.

The Company is committed to remunerating Directors in a manner that is market-competitive and consistent with "Best Practice" including the interests of shareholders. Remuneration packages are based on fixed and variable components, determined by the Executives' position, experience and performance, and may be satisfied via cash or equity.

Non-Executive Directors are remunerated out of the aggregate amount limit approved by shareholders and at a level that is consistent with industry standards. Non-Executive Directors do not receive performance based bonuses and prior Shareholder approval is required to participate in any issue of equity. No retirement benefits are payable other than statutory superannuation, if applicable.

Remuneration report (audited) (continued)

Remuneration framework

Element	Purpose	Performance metrics
Fixed remuneration (FR)	Provide competitive market salary including superannuation	Nil-Positioned at median market rate
Short-term incentives (STI)	Reward for in-year performance	Successful contract negotiations, company share price, completion of set milestones
Long-term incentives (LTI)	Alignment to long-term shareholder value	3 year revenue performance

Balancing short-term and long-term performance

Annual incentives were set at a maximum of 50% of fixed remuneration for CEO and 30% for CFO, in order to drive performance without encouraging undue risk-taking.

Long-term incentives are assessed over a three year period and are designed to promote long-term stability in shareholder returns.

Assessing performance

The Remuneration and Nomination Committee is responsible for assessing performance against KPIs and determining the STI and LTI to be paid. To assist in this assessment, the Committee receives detailed reports on performance from management.

(c). *Elements of remuneration*

(i) Fixed annual remuneration (FR)

Executives may receive their fixed remuneration as cash, or cash with non-monetary benefits such as health insurance. FR is reviewed annually, or on promotion. It is benchmarked against market data for comparable roles in companies in a similar industry and with similar market capitalisation. The Remuneration and Nomition Committee aims to position executives at or near the median, with flexibility to take into account capability, experience, value to the organisation and performance of the individual.

(ii) Short-term incentives

The purpose of short-term incentives is to reward individual performance in line with Company objectives. Consequently, short-term incentive is paid to an individual where the individual's performance clearly contributes to a successful outcome for the Company. This is regularly measured in respect of performance against key performance indicators (KPI's).

The Company uses a variety of short-term KPI's to determine achievement, depending on the role of the executive or director being assessed and the particular KPI being targeted.

These include:

- successful contract negotiations;
- company share price consistently reaching a targeted rate on the ASX or applicable market over a period of time; and
- completion of set milestones.

The Non-Executive Directors do not have short-term incentives.

(iii) Long-term incentives

Executive KMP participate, at the Board’s discretion, in the ESOP comprising grants of options and performance rights.

LTI targets are linked to revenue growth targets.

Equity options and performance rights for key management personnel are either subject to service and/or performance from grant date. The equity is at risk until vesting. Where relevant, performance is tested once at the end of financial year subject to approval of the annual report by the Board.

LTI is intended to reward executive KMP for sustainable long-term growth aligned to shareholders’ interests.

Remuneration report (continued)

(d). *Link between remuneration and performance*

FY 2021 performance and impact on remuneration

The Group's performance in 2021 delivered a revenue result above target. For more information on strategic priorities and 2021 results, refer to the Financial Overview.

As a result of the continued high revenue growth and completion of the IPO transaction in December 2021, the Board awarded senior management the maximum short-term incentives and granted benefits in the form of options and performance rights. These equity instruments have been granted under the Group's ESOP.

Company Financial Performance

Directors have been compensated for work undertaken and the responsibilities assumed in being Directors of this publicly listed company based on industry practice. Consistently with good corporate governance practices, compensation of Non-Executive Directors is not linked to specific performance hurdles or objectives.

The Company envisages its performance in terms of earnings will remain negative whilst the Company continues to invest in growth to reach break even.

This pattern is indicative of the Company's performance over the past three years. Accordingly, no dividends have been paid during the year, or in respect of the 2021 financial year.

	Revenue	Net (Loss)/ Profit	Share Price at Balance Sheet Date	Loss per Share (US$)
	$	$	A$	$
2021	6,127,178	(8,951,661)	0.30	0.12
2020	3,756,695	(743,663)	*	0.01
2019	2,962,825	(3,434,151)	*	0.06

*Shares at 31 December 2019 and 31 December 2020 were unlisted.

The Group has presented financial years for which consolidated financial information was prepared in the above table.

(e). *Remuneration expenses for key management personnel*

The following table shows details of the remuneration expense recognised for the Group's key management personnel for the current financial year measured in accordance with the requirements of the accounting standards.

	Fixed Remuneration			Variable Remuneration		
	Cash salary and fees	Health and Other Insurance	Superannuation contribution	Cash bonus	Shares/Options/ Performance Rights	Total
2021	$	$	$	$		$
Directors						
Adem Karafili	12,500	-	-	-	136,124	148,624
Geoffrey Frederick Dan O'Brien	-	-	-	-	32,214	32,214
Jonathan West	-	-	-	-	46,756	46,756
Adam Gregory	-	-	-	-	32,214	32,214
Radek Sali	-	-	-	-	32,214	32,214
George Livery	15,000	-	1,500	-	-	16,500
Gretta van Riel	12,500	-	1,250	-	-	13,750
Other Key Management Personnel						
Oliver Baker	300,000	31,421	11,600	150,000	613,608	1,106,629
Chris Kavanaugh	200,000	32,197	8,000	60,000	361,485	661,682
Total	540,000	63,618	22,350	210,000	1,254,615	2,090,583

Remuneration report (continued)

Cash bonus relates to performance based remuneration. During the financial year, 100% of the bonus was awarded to the Key management personnel.

(f). ***Contractual arrangements with executive KMPs***

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

Term	Description
Total Fixed Remuneration (TFR)	Oliver Baker is entitled to receive TFR of US$300,000 per annum. Chris Kavanaugh is entitled to receive TFR of US$200,000 per annum. TFR increases annually by the rate of inflation.
Contract duration	Ongoing contracts
Notice by the individual/company	Each key employee is employed "at will" and their employment agreement may be terminated by either party at any time and for any reason, with or without cause. Each employment agreement may be terminated by either party on four months' notice (unless the agreement is terminated for cause, in which case termination will be immediate). All payments on termination will be subject to the termination benefits cap under the Corporations Act.
Restraints	During their employment with the Company, the key employees may not (i) engage in any other employment, consulting or other business activity that conflicts or interferes with their obligations to the Company; or (ii) engage or participate in any business that is competitive with the Company.

(g). ***Non-executive director arrangements***

Non-executive directors receive a board fee. The fees are inclusive of superannuation, where relevant.

Fees will be reviewed annually by the board taking into account comparable roles and market data. The current base fees were reviewed with effect from October 2021.

The total aggregate amount approved by Shareholders at the Company's general meeting to be provided to all Non-Executive Directors for their services as Directors is fixed at $350,000 per annum.

The annual Non-Executive Director fees were agreed to be paid by the Company commencing 3 October 2021:

• the Chairman is US$60,000 (inclusive of superannuation); and

• each of the other Directors is US$50,000 (inclusive of superannuation).

All non-executive directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration, relevant to the office of director.

(h). ***Terms and conditions of the share-based payment arrangements***

At the General Meeting held on 19 October 2021, Shareholders approved the establishment of the 2021 Employees', Directors' and Consultants' Share and Option Plan (ESOP). The ESOP is intended to reward Directors, employees and/or consultants for their contributions to the Group. The Plan is to be used as a method of retaining key personnel for the growth and development of the Group. Due to the Group's presence in Canada and USA, the Plan has been established to benefit personnel in Australia, Canada and USA. As at 3 December 2021 equity had been issued to 5 directors and 12 employees in USA under ESOP.

During the year ended 31 December 2021, there were a number of modifications to historical options, as well as new grants of options and performance rights under the ESOP. This section of the report covers information related to these modifications and new grants in this sequence.

(i) Modification of historical options

The Group had historical options that were issued over Class A shares and ordinary shares.

The terms of historical Class A options were modified in October 2021 so that they became options to acquire ordinary

(h).Terms and conditions of the share-based payment arrangements (continued)
shares in the Company instead of Class A shares

The modifications involved the following key changes:

- the number of options held increased by multiplying the number of Class A options by a variable conversion factor of 1.2;

- the exercise price of the options was reduced by dividing the existing exercise price by the variable conversion factor; and

- the exercise price of the options was varied such that it was denominated in Australian dollars and not United States dollars.

These modifications are outlined in the following table:

Director/Key management personnel	Number of options	Adjusted Number of options	Original USD$ Exercise Price	New Exercise Price (A$)	Change in Fair Value	Grant date	Modification date	Expiry date
Adem Karafili	62,500	74,739	0.40	0.45	-	1-Jan-19	13-Oct-21	13-Jan-29
G F Dan O'Brien	150,000	179,375	0.40	0.45	-	1-Jan-19	13-Oct-21	30-Apr-29
Radek Sali	2,704,154	3,233,708	0.40	0.45	-	1-Jan-19	13-Oct-21	13-Jan-29

The above options are fully vested with no remaining conditions. There was no incremental expense recognised in relation to these modifications.

In addition, the terms of historical options over ordinary shares were also subject to modifications in October 2021, which involved the following key changes:

- the exercise price of the options was varied such that it was denominated in Australian dollars and not United States dollars.

- the exercise price of certain grants of these options was reduced from US$1 to an at-the-money position of A$0.29.

These modifications and the related change in fair value which affected Director and key management personnel remuneration are outlined in the following table:

Director/ KMP	Number of options	Original USD$ Exercise Price	New Exercise Price (A$)	Existing Fair value (A$)	New Fair value (A$)	Change in Fair value USD$	Grant date	Vesting date	Expiry date
Oliver Baker	666,666	0.19	0.25	0.18	0.14	(18,964)	31/8/2019	1/9/2022	31/8/2024
	666,667	0.17	0.23	0.16	0.15	(8,218)	31/8/2019	1/9/2021	31/8/2024
	666,667	0.15	0.20	0.16	0.16	875	31/8/2019	1/9/2019	31/8/2024
	300,000	1.00	0.29	0.10	0.19	18,950	31/8/2019	31/8/2019	31/8/2028
	150,000	1.00	0.29	0.10	0.19	9,475	31/8/2019	7/2/2020	31/8/2028
	150,000	1.00	0.29	0.10	0.19	9,475	31/8/2019	7/2/2021	31/8/2028
Chris Kavanaugh	60,000	0.15	0.20	0.16	0.16	79	31/8/2019	1/9/2019	31/8/2024
	60,000	0.15	0.20	0.16	0.16	79	31/8/2019	1/9/2020	31/8/2024
	60,000	0.15	0.20	0.16	0.16	79	31/8/2019	1/9/2021	31/8/2024
Adem Karafili	100,000	1.00	0.29	0.03	0.13	7,252	31/8/2019	31/8/2019	31/8/2024
	400,000	.015	0.20	0.16	0.16	525	31/8/2019	1/9/2019	31/8/2024
	400,000	0.15	0.20	0.16	0.16	525	31/8/2019	1/9/2020	31/8/2024
G F Dan O'Brien	100,000	0.15	0.20	0.16	0.16	131	31/8/2019	1/9/2019	31/8/2024
	100,000	0.15	0.20	0.16	0.16	131	31/8/2019	1/9/2020	31/8/2024
Radek Sali	100,000	0.15	0.20	0.16	0.16	131	31/8/2019	1/9/2019	31/8/2024
	100,000	0.15	0.20	0.16	0.16	131	31/8/2019	1/9/2020	31/8/2024
Jonathan West	100,000	0.15	0.20	0.16	0.16	131	31/8/2019	1/9/2019	31/8/2024
	100,000	0.15	0.20	0.16	0.16	131	31/8/2019	1/9/2020	31/8/2024
	200,000	1.00	0.29	0.03	0.13	14,544	31/8/2019	31/8/2019	31/8/2024
Adam Gregory	100,000	0.15	0.20	0.16	0.16	131	31/8/2019	1/9/2019	31/8/2024
	100,000	0.15	0.20	0.16	0.16	131	31/8/2019	1/9/2020	31/8/2024

The incremental expense recognised in 2021 in relation to these modifications was USD$ 62,928, which only reflects beneficial modifications as required under AASB 2.

(ii) New options granted to Directors

The Group issued an additional 2 million new options to Directors, which vested immediately.

The terms and conditions of each grant of these Director options affecting remuneration in the current reporting period is as

(h).Terms and conditions of the share-based payment arrangements (continued)
follows:

Director	Options	Grant date	Fair value per option at grant date (A$)	Exercise price (A$)	Expiry date	Vested
Adem Karafili	1,000,000	19-Oct-21	$ 0.18	$ 0.29	31-Aug-24	1,000,000
Dan O'Brien	250,000	19-Oct-21	$ 0.18	$ 0.29	31-Aug-24	250,000
Adam Gregory	250,000	19-Oct-21	$ 0.18	$ 0.29	31-Aug-24	250,000
Jonathan West	250,000	19-Oct-21	$ 0.18	$ 0.29	31-Aug-24	250,000
Radek Sali	250,000	19-Oct-21	$ 0.18	$ 0.29	31-Aug-24	250,000

(iii) New options granted to key management personnel

The Group granted new options to key management personnel in October 2021, which are in five different classes (Class A-E)

The terms and conditions of each grant of these new options affecting key management personnel remuneration in the current or future reporting periods are as follows:

Key management personnel	Options granted	Grant date	Fair value per option at grant date (A$)	Exercise price (A$)	Expiry date	Vested
Oliver Baker						
Class A Options	1,400,000	19-Oct-21	$ 0.18	$ 0.29	1-Dec-26	-
Class B Options	1,960,000	19-Oct-21	$ 0.18	$ 0.29	1-Dec-26	-
Class C Options	3,480,000	19-Oct-21	$ 0.15	$ 0.44	1-Dec-26	-
Class D Options	3,480,000	19-Oct-21	$ 0.13	$ 0.58	1-Dec-26	-
Class E Options	3,480,000	19-Oct-21	$ 0.12	$ 0.73	1-Dec-26	-
Chris Kavanaugh						
Class A Options	1,820,000	19-Oct-21	$ 0.18	$ 0.29	1-Dec-26	-
Class B Options	1,000,000	19-Oct-21	$ 0.18	$ 0.29	1-Dec-26	-
Class C Options	1,160,000	19-Oct-21	$ 0.15	$ 0.44	1-Dec-26	-
Class D Options	1,160,000	19-Oct-21	$ 0.13	$ 0.58	1-Dec-26	-
Class E Options	1,160,000	19-Oct-21	$ 0.12	$ 0.73	1-Dec-26	-

Class A options vesting conditions

Vesting of the Class A options is subject to listing on the ASX, satisfaction (or waiver by the Board at its discretion) of the FY2021 Revenue Condition and service up to the vesting date. The FY2021 Revenue Condition is that Group audited revenue for 2021 must be at least 30% more than the Group audited revenue for 2020.

Group audited revenue means the actual, audited revenues for the Group for a financial year (as recorded in the Company’s audited accounts), excluding extraordinary and one-off items, government grants and rebates. The Board will determine the Group audited revenue for 2021, and whether the FY2021 Revenue Condition has been satisfied, shortly after lodgement of audited accounts for 2021 with the ASX. If the FY2021 Revenue Condition is not met (or waived by the Board), the Class A Options will not vest and will lapse and terminate.

Class B options vesting conditions

Vesting of the Class B-E options is subject to listing on the ASX and service up to the respective vesting dates. Class B to E options have tranche vesting over three years, from FY2022 to FY2024 inclusive, subject to the participant being an employee of the Group at the time of vesting (or, in certain cases, a “good leaver”).

(iv) New performance rights granted to key management personnel

The Group has made the following grants of performance rights to key management personnel on 19 October 2021. No performance rights have been granted in prior years.

The grants relate to reward for the Company’s performance to date (the Tranche A Award) and incentivisation for future performance (the Tranche B Award). Each performance right will be exercisable for one ordinary share for nil exercise price.

(h).Terms and conditions of the share-based payment arrangements (continued)
On completion of the grant of performance rights, the performance rights will be held by key management personnel as follows:

Tranche A Award

Key management personnel	Performance Rights granted	Fair value per right at grant date (A$)	Grant date	Expiry date	Vested
Oliver Baker	1,356,011	0.29	19-Oct-21	31-Dec-25	-
Chris Kavanaugh	1,070,674	0.29	19-Oct-21	31-Dec-25	-

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

• Listing on the ASX

• Continued employment (or being a good leaver); and

• Satisfaction of the Tranche A Revenue Condition.

The Tranche A Revenue Condition is that the Group Audited Revenue for FY2021 must be at least 30% more than the Group Audited Revenue for FY2020. This is the same as the vesting conditions associated with Class A options outlined above.

Tranche B Award

Key management personnel	Performance Rights granted	Fair value per right at grant date (A$)	Grant date	Expiry date	Vested
Oliver Baker	1,960,000	0.29	19-Oct-21	31-Dec-25	-
Chris Kavanaugh	1,000,000	0.29	19-Oct-21	31-Dec-25	-

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

• Listing on the ASX

• Continued employment (or being a good leaver); and

• Satisfaction of the Tranche B Revenue Condition.

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

• one third of a financial year’s total award potential will vest if a Minimum Threshold is met;

• two thirds of a financial year’s total award potential will vest if a Medium Threshold is met; and

• all of a financial year’s total award potential will vest if a Maximum Threshold is met.

Performance milestone	Proportion of total Tranche B award each year	Minimum threshold 20% growth	Medium threshold 30% growth	Maximum threshold 40% growth
The higher of Group audited revenue growth from 2021 to 2022 or 2021 to 2022 compound average growth rate (CAGR)	Maximum of 33.3% of total Tranche B award	11.1%	22.2%	33.3%
The higher of Group audited revenue growth from 2022 to 2023 or 2021 to 2023 compound average growth rate (CAGR)	Maximum of 33.3% of total Tranche B award	11.1%	22.2%	33.3%
The higher of Group audited revenue growth from 2023 to 2024 or 2021 to 2024 compound average growth rate (CAGR)	Maximum of 33.3% of total Tranche B award	11.1%	22.2%	33.3%

At the end of each financial year, the revenue growth CAGR since inception of the grant (FY21) will be calculated as well as the revenue growth rate achieved in the most recent financial year. The higher of the two numbers will be used to assess performance in relation to the Tranche B Revenue Condition. Where applicable, the performance rights will vest within 1 month of release of the full year results for the relevant financial year by the Group.

Directors' Report
31 December 2021

(h).Terms and conditions of the share-based payment arrangements (continued)

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

The Board considers that it is necessary and appropriate to remunerate or incentivise key management personnel, and the other employees, to achieve the performance milestones via the grant of performance rights because, as the Company's key executives on the ground in the United States, they are critical to the performance and success of the Company. The Board formed the view that it was reasonable to incentivise and reward CEO and CFO for their contributions in the event that the Company reached appropriate performance milestones.

(i) Reconciliation of options, rights and ordinary share held by KMP

The table below shows a reconciliation of options held by each KMP from the beginning to the end of FY 2021. All vested options were exercisable.

2021 Director/KMP & Grant dates	Balance at the start of the year	Granted as compensation	Vested No.	Vested %	Exercised	Forfeited No.	Forfeited %	Other changes*	Year-end balance Vested and exercisable	Year-end balance Unvested
Oliver Baker										
19-Oct-21	-	13,800,000	-		-			-	-	13,800,000
31-Aug-19	2,600,000	-	816,667	31%	-			-	1,933,334	666,666
Chris Kavanaugh										
19-Oct-21	-	6,300,000	-		-			-	-	6,300,000
31-Aug-19	180,000	-	60,000	33%	-			-	180,000	-
Adem Karafili										
19-Oct-21	-	1,000,000	1,000,000	100%	-			-	1,000,000	-
31-Aug-19	900,000	-	-		-			-	900,000	-
1-Jan-19	62,500	-	-		-			12,239	74,739	-
G F Dan O'Brien										
19-Oct-21	-	250,000	250,000	100%	-			-	250,000	-
31-Aug-19	200,000	-	-		-			-	200,000	-
1-Jan-19	150,000	-	-		-			29,375	179,375	-
Radek Sali										
19-Oct-21	-	250,000	250,000	100%	-			-	250,000	-
31-Aug-19	200,000	-	-		-			-	200,000	-
14-Jan-19	2,107,500	-	-		-			412,712	2,520,212	-
3-May-19	596,654	-	-		-			116,843	713,497	-
Jonathan West										
19-Oct-21	-	250,000	250,000	100%	-			-	250,000	-
31-Aug-19	400,000	-	-		-			-	400,000	-
Adam Gregory										
19-Oct-21	-	250,000	250,000	100%	-			-	250,000	-
31-Aug-19	200,000	-	-		-			-	200,000	-

* The "Other changes" represent the additional options arising as a result of the modifications referred to above in section (h).

2020 Director/KMP & Grant dates	Balance at the start of the year	Granted as compensation	Vested No.	Vested %	Exercised	Forfeited No.	Forfeited %	Other changes*	Year-end balance Vested and exercisable	Year-end balance Unvested
Oliver Baker										
31-Aug-19	2,600,000	-	150,000	6%	-		-	-	1,116,667	1,483,333
Chris Kavanaugh										
31-Aug-19	180,000	-	60,000	33%	-		-	-	120,000	60,000
Adem Karafili										
31-Aug-19	900,000	-	400,000	44%	-		-	-	900,000	-
1-Jan-19	62,500	-	-		-		-	-	62,500	-
G F Dan O'Brien										
31-Aug-19	200,000	-	100,000	50%	-		-	-	200,000	-
1-Jan-19	150,000	-	-		-		-	-	150,000	-
Radek Sali										
31-Aug-19	200,000	-	100,000	50%	-		-	-	200,000	-

(h).Terms and conditions of the share-based payment arrangements (continued)

2020 Director/KMP & Grant dates	Balance at the start of the year	Granted as compensation	Vested No.	Vested %	Exercised	Forfeited No.	Forfeited %	Other changes*	Year-end balance Vested and exercisable	Year-end balance Unvested
14-Jan-19	2,107,500	-	-		-		-	-	2,107,500	-
3-May-19	596,654	-	-		-		-	-	596,654	-
Jonathan West										
31-Aug-19	400,000	-	100,000	25%	-		-	-	400,000	-
Adam Gregory										
31-Aug-19	200,000	-	100,000	50%	-		-	-	200,000	-

The independent, non-executive directors did not hold any options or shares in the Company as at 31 December 2021.

(i) Shareholdings

The number of fully paid ordinary shares in the Company held during the financial year by each Director and other key management personnel, including shares held indirectly by them personally, are set out below:

	Balance at Start of the Year	Granted as Compensation	Shares from Options Exercised	Other changes during the year	Balance at End of the Year
2021					
Directors					
Adem Karafili	**750,000**	**-**	**-**	**810,417**	**1,560,417**
Geoffrey Frederick Dan O'Brien	**11,658,508**	**-**	**-**	**3,347,368**	**15,005,876**
Jonathan West	**800,000**	**-**	**-**	**156,664**	**956,664**
Scott Emerson	**500,000**	**-**	**-**	**97,915**	**597,915**
Radek Sali	**9,158,308**	**-**	**-**	**2,357,484**	**11,515,792**
Campbell Smith	**-**	**-**	**-**	**86,566**	**86,566**
George Livery	**-**	**-**	**-**	**-**	**-**
Gretta van Riel	**-**	**-**	**-**	**-**	**-**
Other Key Management Personnel					
Oliver Baker	**-**	**-**	**-**	**132,709**	**132,709**
Chris Kavanaugh	**-**	**-**	**-**	-	-

The shares in "Other changes during the year" arise as a result of a combination of shares created from the conversion of convertible notes, for those that participated, and also a 1.2 multiple on the conversion of class A shares to ordinary shares. In addition, Dan O'Brien purchased 68,966 shares post IPO, which is also included as an "Other Change".

	Balance at Start of the Year	Granted as Compensation	Shares from Options Exercised	Other changes during the year	Balance at End of the Year
2020					
Directors					
Adem Karafili	**750,000**	**-**	**-**	**-**	**750,000**
Geoffrey Frederick Dan O'Brien	**11,658,508**	**-**	**-**	**-**	**11,658,508**
Jonathan West	**800,000**	**-**	**-**	**-**	**800,000**
Scott Emerson	**500,000**	**-**	**-**	**-**	**500,000**
Radek Sali	**9,158,308**	**-**	**-**	**-**	**9,158,308**
Other Key Management Personnel					
Oliver Baker	**-**	**-**	**-**	**-**	**-**
Chris Kavanaugh	**-**	**-**	**-**	-	-

Directors' Report
31 December 2021

This is the end of the Audited Remuneration Report.

This director's report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.

....
George Livery

Location Melbourne

Dated this 31 day of March 2022

Auditor's Independence Declaration

As lead auditor for the audit of The Hydration Pharmaceuticals Company Limited for the year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of The Hydration Pharmaceuticals Company Limited and the entities it controlled during the period.

Graeme McKenna

Graeme McKenna
Partner
PricewaterhouseCoopers

Melbourne
31 March 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2021

	Notes	2021 $	2020 $
Revenue	4	**6,127,178**	3,756,695
Cost of sales		**(3,337,579)**	(2,421,230)
Gross profit		**2,789,599**	1,335,465
Other income	4	**93**	2,815,135
Sales and marketing expenses		**(5,060,470)**	(1,743,537)
Administrative expenses		**(1,546,234)**	(1,233,031)
Employee benefits expense	6	**(3,012,662)**	(1,635,203)
Depreciation and amortisation expense	6	**(3,337)**	(23,488)
Transaction costs associated with IPO	6	**(663,275)**	-
Foreign exchange gain/(loss)		**1,410,662**	(246,685)
Finance costs	5	**(2,866,037)**	(12,319)
Loss before income tax		**(8,951,661)**	(743,663)
Income tax expense	7	**-**	-
Loss for the year		**(8,951,661)**	(743,663)
Other comprehensive income, net of tax			
Exchange differences on translation of foreign controlled entities		**(1,241,976)**	285,610
Other comprehensive income/(loss) for the year, net of tax		**(1,241,976)**	285,610
Total comprehensive loss for the year		**(10,193,637)**	(458,053)

	Note	$	$
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic and diluted earnings/(loss) per share	26	(0.12)	(0.01)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjuction with the accompanying notes.

Consolidated Statement of Financial Position
As At 31 December 2021

	Notes	2021 $	2020 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	**10,672,533**	1,644,583
Trade and other receivables	9	**1,012,546**	787,477
Inventories	10	**1,794,742**	1,590,026
Other assets	11	**1,825,262**	420,278
TOTAL CURRENT ASSETS		**15,305,083**	4,442,364
NON-CURRENT ASSETS			
Property, plant and equipment		**-**	3,337
TOTAL NON-CURRENT ASSETS		**-**	3,337
TOTAL ASSETS		**15,305,083**	4,445,701
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12	**2,058,195**	2,424,442
TOTAL CURRENT LIABILITIES		**2,058,195**	2,424,442
NON-CURRENT LIABILITIES			
Provisions		**20,537**	18,409
TOTAL NON-CURRENT LIABILITIES		**20,537**	18,409
TOTAL LIABILITIES		**2,078,732**	2,442,851
NET ASSETS		**13,226,351**	2,002,850
EQUITY			
Contributed equity	13	**36,408,321**	16,494,829
Reserves	14	**1,186,647**	924,977
Accumulated losses		**(24,368,617)**	(15,416,956)
TOTAL EQUITY		**13,226,351**	2,002,850

The above consolidated statement of financial position should be read in conjuction with the accompanying notes.

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2021

2021

	Note	Contributed Equity $	Accumulated Losses $	Foreign Currency Translation Reserve $	Share Based Payment Reserve $	Total $
Balance at 1 January 2021		**16,494,829**	**(15,416,956)**	**611,074**	**313,903**	**2,002,850**
Loss for the year		**-**	**(8,951,661)**	**-**	**-**	**(8,951,661)**
Other comprehensive income	14	**-**	**-**	**(1,241,976)**	**-**	**(1,241,976)**
Total comprehensive loss for the year		**-**	**(8,951,661)**	**(1,241,976)**	**-**	**(10,193,637)**
Transactions with owners in their capacity as owners						
Conversion of convertible notes	13	**8,850,524**	**-**	**-**	**-**	**8,850,524**
Issue of IPO shares	13	**12,201,590**	**-**	**-**	**-**	**12,201,590**
Share issue transaction costs	13	**(1,138,622)**	**-**	**-**	**-**	**(1,138,622)**
Employee share scheme	14	**-**	**-**	**-**	**1,503,646**	**1,503,646**
Balance at 31 December 2021		**36,408,321**	**(24,368,617)**	**(630,902)**	**1,817,549**	**13,226,351**

2020

	Note	$	$	$	$	$
Balance at 1 January 2020		16,494,829	(14,673,293)	325,464	238,772	2,385,772
Loss for the year		-	(743,663)	-	-	(743,663)
Other comprehensive income	14	-	-	285,610	-	285,610
Total comprehensive loss for the year		-	(743,663)	285,610	-	(458,053)
Transactions with owners in their capacity as owners						
Employee share scheme	14	-	-	-	75,131	75,131
Balance at 31 December 2020		16,494,829	(15,416,956)	611,074	313,903	2,002,850

The above consolidated statement of changes in equity should be read in conjuction with the accompanying notes.

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2021

	Note	2021 $	2020 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		**5,947,918**	3,523,210
Payments to suppliers and employees (inclusive of GST)		**(13,427,118)**	(7,373,214)
Transaction costs associated with IPO		**(598,850)**	-
Interest paid		**-**	(12,319)
Net cash inflow/(outflow) from operating activities	20	**(8,078,050)**	(3,862,323)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on disposal of intellectual properties		**-**	2,750,000
Purchase of property, plant and equipment		**-**	(18,075)
Net cash inflow/(outflow) from investing activities		**-**	2,731,925
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of convertible notes		**6,415,000**	-
Proceeds from issue of IPO shares		**12,033,415**	-
Transaction costs from issuance of convertible notes and shares		**(1,421,239)**	-
Net cash inflow/(outflow) from financing activities		**17,027,176**	-
Net increase/(decrease) in cash and cash equivalents		**8,949,126**	(1,130,398)
Cash and cash equivalents at beginning of financial year		**1,644,583**	2,736,056
Effects of exchange rate changes on cash and cash equivalents		**78,824**	38,925
Cash and cash equivalents at end of financial year	8	**10,672,533**	1,644,583

The above consolidated statement of cash flows should be read in conjuction with the accompanying notes.

Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2021

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 Group 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 31 March 2022.

1 Basis of Preparation

General Purpose

These general purpose consolidated financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Compliance with Australian Accounting Standards ensures that the consolidated financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The amounts presented in the consolidated financial statements have been rounded to the nearest dollar unless stated otherwise.

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2021:

- AASB 2020-4 Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions [AASB 16], and
- AASB 2020-8 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2 [AASB 4, AASB 7, AASB 9, AASB 16 _AASB 139]

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Going Concern

The consolidated financial statements have been prepared 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.

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 profit or loss and other 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.

(b) Basis for consolidation

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. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated in full for the purpose of these consolidated financial statements.

All controlled entities have a December financial year end.

2 Summary of Significant Accounting Policies (continued)

(b) Basis for consolidation (continued)

A list of controlled entities is contained in Note 16 to the consolidated financial statements.

(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 customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

Goods are often sold with discounts, rebates and promotional incentives. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated discounts, rebates and promotional incentives which are highly dependent or inter-related with the sales contracts such that the customer could not benefit from one without the other. They are therefore not accounted for as a separate performance obligation. 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.

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:

2 Summary of Significant Accounting Policies (continued)

(d) Income tax (continued)

- 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 within other receivables or payables in the consolidated statement of financial position.

(f) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(g) Trade and other receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. They are generally due for settlement within 30 days of invoicing and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value.

The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less a 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,

2 Summary of Significant Accounting Policies (continued)

(g) Trade and other receivables (continued)

trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of previous sales and the corresponding historical credit losses experienced.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost of inventory is determined using the standard costs basis and is net of any rebates and discounts received. Net realisable value is estimated using the most reliable evidence available at the reporting date and inventory is written down through an obsolescence provision if necessary.

(i) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment.

Depreciation

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

Depreciation Rates

The estimated useful lives used for each class of depreciable asset are shown below:

Fixed asset class	Useful life
Plant and equipment	1 year
Furniture, fixtures and fittings	1 year
Computer equipment	1 year

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

(j) Financial instruments

Financial instruments are recognised initially on the date that the Group becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

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

The Group only has financial assets categorised as those measured at amortised cost.

2 Summary of Significant Accounting Policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

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 that 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 any provision for impairment.

Interest income, foreign exchange gains or losses and impairment are recognised in profit or loss. Gain or loss on derecognition is recognised in profit or loss.

Impairment of financial assets

Impairment of financial assets is recognised on an expected credit loss (ECL) basis for the following assets:

- financial assets measured at amortised cost

When determining whether the credit risk of financial assets has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment and including forward looking information.

The Group uses the presumption that an asset which is more than 30 days past due has seen a significant increase in credit risk.

The Group uses the presumption that a financial asset is in default when:

- the other party is unlikely to pay its credit obligations to the Group in full, without recourse to the Group to actions such as realising security (if any is held); or
- the financial assets are 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.

2 Summary of Significant Accounting Policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

Trade receivables

Impairment of trade receivables has 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 multiplied this by the amount of the expected loss arising from default.

The amount of impairment is recorded in a separate allowance account with the loss being recognised in administrative expenses. Once the receivable is determined to be uncollectible 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 method.

The financial liabilities of the Group comprise trade and other payables, and borrowings.

(k) 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 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.

2 Summary of Significant Accounting Policies (continued)

(l) 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 date.

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.

(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.

(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.

(p) Contributed equity

Ordinary shares and class A shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

2 Summary of Significant Accounting Policies (continued)

(q) Share-based payments

The Group provides share-based compensation benefits to selected employees and directors. The fair value of options and performance rights 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 and performance rights 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 and performance rights 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 consolidated financial statements. Amounts in the consolidated 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, The Hydration Pharmaceuticals Company Limited, disclosed in note 23 has been prepared on the same basis as the consolidated financial statements except as disclosed below.

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of the parent entity.

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 Group'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. The areas involving a higher degree of judgement or estimates include the Group's share based payment awards. The fair values at grant date are determined using valuation methods, including Black-Scholes Models, which take into account various inputs and assumptions including the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, and the risk-free interest rate. Further details are outlined in note 25.

4 Revenue and Other Income

	2021	2020
	$	$
Revenue		
Revenue from contracts with customers	**6,127,178**	3,756,695
	6,127,178	3,756,695

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

	2021	2020
	$	$
US	**3,131,180**	1,757,288
Canada	**2,995,998**	1,999,407
Australia	**-**	-
	6,127,178	3,756,695

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

4 Revenue and Other Income (continued)

	2021	2020
	$	$
Other Income		
- Other income from sales of intellectual properties	**-**	2,750,000
- Government grants	**-**	65,000
- Interest income	**93**	135
	93	2,815,135

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 $2.75 million.

5 Finance Costs

	2021	2020
	$	$
Loss on conversion of convertible notes	**1,894,516**	-
Interest expense on convertible notes	**648,565**	-
Pre-IPO borrowing costs	**322,956**	-
Interest expense	**-**	12,319
Total	**2,866,037**	12,319

6 Result for the Year

The result for the year includes the following specific expenses:

	2021	2020
	$	$
Employee benefits expense	**3,012,662**	1,635,203
Depreciation expense	**3,337**	23,488
Expense relating to short-term leases	**32,494**	61,688
Transaction costs associated with IPO	**663,275**	-

Employee benefits expense line includes $1,393,051 of share based payments expense, refer to further details outlined in note 25.

In addition to the above, IPO transaction costs of approximately $1.1 million have been classified as equity as they relate to the issuance of new shares, refer to note 13(a).

Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2021

7 Income Tax Expense

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

	2021	2020
	$	$
Current tax expense		
Income tax	-	-
Deferred tax expense		
Deferred tax	-	-
Total income tax expense	-	-

(b) Reconciliation of income tax to prima facie tax payable:

	2021	2020
	$	$
Loss from continuing operations before income tax expense	**(8,951,661)**	(743,663)
Tax at the US tax rate of 21.0% (2020 - 21.0%)	**21.00 %**	21.00 %
	(1,879,849)	(156,169)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
- Expenses not deductible for tax purposes	**762,925**	4,655
- Difference in overseas tax rate	**(253,395)**	114,196
- Current year temporary differences not recognised	**127,596**	(106,365)
- Current year tax losses not recognised	**1,242,723**	143,683
Income tax expense	-	-

	2021	2020
	$	$
Unused tax losses for which no deferred tax asset has been recognised	**31,204,966**	24,869,633
Potential tax benefit	**6,121,088**	4,878,365

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

8 Cash and Cash Equivalents

	2021	2020
	$	$
Cash at bank and in hand	**10,672,533**	1,644,583
	10,672,533	1,644,583

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

9 Trade and Other Receivables

	2021	2020
	$	$
Trade receivables	**1,024,378**	787,134
Provision for doubtful accounts	**(12,882)**	-
Other receivables	**1,050**	343
	1,012,546	787,477

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. On this basis, the Group determined a loss allowance of $12,882 as at 31 December 2021.

10 Inventories

	2021	2020
	$	$
Raw materials and consumables	**303,293**	141,874
Finished goods	**1,313,214**	1,001,190
Goods in transit	**290,476**	554,680
Write-downs	**(112,241)**	(107,718)
	1,794,742	1,590,026

11 Other Assets

	2021	2020
	$	$
Prepayments	**1,825,262**	420,278
	1,825,262	420,278

12 Trade and Other Payables

	2021	2020
	$	$
Trade payables	**569,239**	1,177,083
Returns and other liabilities	**463,998**	766,502
Accrued expenses	**1,024,958**	394,491
Other payables	**-**	86,366
	2,058,195	2,424,442

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

13 Contributed Equity

	2021 Shares	2020 Shares	2021 $	2020 $
Ordinary shares on issue	161,026,683	7,200,000	37,546,943	-
Class A shares	-	49,566,926	-	16,494,829
Share issue transaction costs	-	-	(1,138,622)	-
	161,026,683	56,766,926	36,408,321	16,494,829

Prior to the Group's listing, a capital restructure was conducted through which all existing Ordinary shares were cancelled for nil consideration and all Class A shares were converted into Ordinary shares (applying a multiplier of 1.2). The impace of the capital restructure is outlined in the following tables.

(a) Ordinary shares

	Shares	$
Opening balance 1 January 2020	7,200,000	-
Issue of shares	-	-
Closing balance 31 December 2020	**7,200,000**	**-**
Opening balance 1 January 2021	7,200,000	-
Cancellation	**(7,200,000)**	-
Class A conversion into Ordinary shares	**59,273,626**	16,494,829
Conversion of convertible notes	**43,130,367**	8,850,524
Issue of IPO shares	**58,622,690**	12,201,590
Share issue transaction costs	**-**	(1,138,622)
Closing balance 31 December 2021	**161,026,683**	**36,408,321**

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 2020	49,566,926	16,494,829
Issue of shares	-	-
Closing balance 31 December 2020	**49,566,926**	**16,494,829**
Opening balance 1 January 2021	49,566,926	16,494,829
Issue of shares	**-**	-
Class A conversion to Ordinary shares	**(49,566,926)**	(16,494,829)
Closing balance 31 December 2021	**-**	**-**

13 Contributed Equity (continued)

(c) Conversion of convertible notes

In March 2021, the Group raised US$6.5 million through convertible notes, which were convertible into a variable number of shares of the Group in the event of an IPO, or in the event of asset or share sales. If these events did not occur within 24 months, at the option of the holder, the notes were repayable.

In December 2021, the amount owing on the convertible notes (US$6.9 million) was translated into Australian dollars at an exchange rate of 0.7515 and converted into ordinary shares at a 26% discount to the Group's office price of A$0.29. This resulted in the notes being converted into 43,130,367 ordinary shares, which had a value of approximately US$8.8 million. The difference between these amounts has been recognised as a loss on conversion of the convertible notes, refer to note 5.

14 Reserves

(a) Share Based Payment Reserve

	2021 $	2020 $
Employee share scheme	**1,817,549**	313,903

Movements:

	2021	2020
Employee share sheme		
Opening balance	**313,903**	238,772
Employee share scheme	**1,503,646**	75,131
	1,817,549	313,903

During the financial year, $1,393,051 (2020: $75,131) of share-based payments were expensed in relation to options granted to employees and directors. Refer to further details outlined in note 25.

(b) Foreign Currency Translation Reserve

	2021 $	2020 $
Opening balance	**611,074**	325,464
Other comprehensive income/(loss)	**(1,241,976)**	285,610
	(630,902)	611,074

15 Key Management Personnel Remuneration

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

	2021	2020
	$	$
Short-term employee benefits	**813,618**	615,217
Post-employment benefits	**22,350**	-
Share-based payments	**1,254,615**	69,642
	2,090,583	684,859

Detailed remuneration disclosures are provided in the remuneration report on pages 5 to 14.

16 Interests in Subsidiaries

Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%)* 2021	Percentage Owned (%)* 2020
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.

17 Related Parties

(a) Parent entity

The Hydration Pharmaceuticals Company Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 16.

(c) Key management personnel compensation

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 15.

17 Related Parties (continued)

(d) Transactions with other 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 purchase transactions occurred with entities controlled by the directors:

	2021	2020
	$	$
Services surrounding capital raising and restructure	255,000	14,287
Reimbursement of administrative and office costs	26,129	26,645
IT services	4,096	2,882
Sales broker fees	133,271	-

18 Contingencies and Commitments

In the opinion of the Directors, the Group did not have any contingencies or commitments at 31 December 2021 (31 December 2020: nil).

19 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 the 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 business offered by the Group in each geography is fundamentally the 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. 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 results for each year is presented as follows:

	2021	2020
	$	$
Revenue by geography		
United States	**3,131,180**	1,757,288
Canada	**2,995,998**	1,999,407
Australia	**-**	-
Other income	**93**	2,815,135
Cost of sales	**(3,337,579)**	(2,421,230)
Sales and marketing expenses	**(5,060,470)**	(1,743,537)
Administrative expenses	**(1,546,234)**	(1,233,031)
Employee benefits expense	**(3,012,662)**	(1,635,203)
Depreciation and amortisation expense	**(3,337)**	(23,488)
Transaction costs associated with IPO	**(663,275)**	-
Operating losses	**(7,496,286)**	(484,659)
Foreign exchange gains/(losses)	**1,410,662**	(246,685)

Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2021

19 Segment information (continued)

	2021	2020
	$	$
Finance costs	**(2,866,037)**	(12,319)
Net loss for the year	**(8,951,661)**	(743,663)

20 Cash Flow Information

Reconciliation of result for the year to net cash inflow/(outflow) from operating activities

	2021	2020
	$	$
Loss for the year	**(8,951,661)**	(743,663)
Non-cash flows in profit/(loss):		
- Depreciation and amortisation expense	**3,337**	23,488
- Foreign exchange (gain)/loss	**(1,410,662)**	246,685
- Non-cash employee benefits expense	**1,393,051**	75,131
- Provision for obsolete inventory	**4,523**	(93,272)
- Gain on sale of assets	**-**	(2,750,000)
- Interest expense of convertible notes	**648,565**	-
- Loss on conversion of convertible notes	**1,894,516**	-
- Pre-IPO borrowing costs	**322,956**	-
Changes in assets and liabilities:		
- (Increase)/decrease in trade and other receivables	**(237,951)**	(191,966)
- Increase/(decrease) in trade and other payables	**(132,629)**	668,938
- (Increase)/decrease in inventories	**(209,239)**	(716,699)
- (Increase)/decrease in other assets	**(1,404,984)**	(340,781)
- (Increase)/decrease in provisions	**2,128**	(40,184)
Net cash inflow/(outflow) from operating activites	**(8,078,050)**	(3,862,323)

21 Auditors Remuneration

	2021	2020
	$	$
Audit and review of financial reports		
- Group	**130,744**	29,351
- Stand-alone of the parent entity	**-**	13,950
Total audit and review of financial reports	**130,744**	43,301
Other services		
- Compilation of stand-alone accounts for the parent entity	**-**	3,453
- Tax compliance services	**19,000**	19,000
- IPO advisory servies	**318,452**	-
Total other non-audit services	**337,452**	22,453
Total services provided by PwC	**468,196**	65,754

22 Events Occurring After the Reporting Date

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

23 Parent Entity

The following information for the parent entity, The Hydration Pharmaceuticals Company Limited, has been prepared in accordance with Australian Accounting Standards.

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements except as disclosed below.

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of the parent entity.

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.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

23 Parent Entity (continued)

	2021 $	2020 $
Statement of Financial Position		
Assets		
Current assets	**4,045,656**	114,343
Total assets	**4,045,656**	114,343
Liabilities		
Current liabilities	**101,915**	23,361
Total liabilities	**101,915**	23,361
Equity		
Contributed equity	**36,408,321**	16,494,829
Accumulated losses	**(34,282,129)**	(16,717,750)
Other reserves	**1,817,549**	313,903
Total equity	**3,943,741**	90,982
Statement of Profit or Loss and Other Comprehensive Income		
Loss for the year	**(17,564,379)**	(873,556)
Total comprehensive loss	**(17,564,379)**	(873,556)

Contingent liabilities

The parent entity did not have any contingent liabilities as at 31 December 2021 or 31 December 2020.

Contractual commitments

The parent entity did not have any commitments as at 31 December 2021 or 31 December 2020.

24 Financial Risk Management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

(i) *Foreign exchange risk*

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments.

24 Financial Risk Management (continued)

Market risk (continued)

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in USD, was as follows:

	31 December 2021				31 December 2020			
	CAD	AUD	CHF	USD	CAD	AUD	CHF	USD
	$	$	$	$	$	$	$	$
Assets								
Cash and cash equivalents	**498,174**	**3,590,458**	**-**	**6,583,901**	419,720	236,484	-	988,379
Trade and other receivables	**724,420**	**1,242**	**-**	**286,884**	476,338	1,317	-	309,822
Other assets	**30,131**	**224,986**	**1,360,415**	**209,730**	33,746	3,794	328,709	54,029
Liabilities								
Trade and other payables	**914,402**	**40,031**	**62,512**	**1,041,250**	670,405	158,535	828,058	767,444
	338,323	**3,776,655**	**1,297,903**	**6,039,265**	259,399	83,060	(499,349)	584,786

(ii) Foreign currency sensitivity

The following table illustrates the impact of a 10% strengthening of the United States Dollar against the Australian Dollar, Canadian Dollar and Swiss Franc on the loss before income tax of the Group based on the foreign currency denominated financial assets and liabilities.

A weakening of the United States Dollar exchange rates has an equal and opposite effect on the Group's loss before income tax, all other variables are held constant.

	31 December 2021	31 December 2020
	$	$
Australian Dollar	**(377,665)**	(8,306)
Canadian Dollar	**(33,832)**	(25,940)
Swiss Franc	**(129,790)**	49,935

The Group does not apply hedge accounting to these transactions. The implications of this decision are that unrealised foreign exchange gains and losses are recognised in profit or loss in the period in which they occur.

Generally, the Group's risk management procedures distinguish short-term foreign currency cash flows (due within 6 months) from longer-term cash flows. Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further activity is undertaken.

In order to monitor the effectiveness of this policy, the Board receives a monthly report showing the settlement date of transactions denominated in non-USD currencies and expected cash reserves in that currency.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

Credit risk arises from cash and cash equivalents, as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties

24 Financial Risk Management (continued)

Credit risk (continued)
are reputable banks with high quality external credit ratings.

Trade receivables

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.

Management considers that all the financial assets that are not impaired for each of the reporting dates under review are of good credit quality.

(iii) Interest rate risk

The Group is not exposed to any material interest rate risk.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding to meet obligations when due.

The Group prepares detailed operating budgets forecasting operational cash requirements. Management monitors cash balances and operating budgets to ensure sufficient cash is on hand to meet operational requirements and service its working capital.

(i) Maturities of financial liabilities

The table below analyses the Group’s financial liabilities into relevant maturity groupings based on their contractual maturities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

	Carrying Amount	Less than 1 year	1 to 2 years	2 to 5 years	5 years +	Total
31 December 2021 US$						
Trade and other payables	2,058,195	2,058,195	-	-	-	2,058,195
31 December 2020 US$						
Trade and other payables	2,424,442	2,424,442	-	-	-	2,424,442

25 Share-based Payments

During the year, the Group established a new Equity Share Option Plan (ESOP), which was approved by shareholders at a meeting on 19 October 2021. The ESOP is designed to provide long-term incentives for senior management to deliver long-term shareholder returns. Under the ESOP, participants are granted options and/or performance rights which only vest if certain performance standards are met. Participation in the ESOP is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. When exercisable, each option or performance right is convertible into one ordinary share.

25 Share-based Payments (continued)

Set out below are summaries of historical options granted and new options granted under the ESOP:

	2021 Average exercise price per share option $	2021 Number of options	2020 Average exercise price per share option $	2020 Number of options
As at 1 January	USD 0.45	10,223,346	USD 0.45	10,223,346
Modifications during the year	AUD 0.41	901,473	-	-
Granted during the year	AUD 0.49	27,564,800	-	-
Exercised during the year	-	-	-	-
Forefeited during the year	-	-	-	-
As at 31 December	AUD 0.48	38,689,619	USD 0.45	10,223,346
Vested and exercisable at 31 December	AUD 0.44	15,708,153	USD 0.49	8,660,013

Options outstanding

The opening number of options has been updated to reflect historical options omitted in the prior year.

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

Grant Date	Expiry Date	Exercise price (A$)	Share Options 31 December 2021	Share Options 31 December 2020
31 Aug 19	31 Aug 24 - 31 Aug 28	0.20 - 0.29	5,620,000	5,620,000
1 Jan 19	10 Jan 29 - 30 Apr 29	0.45	1,314,446	1,099,192
14 Jan 19	13 Jan 29	0.45	2,520,212	2,107,500
3 May 19	2 May 29	0.45	713,497	596,654
14 Sep 18	14 Sep 28	1.34	956,664	800,000
19 Oct 21	1 Dec 24 - 1 Dec 26	0.29 - 0.73	25,100,000	-
3 Dec 21	1 Dec 26	0.29 - 0.73	2,464,800	-
			38,689,619	10,223,346
Weighted average remaining contractual life of options outstanding at the end of the period			4.82	5.64

(i) Modification of historical options granted

Prior to the Group's listing in December 2021, a total of 10,223,346 options were issued in previous years. Leading into the Group's listing, the Group conducted a capital restructure and made modifications to these historical options. The key modifications of historical options included:

- All options over Class A shares were varied such that they became options over ordinary shares (with a multiplier of 1.2 times applied), and the exercise prices of all historical options were modified from US$ exercise prices to A$ exercise prices
- Historical options over ordinary shares, which previously had an exercise price of US$1, were modified to an at-the-money position with a new exercise price of A$0.29.

25 Share-based Payments (continued)

Options outstanding (continued)

As a result of these modifications, the Group recognised an incremental expense of US$72,805.

(ii) Fair value of new options granted

The assessed fair value at grant date of new options granted during the year ended 31 December 2021 ranged between A$0.12 - A$0.18 per option (2020 - no options were granted). The fair value at grant date was independently determined using a Black-Scholes Model which takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, and the risk-free interest rate.

The model inputs for new options granted during the year ended 31 December 2021 included:

a) Options were granted for no consideration and have various vesting conditions:

- Class A options have the following vesting conditions:
  - i. The Company being admitted to the official list of ASX on or before 31 December 2021
  - ii. Continued employment with the Company as at the relevant vesting date (or being a good leaver, depending on Board discretion)
  - iii. Board approval of the satisfaction of the FY2021 Revenue Condition (i.e. Group audited revenue for 2021 must be at least 30% more than the Group audited revenue for 2020) after lodgement of the audited 2021 financial statements

- Class B, C, D and E options have tranche vesting over 3 years and have the following vesting conditions:
  - i. The Company being admitted to the official list of ASX on or before 31 December 2021
  - ii. Continued employment with the Company as at the relevant vesting date (or being a good leaver, depending on Board discretion)

- Options issued to Directors and advisors vested immediately with no further conditions

b) Exercise price: ranging from A$0.29 – A$0.73
c) Grant date: 19 October 2021 for Directors, advisors and key management personnel, 3 December 2021 for other employees
d) Expiry date range: 31 August 2024 - 1 December 2026
e) Share price at grant date: A$0.29
f) Expected price volatility of the company's shares: 70% - 75%
g) Expected dividend yield: 0%, and
h) Risk-free interest rate: 0.14% - 0.59%

The expected price volatility was based on a calculation of the historic volatility of broadly comparable listed companies.

(iii) Fair value of performance rights granted

The following table shows the performance rights granted and outstanding at the beginning and end of the reporting period:

As at 1 January 2021	-
Granted during the year	6,288,028
Vested during the year	-
Forfeited during the year	-
As at 31 December 2021	6,288,028

The weighted average remaining contractual life of the performance rights outstanding at the end of the year is 4 years.

25 Share-based Payments (continued)

Options outstanding (continued)

The performance rights granted to key management personnel and other employees during the year included 2,818,428 performance rights under the Tranche A Award and a further 3,469,600 performance rights under the Tranche B Award. These grants relate to reward for the Company's performance to date (the Tranche A Award) and incentivisation for future performance (the Tranche B Award). Each performance right will be exercisable for one ordinary share for nil exercise price. No performance rights have vested as at 31 December 2021.

The assessed fair value at grant date of performance rights granted during the year ended 31 December 2021 was A$0.29 (2020 - no performance rights were granted). On the basis that no dividends are expected to be paid over the life of the instruments, the fair value of the rights was determined as the share price as at the valuation date.

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

i. The Company being admitted to the official list of ASX on or before 31 December 2021
ii. Continued employment with the Company as at the relevant vesting date (or being a good leaver, depending on Board discretion)
iii. Board approval of the satisfaction of the FY2021 Revenue Condition (i.e. Group audited revenue for 2021 must be at least 30% more than the Group audited revenue for 2020) after lodgement of the audited 2021 financial statements

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

i. The Company being admitted to the official list of ASX on or before 31 December 2021
ii. Continued employment with the Company as at the relevant vesting date (or being a good leaver, depending on Board discretion)
iii. Satisfaction of the Tranche B Revenue Condition.

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

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

For more information on vesting conditions of the performance rights, refer to page 11 of the remuneration report.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year as part of Employee benefits expense were as follows:

	2021	2020
	$	$
Expenses related to options	**984,407**	75,131
Expenses related to performance rights	**408,644**	-
Total	**1,393,051**	75,131

Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2021

26 Loss per share

Basic and diluted earnings per share

The loss and weighted average number of ordinary shares used in the calculation of basic and diluted loss per share are as follows:

	2021	2020
	$	$
Basic and diluted earnings/(loss) per share	(0.12)	(0.01)
Loss for the year used in the calculation	8,951,661	743,663
Weighted average number of ordinary shares	75,536,697	64,920,409

Directors' Declaration

In the directors' opinion:

a. the financial statements and notes, as set out on pages 16 to 45 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2021 and of its performance for the financial year ended on that date, and

b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

On behalf of the Directors

....
George Livery

Melbourne

Dated this ....31.......... day of ....March.......... 2022

Independent auditor's report

To the members of The Hydration Pharmaceuticals Company Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of The Hydration Pharmaceuticals Company Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2021 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 31 December 2021
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows 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 auditor independence requirements of the *Corporations Act 2001* and 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.

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and the industry in which it operates.

Materiality

- For the purpose of our audit, we used overall Group materiality of US$250,000, which represents approximately 5% of the Group's loss before tax adjusted for non-recurring/infrequently occurring items included in loss before tax, specifically, the loss on conversion of convertible notes of approximately US$1.9 million, pre-IPO and IPO related expenses of approximately US$1.0 million and interest expense on the convertible notes of approximately US$0.6 million, as disclosed in notes 5 and 6.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group loss before tax adjusted for the above non-recurring/infrequently occurring items because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit, Risk & Compliance Committee.

Key audit matter	*How our audit addressed the key audit matter*
Accounting for share based payments *(Refer to note 25 - total expenses of US$1.4 million)* The Group has implemented an Equity Share Option Plan (ESOP) and adopted plan rules for the ESOP, which were approved by shareholders in October 2021. During the year, the Group made modifications to historical options granted as part of its capital restructuring in advance of the IPO, and granted new options and performance rights to directors, key management personnel, employees and advisors with a range of underlying terms and vesting conditions. Accounting for share based payments was a key audit matter due to the complexity associated with the extent of new performance rights and options granted during the year, modifications to the terms of historical options, the related fair value estimation implications and in the context of its financial significance to the consolidated financial statements.	We performed the following procedures, amongst others, in relation to this key audit matter: • Obtained and read minutes of Board and shareholder meetings and conducted inquiries with the Group to assess the grant dates and service periods, in particular those that related to the new performance rights and options issued. • Obtained and read a selection of the various modification and invitation letters issued to participants and compared the conditions to the accounting treatment in the consolidated financial statements. • Considered the competency, capabilities, objectivity, and nature of the work of the Group's valuation advisers who assisted the Group in the preparation of the fair value estimates for these share based payments and the impact of the modifications. • Together with PwC internal valuation experts, we evaluated the appropriateness of the methodology and significant assumptions used by the Group's valuation advisers to develop the fair value estimates for a sample of the performance rights and options granted during the year. • Considered the reasonableness of the related disclosures in line with the requirements of Australian Accounting Standards.
Accounting for the conversion of the convertible notes *(Refer to note 5 and note 13(c) - total expenses of US$1.9 million)* In March 2021, the Group raised US$6.5 million through convertible notes, which were convertible to ordinary shares under certain conditions, including in the event of a qualifying IPO.	We performed the following procedures, amongst others, in relation to this key audit matter: • Obtained and read the relevant terms and conditions of the Convertible Note Deed Poll.

Key audit matter	*How our audit addressed the key audit matter*
On 3 December 2021, the amount owing on the convertible notes (US$6.9 million) was converted into ordinary shares based on an agreed US$/A$ foreign currency rate and at a discount to the Group's listing offer price. The Group issued 43,130,367 ordinary shares to settle the liability, which had a value of approximately US$8.8 million at the conversion date. The difference of US$1.9 million was recognised in finance costs. Accounting for the conversion of the convertible notes was a key audit matter due to its complexity and its financial significance to the Group's profit or loss result for the year.	• Compared the conversion date included in the Group's conversion calculations to supporting information obtained from the Group's advisors. • Recalculated the interest accrued on the convertible notes through to the conversion date, and the number of ordinary shares issued on conversion based on the relevant terms and conditions. • Evaluated the appropriateness of the Group's treatment of the difference of US$1.9 million arising on conversion of the convertible notes by reference to Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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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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: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 5 to 14 of the directors' report for the year ended 31 December 2021.

In our opinion, the remuneration report of The Hydration Pharmaceuticals Company Limited for the year ended 31 December 2021 complies with section 300A of the *Corporations Act 2001.*

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Graeme McKenna

Graeme McKenna
Partner

Melbourne
31 March 2022

Shareholder Information

The following information was applicable as at 28 February 2022.

1. Corporate Governance Statement

The Corporate Governance Statement can be found at https://hydralyte.com/pages/asx-announcements

2. Substantial Shareholders

The following holders are registered by HPC as a substantial holder of the voting shares below:

Holder Name	Number of ordinary shares [1]	% of issued capital [2]
Woobinda Nominees Pty Limited <The Woobinda Family A/C>	15,005,877	9.32%
Regal Funds Management Pty Ltd	14,716,805	9.14%
One Funds Management Ltd ATF Saville Capital Emerging Companies Fund	12,068,966	7.50%
Radek Sali, Super Radek Pty Ltd ACN 602 296 702 <Super Radek Super Fund A/C>, Kednel Pty Ltd ACN 147 879 767 <Sali Investment Trust>, Helen Sali	12,314,437	7.65%
PURE Asset Management Pty Ltd ATF <The Income and Growth Fund>	8,359,580	5.19%

[1] As disclosed in the last notice lodged with the ASX by the substantial shareholder.
[2] The percentage set out in the notice lodged with the ASX is based on the total issued capital of the Company at the date of interest.

3. Number of Security Holders

Securities	Number of Holders
Ordinary Shares	647
Unlisted Options (**Options**)	53
Performance Rights	11

4. Voting Rights

Securities	Voting Rights
Ordinary Shares	Subject to any rights or restrictions for the time being attached to any class or classes at general meetings of shareholders or classes of shareholders: (a) each shareholder is entitled to vote and may vote in person or by proxy, attorney or representative; (b) on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and (c) on a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each fully paid share held, or in respect of which he/she has appointed a proxy, attorney or representative, is entitled to one vote per share held.
Options	Options do not carry any voting rights.
Performance Rights	Performance Rights do not carry any voting rights.

Shareholder Information

5. Distribution Schedule

Ordinary Shares

Spread of Holdings	Holders	Securities	%
1 - 1,000	5	2,578	0.00%
1,001 - 5,000	111	270,196	0.17%
5,001 - 10,000	77	564,312	0.35%
10,001 - 100,000	260	12,154,107	7.55%
100,001 - 9,999,999,999	194	148,035,490	91.93%
Totals	**647**	**161,026,683**	**100.00%**

Options

Spread of Holdings	Holders	Securities	%
1 - 1,000	0	0	0.00%
1,001 - 5,000	0	0	0.00%
5,001 - 10,000	5	35,875	0.09%
10,001 - 100,000	25	979,693	2.53%
100,001 - 9,999,999,999	23	37,674,051	97.38%
Totals	**53**	**38,689,619**	**100.00%**

Performance Rights

Spread of Holdings	Holders	Securities	%
1 - 1,000	0	0	0.00%
1,001 - 5,000	0	0	0.00%
5,001 - 10,000	0	0	0.00%
10,001 - 100,000	6	423,080	6.73%
100,001 - 9,999,999,999	5	5,864,948	93.27%
Totals	**11**	**6,288,028**	**100.00%**

6. Holders of Non-Marketable Parcels

Date	Closing price of shares	Number of holders
28 February 2022	$0.210	71

7. Top 20 Shareholders

The top 20 largest fully paid ordinary shareholders together hold 62.24% of the securities in this class and are listed below:

Rank	Holder Name	Securities	%
1.	WOOBINDA NOMINEES PTY LIMITED <THE WOOBINDA FAMILY A/C>	15,005,877	9.32%
2.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	13,658,257	8.48%
3.	CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	14,456,627	8.98%
4.	SUPER RADEK PTY LTD <SUPER RADEK SUPER FUND A/C>	11,515,790	7.15%
5.	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	6,722,663	4.17%

6.	KADOO PTY LIMITED <B & D FAMILY A/C>	4,310,345	2.68%
7.	TR NOMINEES PTY LTD	4,299,714	2.67%
8.	CITICORP NOMINEES PTY LIMITED	4,106,049	2.55%
9.	PAUL ORLIN	3,288,532	2.04%
10.	FF INVESTMENTS NZ LIMITED	2,901,462	1.80%
11.	GOWING BROS LIMITED	2,869,992	1.78%
12.	SANDHURST TRUSTEES LTD <JMFG CONSOL A/C>	2,446,136	1.52%
13.	TAHMEDIA PTY LTD	2,322,404	1.44%
14.	TAMORER PTY LIMITED <WYLIE FAMILY A/C>	2,145,206	1.33%
15.	PURE ASSET MANAGEMENT PTY LTD <PURE INCOME GROWTH FUND A/C>	2,046,917	1.27%
16.	RICHJAC PTY LTD	2,028,793	1.26%
17.	GONDWANA INVESTMENT GROUP PTY LTD <KUMOVA FAMILY SUPER FUND A/C>	1,724,676	1.07%
18.	ANKARA HOLDINGS PTY LTD <THE ANKARA FAMILY A/C>	1,560,417	0.97%
19.	PERSES CUSTODIAN PTY LIMITED	1,434,996	0.89%
20.	GRANT SMILLIE	1,379,310	0.86%
		100,224,163	**62.24%**

8. Company Details

Company secretary: Carlie Tania Hodges

Principal place of business:

Level 2, 6 Palmer Parade, Cremorne VIC 3121

Registered Office (Australia): c/- cdPlus Corporate Services Pty Ltd, Level 42, 525 Collins Street, Rialto South Tower, Melbourne VIC 3000

Telephone: 03 9614 2444

Address of where the register is kept: Automic Pty Ltd, Level 5, 126 Phillip Street, Sydney, NSW 2000

Telephone of where the register is kept: 1300 288 664, +61 2 9698 5414 (International telephone)

Other stock exchange where the entities equity securities are quoted: N/A

9. Restricted Securities

The following securities are subject to **mandatory** and/or **voluntary** escrow restrictions:

Class	Date of Expiry	Number of Securities
Ordinary shares subject to voluntary escrow restrictions for 6 months from the date of quotation	13/06/2022	10,835,361
Ordinary shares subject to voluntary escrow restrictions for 12 months from the date of quotation	13/12/2022	10,835,361

Ordinary shares subject to voluntary escrow restrictions for 18 months from the date of quotation	13/06/2023	9,568,677
Ordinary shares subject to voluntary escrow restrictions for 24 months from the date of quotation	13/12/2023	6,671,720
Ordinary shares subject to mandatory escrow restrictions for 24 months from the date of quotation	13/12/2023	17,482.735
Ordinary shares subject to mandatory escrow restrictions until 18/03/2022	18/03/2022	8,962,224
Ordinary shares subject to mandatory escrow restrictions for 12 months from the date of quotation	03/12/2022	2,416,700
Options subject to mandatory escrow restrictions until 13/12/2023	13/12/2023	3,487,823
Options subject to mandatory escrow restrictions until 09/12/2023	09/12/2023	6,900,000

10. Unquoted Securities

Options

The following Options over unissued ordinary shares are on issue:

Class	Date of Expiry	Exercise Price	Number of Options
Unlisted Options	14/09/2028	AUD$1.34	956,664
Unlisted Options	10/01/2029	AUD$0.45	7,474
Unlisted Options	13/01/2029	AUD$0.45	2,594,951
Unlisted Options	15/01/2029	AUD$0.45	74,739
Unlisted Options	16/01/2029	AUD$0.45	134,531
Unlisted Options	17/01/2029	AUD$0.45	19,432
Unlisted Options	21/01/2029	AUD$0.45	178,767
Unlisted Options	22/01/2029	AUD$0.45	35,874
Unlisted Options	23/01/2029	AUD$0.45	351,275
Unlisted Options	24/01/2029	AUD$0.45	258,240
Unlisted Options	30/04/2029	AUD$0.45	179,375
Unlisted Options	02/05/2029	AUD$0.45	713,497
Unlisted Options	31/08/2024	AUD$0.20	1,206,667
Unlisted Options	31/08/2024	AUD$0.23	666,667
Unlisted Options	31/08/2024	AUD$0.25	666,666
Unlisted Options	31/08/2028	AUD$0.29	600,000
Unlisted Options	01/12/2026	AUD$0.29	6,939,600
Unlisted Options	31/08/2024	AUD$0.29	580,000
Unlisted Options	01/12/2026	AUD$0.44	5,208,400
Unlisted Options	01/12/2026	AUD$0.58	5,208,400
Unlisted Options	01/12/2026	AUD$0.73	5,208,400
Unlisted Options	31/08/2024	AUD$0.20	1,600,000
Unlisted Options	01/12/2026	AUD$0.29	2,000,000
Unlisted Options	31/08/2024	AUD$0.29	300,000

Unlisted Options	01/12/2024	AUD$0.51	1,500,000
Unlisted Options	01/12/2024	AUD$0.65	1,500,000
			38,689,619

No holder holds more than 20% of Options in the Company.

Performance Rights

There is a total of 6,288,028 unlisted performance rights on issue.

The number of performance right holders is 11.

No holder holds more than 20% of performance rights in the Company outside of an employee incentive scheme.

11. Use of Cash and Assets

From the date of the Company's admission, being 14 December 2021, until 31 December 2021, the Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way that is consistent with its business objectives as set out in the prospectus released to the market on 10 December 2021.

12. Share Buy-Backs

There is no current on-market buy-back scheme.