Hydrocarbon Dynamics Limited

(ABN 75 117 387 354)

INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2022

HYDROCARBON DYNAMICS LIMITED
AND CONTROLLED ENTITIES
ABN 75 117 387 354

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DIRECTORS' REPORT

In accordance with a resolution of the Directors, the Directors present their Report together with the Financial Report of Hydrocarbon Dynamics Limited ("the Group" or "HCD") and its subsidiaries (together referred to as the "Group") for the half-year ended 30 June 2022 ("Period") and the Independent Auditor's Review Report thereon:

Directors

The Directors of the Group at any time during or since the end of the half-year ended 30 June 2022 were:

Executive Directors
Mr Nicholas Castellano

Non-Executive Directors
Mr Stephen Mitchell (Chairman)
Mr Ray Shorrocks
Mr Andrew Seaton

Review of operations

Total comprehensive loss for the Group for the period was $806,991 (2021 loss: $3,191,426). Total comprehensive loss includes a gain of $16,431 (2021: gain of $10,256) arising on translation of foreign operations.

For the half-year ended 30 June 2022, the Group has recorded negative cash outflows from operations of $767,921 (2021: negative $810,087).

The functional currency for the Group is US Dollars. The presentation currency for the Group's accounts is Australian Dollars. All figures quoted in this report are Australian Dollars unless otherwise specified.

In April 2022, the Group completed a Board supported 1 for 3 rights issue at $0.011 per share and raised $1,614,392 via the issue of 146,762,894 fully paid ordinary shares. The rights issue was well supported with approximately 67% of the funds coming from existing shareholders with the shortfall placed with several sophisticated investors.

Chemicals Division

Cooper Basin 30 Well Treatment

Hydrocarbon Dynamics Limited was awarded the chemical treatment business for thirty wells with receipt of a follow-up order from Santos, a large Australian oil and gas producer in the Cooper Basin. The order follows a successful trial on three wells in 2021. HCD technology is replacing one of the world's largest oilfield chemical companies that previously treated these wells.

The treatment is occurring on a waxy field in the Cooper Basin where it is being used to mitigate down time and production loss issues stemming from paraffin build-up. Treatment on the new wells commenced in mid-June and reports so far are very positive. The wells treated with HCD Multi-Flow have seen a significant improvement as expected.

During the trial the use of HCD Multi-Flow reduced lost production by 96% with the added benefits of cleaner flow lines and no additional build-up of sludge in the tanks.

Gulf of Mexico Trial

A mid-cap producer in the Gulf of Mexico has taken delivery of 8 drums of HCD Multi-Flow to test the chemical's ability to mitigate paraffin deposits in a subsea pipeline causing high pressures and restricting crude oil flow. The current treatment regime has proven ineffective and the aromatic solvent soaks that helped in the past now have limited success. This application is a new type of challenge for HCD technology as the crude oil flow is intermittent with long periods of downtime. It will test the limits of HCD's technology and if successful, provide another revenue pathway for HCD's chemistry. Success is expected to result in continuous application and expansion into other wells with this producer, as well as creating opportunities with other producers in the Gulf of Mexico. In addition to this trial, the producer is looking for opportunities to trial HCD Multi-Flow on a pipeline with continuous flow and wax deposition issues. They have identified at least one potential option.

Sales & Marketing Progress

HCD has been given a verbal commitment from a national oil company operating in the North Sea to trial HCD's paraffin control technology, contingent on Cefas product registration.

Progress is being made with a USA supermajor oil and gas company. They are exploring the possibility of trialling HCD's technology in three different areas for heavy oil diluent reduction, asphaltene control on a gas lift asset and for paraffin control. Positive test results are expected to lead to trial opportunities.

HCD is currently in discussion with a potential new distributor in North Dakota, USA, to trial the HCD Multi-Flow technology with a Bakken operator who has production with long flowlines and consistent paraffin issues.

Wax flow loop testing is expected to start on a waxy Eagle Ford Shale crude for a mid-sized Texas based distributor. The test is being performed to demonstrate HCD Multi-Flow's ability to control paraffin, which has proven to be difficult to do under the current chemical regime. A successful outcome is expected to result in a trial.

HCD's Dubai based distributor is slowly moving forward with a national oil company operating in the United Arab Emirates for tank cleaning opportunities and anticipates a tank cleaning project to take place with Kleen-Flow in the 4th quarter of 2022. A positive outcome could lead to a significant volume of business. The distributor is also moving forward with similar opportunities in North Africa.

HCD's India-based distributor is progressing with a large private sector producer in India for the treatment of a significant crude oil pipeline. Rheology testing was completed and shared with the producer. Laboratory tests show that a possilbe option to reach the ultra-low viscosity target for their pipeline is a combination of heat boilers and HCD Multi-Flow where Multi-Flow allows them to eliminate some of their boilers. A trial will be needed to demonstrate this.

Testing

Laboratory testing remains a continuing and important part of HCD's product development and marketing with the current focus being Cefas certification of HCD Multi-Flow for a large North Sea application. Cefas certification documentation, which is required for HCD to progress the North Sea opportunity, have recently been submitted and HCD are now undergoing the Partitioning Test phase of certification. HCD Multi-Flow is also undergoing compatibility testing with the incumbent wax prevention product used in the producer's offshore application.

Umbilical certification has been achieved with HCD Multi-Flow meeting or exceeding approval specifications in all testing areas. HCD Multi-Flow is now Umbilical Certified as well as Gas Lift and Capillary String Certified.

HCD Multi-Flow has attained UK REACH certification as required for the North Sea project.

Flow loop testing has commenced on samples in the Eagle Ford Shale and the Permian Basin as flow loop testing best simulates field conditions and accentuates the effectiveness of HCD Multi-Flow in field applications.

Viscosity reduction testing was performed on a crude oil from a large independent producer in India using the Brookfield viscosity method. Average viscosity reduction showed a very promising result of 86% reduction at an estimated injection rate of 1850 PPM HCD Multi-Flow. Testing was performed at 30C, 40C, and 50C. The distributor is in discussion with the producer to ascertain the next step for a field application.

Exploration Division

The Group has no tenement interests at the date of this report.

The Group continues to review upstream and other energy innovation investment opportunities.

Rounding Off

The Group is of a kind referred to in *ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191* and in accordance with that instrument, amounts in the financial report and directors' report have been rounded off to the nearest dollar, unless otherwise stated.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

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

Stephen Mitchell
Director

Melbourne
12 September 2022

PITCHER PARTNERS

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The Directors
Hydrocarbon Dynamics Limited
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Auditor's Independence Declaration

In relation to the independent auditor's review for the half-year ended 30 June 2022, to the best of my knowledge and belief there have been:

(i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and

(ii) no contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

This declaration is in respect of Hydrocarbon Dynamics Limited and the entities it controlled during the period.

PITCHER PARTNERS

J. Evans

JASON EVANS
Partner

Brisbane, Queensland
12 September 2022

HYDROCARBON DYNAMICS LIMITED
AND CONTROLLED ENTITIES
ABN 75 117 387 354

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 30 JUNE 2022

	Note	Consolidated Entity 30 June 2022 $	30 June 2021 $
REVENUE AND OTHER INCOME			
Revenue from contracts with customers		**73,326**	159,589
Other income		**801**	1,942
		74,127	161,531
EXPENSES			
Impairment costs	4	**-**	(2,156,902)
Director and employee related costs		**(357,839)**	(308,678)
Share-based payment expense		**-**	(199,478)
Royalties		**(133,161)**	(125,162)
Audit and accounting fees		**(79,650)**	(105,881)
Insurance costs		**(65,206)**	(82,176)
Production costs		**(64,511)**	(143,326)
General and administration costs		**(63,306)**	(96,224)
Professional consultant and contractor fees		**(51,798)**	(39,834)
Property expense		**(47,200)**	(40,460)
Travel and accommodation costs		**(19,680)**	(11,924)
Development and testing fees		**(19,294)**	(7,379)
Doubtful debts		**5,839**	(42,027)
Finance expenses		**(1,057)**	(1,969)
Depreciation costs		**(686)**	(387)
		(897,549)	(3,361,807)
LOSS BEFORE INCOME TAX FROM CONTINUING OPERATIONS		**(823,422)**	(3,200,276)
Income tax benefit/(expense)		**-**	-
LOSS FROM CONTINUING OPERATIONS		**(823,422)**	(3,200,276)
Loss from discontinued operations	10	**-**	(1,406)
LOSS FOR THE PERIOD		**(823,422)**	(3,201,682)
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF INCOME TAX			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operation		**16,431**	10,256
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF INCOME TAX		**16,431**	10,256
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(806,991)**	(3,191,426)
Loss attributable to owners of the company		**(823,422)**	(3,201,682)
Comprehensive loss attributable to owners of the company		**(806,991)**	(3,191,426)
Earnings per share for loss from continuing operations and for the period attributable to the ordinary equity holds of the company:			
Basic earnings per share		**(0.16) cents**	(0.73) cents
Diluted earnings per share		**(0.16) cents**	(0.73) cents

The accompanying notes form part of the condensed consolidated financial report.

HYDROCARBON DYNAMICS LIMITED
AND CONTROLLED ENTITIES
ABN 75 117 387 354

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE HALF-YEAR ENDED 30 JUNE 2022

	Note	Consolidated Entity 30 June 2022	31 December 2021
		$	$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**2,152,365**	1,393,960
Trade and other receivables		**110,273**	40,066
Other current assets		**109,350**	82,896
Inventory		**495,626**	543,864
TOTAL CURRENT ASSETS		**2,867,614**	2,060,786
NON-CURRENT ASSETS			
Plant and equipment		**11,333**	2,158
Intangible assets	4	**1,789,215**	1,789,215
TOTAL NON-CURRENT ASSETS		**1,800,548**	1,791,373
TOTAL ASSETS		**4,668,162**	3,852,159
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		**124,589**	134,692
Provisions		**47,009**	45,255
Borrowings		**71,579**	-
TOTAL CURRENT LIABILITIES		**243,177**	179,947
TOTAL LIABILITIES		**243,177**	179,947
NET ASSETS		**4,424,985**	3,672,212
EQUITY			
Issued capital	5	**67,223,528**	65,663,764
Reserves		**(772,615)**	(789,046)
Accumulated losses		**(62,025,928)**	(61,202,506)
TOTAL EQUITY		**4,424,985**	3,672,212

The accompanying notes form part of the condensed consolidated financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 30 JUNE 2022

	Issued capital	Accumulated losses	Foreign currency translation reserve	Share-based payments reserve	Total
	$	$	$	$	$
Balance at 1 January 2021	65,637,936	(57,997,097)	(817,348)	444,744	7,268,235
Loss for the period	-	(3,201,682)	-	-	(3,201,682)
Other comprehensive income, net of income tax for the period	-	-	10,256	-	10,256
Total comprehensive income/(loss) for the period	-	(3,201,682)	10,256	-	(3,191,426)
Transactions with owners in their capacity as owners					
Shares issued in lieu of cash	27,750	-	-	(27,750)	-
Share-based payments	-	-	-	199,478	199,478
Share issue costs	(1,922)	-	-	-	(1,922)
	25,828	-	-	171,728	197,556
Balance at 30 June 2021	65,663,764	(61,198,779)	(807,092)	616,472	4,274,365
Balance at 1 January 2022	**65,663,764**	**(61,202,506)**	**(789,046)**	**-**	**3,672,212**
Loss for the period	**-**	**(823,422)**		**-**	**(823,422)**
Other comprehensive income, net of income tax for the period	**-**	**-**	**16,431**	**-**	**16,431**
Total comprehensive income for the period	**-**	**(823,422)**	**16,431**	**-**	**(806,991)**
Transactions with owners in their capacity as owners					
Shares issued	**1,614,617**	**-**	**-**	**-**	**1,614,617**
Share issue costs	**(54,853)**	**-**	**-**	**-**	**(54,853)**
	1,559,764	**-**	**-**	**-**	**1,559,764**
Balance at 30 June 2022	**67,223,528**	**(62,025,928)**	**(772,615)**	**-**	**4,424,985**

The accompanying notes form part of the condensed consolidated financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 30 JUNE 2022

	Consolidated Entity	
	30 June 2022	30 June 2021
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	**9,208**	13,804
Payments to suppliers and employees	**(776,623)**	(823,761)
Interest received	**551**	1,839
Interest paid	**(1,057)**	(1,969)
NET CASH USED IN OPERATING ACTIVITIES(i)	**(767,921)**	(810,087)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for intangible assets	**(9,861)**	(3,931)
Payment for exploration and evaluation expenditure	**-**	(23,829)
NET CASH USED IN INVESTING ACTIVITIES	**(9,861)**	(27,760)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of insurance funding loan	**(40,008)**	(56,142)
Proceeds from issue of shares	**1,614,617**	-
Share issue costs	**(54,853)**	(1,922)
NET CASH (USED IN) / PROVIDED BY FINANCING ACTIVITIES(i)(ii)	**1,519,756**	(58,064)
Net decrease in cash held	**741,974**	(895,911)
Cash at beginning of period	**1,393,960**	2,442,306
Effect of exchange rate movement	**16,431**	4,650
CASH AT THE END OF THE PERIOD	**2,152,365**	1,551,045
Non cash financing and investing activities(i)(ii)	**111,587**	142,095

Notes:

(i) the period ending 30 June 2022 includes $111,587 (2021: $114,345) of insurance premium funding for which no cash was received by the Group.

(ii) the Group issued no shares (2021: $27,750) to consultants and directors during the period in lieu of cash.

The accompanying notes form part of the condensed consolidated financial report.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 30 JUNE 2022**

NOTE 1: PRINCIPAL ACTIVITIES

The principal activities of the Group during the half-year under review were sales and marketing of HCD's proprietary products as well as the evaluation of oil projects and energy technologies in North America and internationally. Refer to the Directors' Report for further information on the half-year activities.

There have been no significant changes in the nature of the Group's principal activities during the half-year.

NOTE 2: BASIS OF PREPARATION

The interim consolidated financial report ("the financial report") is for the six months ended 30 June 2022 and is presented in Australian Dollars ($AUD). The functional currency of the Group is US Dollars. The financial report has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard *AASB 134: Interim Financial Reporting.* The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

The financial report does not include all of the notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report of the Group together with any public announcements made by the Group during the interim reporting period in accordance with the requirements of the *Corporations Act 2001*.

The Group is of a kind referred to in *ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191* and in accordance with that instrument, amounts in the financial report and Directors' Report have been rounded off to the nearest dollar, unless otherwise stated.

Going concern

The consolidated financial statements have been prepared on a going concern basis which contemplates that the Group will continue to meet its commitments and can therefore continue normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

As at 30 June 2022 the Group has $2,152,365 (31 December 2021: $1,393,960) in cash and cash equivalents and net assets of $4,424,985 (31 December 2021: $3,672,212). During the period ended 30 June 2022 the Group incurred a loss after tax, excluding impairment losses, of $823,422 (30 June 2021: $1,044,780 loss) and a net cash outflow from operating activities of $767,921 (30 June 2021: $810,087 outflow).

The ability of the Group to continue to adopt the going concern assumption will depend upon a number of matters including the successful raising in the future of necessary funding through debt, equity or the commercialisation of the Group's HCD product.

The Group continually monitors its cash flow requirements to ensure that it has sufficient funds to meet its contractual commitments and adjusts its spending with respect to discretionary corporate overhead accordingly. The Group's ability to enact its strategy to commercialise its HCD product is dependent upon the effectiveness of ongoing liquidity management activities.

In the absence of the above matters being successful, there exists a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern with the result that the Group may have to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts different from those stated in the consolidated financial statements. No adjustments for such circumstances have been made in the consolidated financial statements.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this financial report are consistent with those of the previous financial year and corresponding interim reporting period except for the impact of the Standards and Interpretations described below. Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial half-year.

The Group has adopted all the mandatory new and amended Accounting Standards issued that are relevant to its operations and effective for the reporting period. There was no material impact on the financial report as a result of the adoption of these standards.

A number of new Australian Accounting Standards have been issued but are not yet effective and have not been adopted for the reporting period ended 30 June 2022. These standards are not expected to have a material impact on the financial report.

The accounting policies have been applied consistently throughout the Group for the purpose of preparation of the financial report.

	30 June 2022	31 December 2021
	$	$
NOTE 4: INTANGIBLE ASSETS		
Goodwill	**1,125,997**	1,125,997
Intellectual property	**663,218**	663,218
	1,789,215	1,789,215

There has been no movement in goodwill and intellectual property during the period.

Recoverability of goodwill and other intangible assets

The Group acquired 100% of the issued shares in Hydrocarbon Dynamics ("HCD") in April 2017, upon which the goodwill, intellectual property and patents were acquired. The intangible assets are indefinite useful life assets and are not amortised. The Board views the Group as one cash generating unit (“CGUs”), being HCD. Goodwill of $1,125,997 (2021: $1,125,997) and identifiable intangible assets of $663,218 (2021: $663,218) have been allocated to the HCD CGU.

The goodwill and identifiable intangible assets are required to be assessed for impairment annually (or earlier if impairment indicators exist) by comparing the carrying value of the CGU to which they have been allocated to its recoverable amount. The Board has determined the recoverable amount of the HCD CGU by assessing the fair value less costs of disposal (FVLCOD) of the underlying CGU. This market approach is based on the market capitalisation (number of shares multiplied by the quoted market price per share) of the Group on the Australian Securities Exchange (ASX) at balance date as a proxy for enterprise value. The recoverable amount uses both Level 1 and Level 3 inputs.

The Group assessed the carrying value of its non-financial assets for impairment by comparing the carrying value to the Group’s market capitalisation of $9,392,968 (being the 587,060,500 shares outstanding at balance date multiplied by the quoted market price of $0.016/share) at balance date. The recoverable amount of the HCD CGU was more than the carrying value of the non-financial assets allocated to the CGU, resulting in no impairment charge (June 2021: $2,156,902) being recognised.

A reasonable change in any of the assumptions applied, other than the share price of the Group, would not result in the carrying value of goodwill and identifiable intangible assets being further impaired. The share price of the Group would need to reduce to approximately $0.006/share for the intangible assets to be fully impaired.

NOTE 5: EQUITY

Issued capital	**71,095,330**	69,480,713
Capital raising costs	**(3,871,802)**	(3,816,949)
	67,223,528	65,663,764

	30 June 2022		30 June 2021	
	No.	$	No.	$
Balance at the beginning of the period	**440,290,106**	**69,480,713**	439,422,918	69,452,963
Movements during the period:				
Consulting services (i)	**-**	**-**	867,188	27,750
Entitlement offer (ii)	**73,780,620**	**811,587**	-	-
Private placement (iii)	**72,982,274**	**802,805**	-	-
Options exercised (iv)	**7,500**	**225**	-	-
	146,770,394	**1,614,617**	867,188	27,750
Balance at the end of the period	**587,060,500**	**71,095,330**	440,290,106	69,480,713

(i) Shares issued for services provided on 7th July 2020, 7th October 2020, 13th October 2020 and 8th January 2021. The number of shares issued is determined based on the Volume Weighted Average Price over the 3 months that relate to the payment.
(ii) Shares issued under an entitlement offer on 18 March 2022 at an issue price of 1.1 cent per share.
(iii) Shares issued under an entitlement offer shortfall placement on 11 April 2022 at an issue price of 1.1 cent per share.
(iv) Shares issued on the exercise of options on 16 May 2022 at 3 cents per share.

NOTE 6: SEGMENT REPORTING

The Group historically comprised two operating segments, being the:

- **Exploration division**: comprising the exploration, development and production of oil and gas projects in the US; and
- **Chemical division**: comprising clean oil technology and business (HCD) worldwide.

The Exploration division was disposed of in FY21 to allow the Group to focus on the Chemical division. The Chief Operating Decision Makers (CODM) do not receive information for the Chemical division which is disaggregated by geographic area, by product or service or by customer group and therefore only one reportable segment exists at balance date.

The Group's revenue, results and assets for this reportable segment can be determined by reference to the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income and the Condensed Consolidated Statement of Financial Position.

NOTE 7: CONTINGENT LIABILITIES AND ASSETS

The Group is party to a royalty agreement with Director Mr Nicholas Castellano, whereby the Group is obliged to pay a monthly royalty equal to the greater of:

(a) US$20,000; subject to adjustment as described below; or

(b) 5% of net revenue (gross revenue minus taxes and commissions) from the HCD business.

Until the amount of US$19.5 million is paid in full.

The minimum royalty instalment described in point (i) above was adjusted due to a material change in the business, in which a customer (“the Customer”) elected to stop using Multi-Flow, causing a reduction in ongoing revenue. The parties agreed that the minimum royalty instalment be reduced from USD$20,000 per month to USD$16,000 per month, until HCD has entered into a firm contract with either:

(a) the Customer and/or a related party of the Customer for the sale by HCD of at least 140 drums of Multi-Flow per month for a minimum period of 6 months; or

(b) one or more credible third parties other than the Customer and/or a related party of the Customer for the sale by the Group of at least 35 drums of Multi-Flow per month for a minimum period of 6 months.

The royalty agreement is non-recourse and may be terminated by the Group at any time or by Mr Castellano in the event that the royalties are not paid. The royalty payments have been expensed as incurred.

NOTE 8: COMMITMENTS

There are no commitments as at 30 June 2022 (31 December 2021: Nil).

NOTE 9: SUBSEQUENT EVENTS

In the opinion of the Directors, there has been no other events that have arisen in the interval between the end of the financial period and the date of the report any other matter or circumstance that has significantly affected, or may significantly affect the Group’s operations, results or the state of affairs in future financial years.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 30 JUNE 2022

NOTE 10: DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

(a) Description

The Group entered into an agreement dated 29 June 2021 to sell its interests in the Utah oil sands project for cash consideration of US$500,000 (AU$663,967) and an ongoing 2% revenue-based royalty. The purchaser also committed to test the Group's technology in three wells in the project area within six months of the completion of the sale.

The sale was to a private US based energy company and concluded in September 2021.

The disposal of these assets was the discontinuance of a major line of business, being the exploration and exploitation of tenement interests.

(b) Financial performance and cash flow information

The financial performance and cash flow information for the period ended 30 June 2022 is:

	30 June 2022 $	30 June 2021 $
Expenses		
Professional consultant and contractor fees	-	(1,406)
Loss from discontinued operations, net of income tax	-	(1,406)
Cash flows:		
Net cash outflow from operating activities	-	(1,406)

(c) Assets and liabilities classified as held for sale

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation at 30 June 2022:

	30 June 2022 $	31 December 2021 $
Exploration and evaluation expenditure	-	-

HYDRONCARBON DYNAMICS LIMITED
AND CONTROLLED ENTITIES
ABN 75 117 387 354

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) The consolidated financial report and notes set out on pages 6 to 13 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 Group's financial position as at 30 June 2022 and of its performance for the half-year ended on that date, and

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

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

Stephen Mitchell
Director

Melbourne
12 September 2022

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Independent Auditor's Review Report to the Members of Hydrocarbon Dynamics Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Hydrocarbon Dynamics Limited ("the Company") and its controlled entities ("the Group"), which comprises the condensed consolidated statement of financial position as at 30 June 2022, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of the Group does not comply with the *Corporations Act 2001* including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Material Uncertainty Related to Going Concern

We draw attention to note 2 in the financial report which states that the ability of the Group to continue as a going concern is dependent on its ability to successfully raise funds through debt, equity or the commercialisation of its HCD product.

As stated in note 2, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Responsibility of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

Pitcher Partners

PITCHER PARTNERS

J. Evans

JASON EVANS
Partner

Brisbane, Queensland
12 September 2022

CORPORATE DIRECTORY

Directors
Mr Stephen Mitchell (Non-Executive Chairman)
Mr Nicholas Castellano (Executive Director)
Mr Ray Shorrocks (Non-Executive Director)
Mr Andrew Seaton (Non-Executive Director)

Company Secretary
Ms Julie Edwards

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Stock Exchanges
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Code: HCD

OTC Pink (United States)
Code: POGLY

Australian Company Number
117 387 354

Australian Business Number
75 117 387 354