

FY2022 Annual Report

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 12-month period ended 31 December 2022 ("FY2022").

FY2022 highlights HydraLyte North America's first 12-months listed on the Australian Securities Exchange ("ASX") – a period in which the Company continued to execute on its strategy of growing market share and sales across the US and Canada.

During the period, HydraLyte North America considerably increased its footprint and sales channels across the group's key markets, achieving a top-two category position in Canada while gaining exceptional brand recognition in the US.

The Company's recent growth and increased brand awareness can be attributed to the ongoing hard work and dedication of our San Diego based team, as well as an increased focus on marketing initiatives which have laid a strong foundation for growth during FY2023 and beyond.

The highlight of HydraLyte North America's marketing efforts came from the appointment of prominent North American actress and entrepreneur Ms Shay Mitchell. The Company welcomed Shay as an equity partner and brand ambassador in March 2022 and continued to work with her extensively on a targeted social media strategy for the launch of a co-branded product, which was subsequently released in December 2022.

Shay's appointment was well received by our key retail partners and we've already benefited from her broad social media following. Her online presence also attracted a suite of other influencers who were introduced to the benefits of HydraLyte products at a two-day marketing activation in Miami, Florida held in December 2022.

Complementing its marketing initiatives, the Company also worked to further optimise its supply chain and manufacturing operations. These efforts resulted in Health Canada approval for our US based manufacturer of liquid products for the Canadian market, which has the potential to underpin further gross margin increases through reduced freight and cost of goods sold.

The Board and management remain focused on supply chain optimisation and are exploring a number of opportunities to enhance our capabilities to better service North America and other key markets as sales increase.

The Company also strengthened its Board and advisory team during FY2022, welcoming both Ms Margaret Hardin as a Non-Executive Director and Vanessa Dew as a US based advisor.

Margaret has unmatched expertise in the US, having scaled two consumer products businesses to over US\$100m in revenue in a short amount of time. Vanessa also brings a wealth of experience and a broad network as the Chief Sales Officer of one of North America's largest kombucha brands.

Both of these high calibre appointments reiterate the Company's ability to attract top talent and reflect the significant opportunity that HydraLyte North America has to grow its market share in the near term.

Coming into FY2023, the Company remains funded and enviably positioned to continue its strong progress. The company recognises that it is not immune from the macroeconomic environment and is conscious that being fiscally prudent while achieving our medium to long term goals is paramount. To this end, the Board and management have a defined plan in place, which will leverage our strategic investment in marketing made in FY2022, further expand the Company's North American footprint and grow sales while remaining very focused on reducing operational expenditure. Cost reduction initiatives are already underway, while growth is continuing.

I would like to take this opportunity to thank our shareholders for their ongoing support in the Company's first year as a listed entity. I look forward to providing continued updates on progress over the coming months.



Mr George Livery
Chairman

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CEO report:

Dear shareholders,

Hydralyte North America's first full year as an ASX-listed company was a period of significant growth. Importantly, the groundwork carried out during this period has positioned the Company to benefit over the long-term, as it continues its journey in the world's largest consumer market.

The Company had a defined goal of considerably expanding its North American footprint to underpin sales growth throughout FY2022, which was achieved through the delivery of US\$9.1m in revenue for the period.

Pleasingly, FY2022 revenues highlighted a 49% increase on the previous corresponding period (PCP) and were underpinned by growth across both traditional bricks and mortar and online sales channels.

The Company realised a 50% sales increase on the PCP at Canadian retail stores, reiterating our top-two category positioning and ever-expanding footprint. Ecommerce sales also rose on the PCP and were mainly driven by a 54% increase in Amazon USA sales and a 108% surge in subscribers from the platform.

Gross margin improved year-on-year, from 46% in FY2021 to 52% in FY2022. This was led by ongoing product innovation to introduce stock keeping units (SKUs) specifically designed for ecommerce channels, pricing increases, reduced airfreight and manufacturing optimisation.

The material uplift in sales has been accompanied by the group's strategic investment in targeted marketing spend, which has already led to a significant increase in brand awareness in our key markets and the appointment of a major brand ambassador. More importantly, these initiatives have established a platform for long-term growth the Company will capitalise on in FY2023 and beyond.

Undertaking this investment during FY2022 provides Hydralyte North America with the ability to reduce marketing expenditure during FY2023, while benefiting from the solid foundation it has created. We expect to reap the benefits from this investment over the coming months, as sales continue to increase due to increased brand awareness and planned product launches.

During FY2023, we plan to launch an additional 8 SKUs across a range of formats, which have been developed over the last 12 months following feedback from customers and retail partners. Each new product is expected to allow the Company to reach new customer groups, enter high-growth market segments and establish more of a foothold in daily usage categories.

Additional growth initiatives for the year will centre on the launch of our co-branded SKU with Shay Mitchell into traditional retail outlets in the USA, as well as her home market of Canada. The Canadian launch will be coupled with another marketing activation with Shay, designed to accelerate product awareness and unlock potential sales growth.

As a final word, I would like to thank HydraLyte North America's team members, retail partners, customers and shareholders on their ongoing loyalty and support. We look forward to providing ongoing updates on growth over the coming months.



Mr Oliver Baker
Chief Executive Officer

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Review of Operations:

Leading hydration solutions company, The Hydration Pharmaceuticals Company Limited (ASX: HPC) (“the Company” or “Hydralyte North America”) is pleased to provide the following review of operations and financial overview for the 12-month period ended 31 December 2022 (“FY2022”).

The Company is focused on the sale and distribution of Hydralyte, a well-known brand developed in Australia in 2001, which includes a product range of electrolyte rich tablets, liquids and powders. Hydralyte North America was formed in 2014 and subsequently listed on the Australian Securities Exchange in 2021. The Company is focused on rapidly growing its sales footprint in large markets including the US, Canada, China and the UK amongst others.

Appointment of experienced US executives to Board and advisory team:

Hydralyte North America considerably strengthened its Board, following the appointment of Ms Margaret Hardin as an Independent Non-Executive Director. Ms Hardin is a global products specialist, senior executive and board director.

She has extensive experience and has previously scaled two consumer goods companies to over US\$100m in revenue. As the CEO of ERGOBaby Carrier Inc. (2013 to 2020), Ms Hardin revived product innovation while managing an omni-channel distributor, retail and ecommerce model across over 60 countries and 19 company-owned websites.

Prior to her role with ERGOBaby Carrier Inc., she was CFO at US baby products and accessories company Munchkin. Ms Hardin was progressively promoted to President and COO, growing the group to become a major brand leader in the industry. She led a number of sales, acquisitions, brand partnerships and marketing efforts, and oversaw expansion into Canada and the EMEA.

Ms Hardin’s appointment was complemented by Vanessa Dew joining the Company’s advisory team. Ms Dew is the co-founder and Chief Sales Officer of one of the largest kombucha brands in the US, Health-Ade. Concurrently, she has worked with several emerging, innovative brands as a board member and advisor.

Prominent North American actress and entrepreneur Shay Mitchell, secured as partner and brand ambassador:

In a major development, the Company entered into a binding deal memorandum (the “agreement”) with prominent North American actress and entrepreneur Ms Shay Mitchell. Under the agreement, Ms Mitchell became a brand ambassador for the Company and an equity partner.

Shay Mitchell is a Canadian born actress, model and mother. She has a significant social media following, including 35.7m Instagram followers, 2.9m Twitter followers, 7.3m TikTok followers and 4.16m YouTube subscribersⁱ. Her online presence is approximately three times the Instagram following

of some of North America's most prominent athletes and almost forty times the following of Australian influencers and entrepreneurs.

Ms Mitchell is best known for her roles in various TV series including Pretty Little Liars, You and Dollface. She is also a known entrepreneur, having launched BEIS Travel in 2018 and co-founding a tequila seltzer company, Onda, in 2020.

As part of her role, Ms Mitchell will help broaden brand awareness through social media consultation and promotion, using her own social media channels and curating promotional events. The Company also collaborated with Ms Mitchell to create a new flavour of HydraLyte, specifically designed for her. Work towards the development of the product occurred during the FY2022 period.

Commencement of partnership with Shay Mitchell:

Shortly after the Company's agreement, its market collaboration with Ms Mitchell commenced with the first of multiple social media posts. The initial post highlights Ms Mitchell's daily ritual of drinking HydraLyte ahead of tackling a busy schedule.

The commencement of the partnership gained strong traction with North American news outlets and was featured in a range of publications including the New York Post, Yahoo, MSN and Today's Parent amongst others.

The increased exposure from Ms Mitchell's initial social media post, as well as media traction associated with the partnership assisted HydraLyte increase brand awareness across North America.

US manufacturing streamlined to optimise growth:

The Company secured key regulatory approval for product manufacturing in the Canada market during the period.

HydraLyte North America received formal manufacturing approval from Health Canada, for its US-based contract manufacturer to commence production of its liquid range for the Canadian market.

The Health Canada approval was a strategic priority for management and will allow the optimisation of the manufacturing process from a centralised hub. It also allows the Company to capitalise on its existing distribution channels across the North American market.

Securing the approval is expected to lead to a reduction in cost of goods sold, cheaper freight and the potential to underpin an increase in gross margin to the ready-to-drink liquid range.

HydraLyte North America currently sells four stock keeping units ("SKU") under its ready-to-drink range, which is stocked with major Canadian retailers including Shopper Drugs Mart and other independents.

Successful launch of co-branded product with brand ambassador, Ms Shay Mitchell:

HydraLyte North America successfully launched its co-branded product with Ms Mitchell in December 2022. The new product is initially being sold through the Company's 100%-owned ecommerce channels and Amazon USA. It will also be stocked with major US retailer, RiteAid in H1 FY2023.

Ms Mitchell's co-branded SKU has been launched in two sizes - a six-stick box designed for traditional retail outlets, as well as a larger 18 stick value pack for more convenient and higher margin sales across ecommerce channels.

The launch follows an extensive period of production development in direct collaboration with Ms Mitchell, which involved flavour testing, packaging design, manufacturing, and consultation on online and in-person marketing strategies.

The introduction of the new product was complemented by a two-day marketing event hosted by Ms Mitchell and the Company in Miami, Florida. The event brought together 18 of America's top influencers, which delivered exposure to around 83m social media followers.

Additional product launches during FY2022:

The Company introduced a total of 12 new products during the period across a range of different forms and SKU sizes. The new product launches stemmed from ongoing product development initiatives, as well as feedback from retailers and customers.

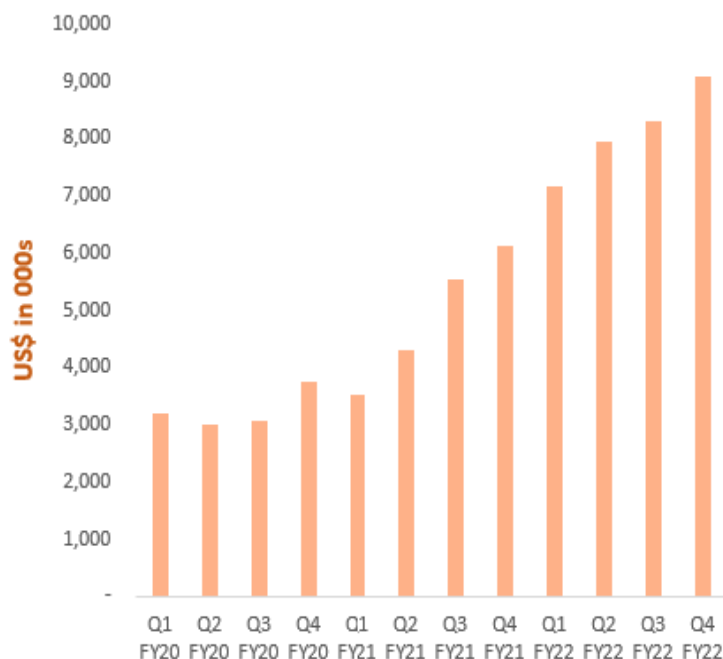
Hydralyte North America expects to launch 3 new products during H1 FY2023 across ecommerce channels and through traditional bricks and mortar outlets, in a push to increase sales through product development while maintaining an efficient marketing budget.

Financial overview:

Summary FY2022 financial results:

Hydralyte North America delivered significant growth in revenue during the period, which totalled US\$9.1m during FY2022 and a 49% increase on the previous corresponding period (PCP) (FY2021: US\$6.1m). Revenue growth was attributed to a 49% increase in Canadian retail sales, a 54% rise in Amazon USA sales, ongoing subscription growth through Amazon US channels and continued expansion into retail outlets coupled with higher penetration rates.

Trailing 12 Months Net Sales



FY2022 gross margin improved by six percentage points, from 46% in FY2021 to 52%, and US\$1.9m, from US\$2.8m to US\$4.7m. The upturn in gross margin for the period follows ongoing product innovation, which led to the introduction of multiple SKUs designed for ecommerce sales, pricing increases accepted by major North American retail outlets, marketing of higher margin SKUs, reduced airfreight costs and ongoing optimisation of manufacturing processes.

	FY21	FY22	YoY change
Total net revenue	6,127	9,100	49%
<i>E-commerce sales</i>	2,450	4,082	67%
<i>Traditional retail sales</i>	3,677	5,018	36%
Gross Margins	2,790	4,696	68%
Gross Margin %	46%	52%	6ppt

Marketing

With 49% YOY sales growth and continued growth focus, throughout 2022, HydraLyte invested more heavily in sales, marketing, and brand awareness resulting in a \$4.2M YoY increase in sales and marketing expense. The increases are outlined in the following table:

Shay Mitchell and Other Influencers Increase	\$1.4M	Includes \$0.4M in Shay Share Based Payment expenses
Digital Ads Increase	\$1.2M	
Sales Warehousing and Distribution Increase	\$1.1M	
Other Marketing Increase	\$0.3M	
Asset Creation Increase	\$0.2M	
Total Increase in Sales and Marketing Expenses	\$4.2M	

During FY2023, HydraLyte North America will reduce expenditure associated with marketing. The Company is confident it will continue to drive growth with the reduced marketing spend, due to its enviable North American sales footprint and increased brand awareness realised in FY2022. This is also expected to allow for the preservation of the Company's existing cash at bank and strategic deployment of the A\$12m two-tranche loan facility from Pure Asset Management (detailed below).

Adjusted EBITDA

The Company was materially impacted by Non-cash costs related to Share based compensation, FX gains, and interest related to its recent A\$12m two-tranche secured loan facility. In addition to the loan facility, the Company issued warrants related to the first tranche of the loan and there was a movement in the value of these warrants between issuance and the year end. After removing the adjusting items, HydraLyte calculates an underlying loss for the year at \$8.6m.

Loss for the Year		\$ 10,607,166	
Adjusting Items:			
Share Based Payment Expenses	\$ (2,132,562)		non-cash
Interest	\$ (91,207)		non-cash
FV Movement of Derivative	\$ 65,331		non-cash
FX gain/loss	\$ 120,485		non-cash
Total Adjustments	\$ (2,037,953)		
Adjusted EBITDA Loss		\$ 8,569,213	

A\$12m loan facility secured to capitalise on growth:

The Company entered into a A\$12m two-tranche secured loan facility (the "facility") with boutique asset manager and existing substantial shareholder PURE Asset Management Pty Ltd ("PURE" or "PURE Asset Management"). The funding provides the Company with considerable financial flexibility to invest in marketing activities to support national Canadian distribution, rapidly expanding US store growth and online sales.

Strategically, the timing and quantum of the cash injection provided the Company with the balance sheet strength to accelerate the momentum it gained during the northern summer period and consolidate its platform for long-term growth.

The Company has drawn the first tranche of the facility and has the option to exercise the second tranche to receive A\$5.5m. Key terms of the funding can be found in the Company's ASX announcement dated 17 October 2022.

The attached annual report for the year ended 31 December 2022 contains an independent auditor's report which highlights the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. For further information, refer to note 1 to the consolidated financial statements, together with the auditor's report.

ⁱ Social media following as at 21 March 2023

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The Hydration Pharmaceuticals Company Limited

ABN 83 620 385 677

Consolidated Financial Statements

For the Year Ended 31 December 2022

The Hydration Pharmaceuticals Company Limited

ABN 83 620 385 677

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For the Year Ended 31 December 2022

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The Hydration Pharmaceuticals Company Limited

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Directors' Report

31 December 2022

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 2022.

Directors

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

Adem Karafili

George Livery

Chair

Gretta van Riel

Margaret Hardin

Appointed on 8 February 2022

Directors have been in office since the start of the financial year and up 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 \$10,607,166 (2021: loss of \$8,951,661).

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 quarter over quarter leading to a record overall quarterly revenue in Q4, despite a traditional Q4 downturn.

Significant changes in state of affairs

Hydralyte North America secured a A\$12m loan facility from existing substantial shareholder PURE Asset Management that is available in two tranches, with the first tranche drawn in November 2022. Further details of this debt are outlined in note 13 and the Company's ASX release dated 17 October 2022.

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.

The Hydration Pharmaceuticals Company Limited

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Directors' Report

31 December 2022

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 that 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 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.

George Livery (Chair)

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).

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 an 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.

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.

The Hydration Pharmaceuticals Company Limited

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Directors' Report

31 December 2022

Information on directors (continued)

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 31 December 2022, and the number of meetings attended by each director were:

	Directors' Meetings		Audit, Risk & Compliance Committee Meetings		Remuneration and Nomination Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Adem Karafili	11	11	1	1	1	1
George Livery (Chair)	11	11	5	5	1	1
Gretta van Riel	11	10	5	5	1	1
Margaret Hardin	10	9	4	4	-	-

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. Carly 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.

Subsequent to the year ended 31 December 2022, Victoria Nadalin was appointed as company secretary.

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 the 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.

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Directors' Report

31 December 2022

Remuneration report (continued)

(a) Key management personnel covered in this report (continued)

Names	Position	Appointment/Resignation
Directors		
Adem Karafili	Non-Executive Director	
George Livery	Independent, Non-Executive Director	
Gretta van Riel	Independent, Non-Executive Director	
Margaret Hardin	Independent, Non-Executive Director	Appointed on 8 February 2022
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 framework

Element	Purpose	Performance metrics
Fixed remuneration	Provide competitive market salary including superannuation	Nil-Positioned at median market rate
Short-term incentives (STI)	Reward for in-year performance	Successful contract negotiations, successful revenue growth, and 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 the CEO and 40% for the 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.

The Hydration Pharmaceuticals Company Limited

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Directors' Report

31 December 2022

Remuneration report (continued)

(c) Elements of remuneration

(i) Fixed annual remuneration

Executives may receive their fixed remuneration as cash, or cash with non-monetary benefits such as health insurance. Fixed annual remuneration 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 Nomination 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 incentives are paid to an individual in cash 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 being assessed and the particular KPI being targeted.

These include:

- successful contract negotiations;
- successful revenue growth; 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 Equity Share and Option Plan (ESOP) comprising grants of options and performance rights.

LTI targets are linked to revenue growth targets and ongoing service with the Company.

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 the 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.

(d) Link between remuneration and performance

FY 2022 performance and impact on remuneration

The Group's performance in 2022 delivered a revenue result above target. For more information on strategic priorities and 2022 results, refer to the Financial Overview.

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. Consistent 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 2022 financial year.

The Hydration Pharmaceuticals Company Limited

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Directors' Report

31 December 2022

Remuneration report (continued)

Company Financial Performance (continued)

	Revenue	Net (Loss)/ Profit	Share Price at Balance Sheet Date	Loss per Share (US\$)
	\$	\$	A\$	\$
2022	9,099,968	(10,607,166)	0.09	0.07
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 Directors and other key management personnel

The following table shows details of the remuneration expense recognised for the Directors and other key management personnel for the current financial year measured in accordance with the requirements of the applicable accounting standards.

	Fixed Remuneration			Variable Remuneration			Total
	Cash salary and fees	Health and other Insurance	Superannuation contribution	Cash bonus	Options/ Performance Rights	Other	
	\$	\$	\$	\$	\$	\$	\$
2022							
Directors							
Adem Karafili	49,778	-	-	-	933	-	50,711
George Livery	47,874	-	9,345	-	1,244	-	58,463
Gretta van Riel	39,894	-	7,788	-	933	-	48,615
Margaret Hardin	45,833	-	-	-	933	-	46,766
Other Key Management Personnel							
Oliver Baker	346,500	32,192	12,200	144,800	969,487	11,675	1,516,854
Chris Kavanaugh	226,840	32,250	9,040	68,400	503,512	7,347	847,389
	<u>756,719</u>	<u>64,442</u>	<u>38,373</u>	<u>213,200</u>	<u>1,477,042</u>	<u>19,022</u>	<u>2,568,798</u>

	Fixed Remuneration			Variable Remuneration			Total
	Cash salary and fees	Health and other Insurance	Superannuation contribution	Cash bonus	Options/ Performance Rights	Other	
	\$	\$	\$	\$	\$	\$	\$
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
		<u>540,000</u>	<u>63,618</u>	<u>22,350</u>	<u>210,000</u>	<u>1,254,615</u>	<u>2,090,583</u>

* Resigned on 2 November 2021

The Hydration Pharmaceuticals Company Limited

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Directors' Report

31 December 2022

Remuneration report (continued)

(e) Remuneration expenses for Directors and other key management personnel (continued)

Cash bonus relates to performance based remuneration. During the financial year, 81% (2021: 100%) of the bonus was awarded to the key management personnel, with the remaining amount forfeited.

Other is an agreed annual reimbursement for family flight to home region.

(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\$362,000 per annum. Chris Kavanaugh is entitled to receive TFR of US\$228,000 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).
Restraints	All payments on termination will be subject to the termination benefits cap under the <i>Corporations Act 2001</i> . 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 are 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 US\$350,000 per annum.

The following 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, where applicable).

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 Equity Share and Option Plan (ESOP). The ESOP is intended to reward Directors, employees and/or consultants for their contributions to the Group. The ESOP 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 ESOP has been established to benefit personnel in Australia, Canada and USA. As at 31 December 2022, equity had been issued to 4 directors and 12 employees in USA under the ESOP.

During the year ended 31 December 2022, there was only one new grant of options to the Directors. This section of the report covers information related to these new grants and historical grants in the sequence.

The Hydration Pharmaceuticals Company Limited

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Directors' Report

31 December 2022

Remuneration report (continued)

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

(i) New options granted to Directors

The Group issued an additional 232,142 new options to Directors, which will vest on the three year anniversary of the date of issue of the options, subject to the Directors continued provision of services to the company as a Director (and no notice of resignation being given) as at the vesting date. The vesting date is 22 July 2025.

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

Director	Options	Grant date	Fair value per option at grant date (A\$)	Exercise price (A\$)	Expiry date	Vested
Adem Karafili	53,571	27-May-22	\$ 0.117	\$ 0.476	22-Jul-27	-
Margaret Hardin	53,571	27-May-22	\$ 0.117	\$ 0.476	22-Jul-27	-
George Livery	71,429	27-May-22	\$ 0.117	\$ 0.476	22-Jul-27	-
Gretta van Riel	53,571	27-May-22	\$ 0.117	\$ 0.476	22-Jul-27	-

(ii) Options granted to key management personnel in 2021

The Group granted 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 options affecting key management personnel remuneration in the current and 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	\$ 0.175	\$ 0.29	1-Dec-26	1,400,000
Class B options	1,960,000	19-Oct-21	\$ 0.175	\$ 0.29	1-Dec-26	653,333
Class C options	3,480,000	19-Oct-21	\$ 0.150	\$ 0.44	1-Dec-26	1,160,000
Class D options	3,480,000	19-Oct-21	\$ 0.133	\$ 0.58	1-Dec-26	1,160,000
Class E options	3,480,000	19-Oct-21	\$ 0.119	\$ 0.73	1-Dec-26	1,160,000
Chris Kavanaugh						
Class A options	1,820,000	19-Oct-21	\$ 0.175	\$ 0.29	1-Dec-26	1,820,000
Class B options	1,000,000	19-Oct-21	\$ 0.175	\$ 0.29	1-Dec-26	333,333
Class C options	1,160,000	19-Oct-21	\$ 0.150	\$ 0.44	1-Dec-26	386,666
Class D options	1,160,000	19-Oct-21	\$ 0.133	\$ 0.58	1-Dec-26	386,666
Class E options	1,160,000	19-Oct-21	\$ 0.119	\$ 0.73	1-Dec-26	386,666

Class A options vesting conditions

Vesting of the Class A options was 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 was 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 determined the Group audited revenue for 2021 satisfied the FY2021 Revenue Condition and the options fully vested in March 2022.

Class B-E 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 (with vesting dates on 3 December 2022, 3 December 2023 and 3 December 2024), 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").

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Directors' Report

31 December 2022

Remuneration report (continued)

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

(iii) 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 were granted in the current year or in years prior to 2021.

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.

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	1,356,011
Chris Kavanaugh	1,070,674	0.29	19-Oct-21	31-Dec-25	1,070,674

The performance rights granted under the Tranche A Award were 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 was that the Group Audited Revenue for FY2021 must be at least 30% more than the Group Audited Revenue for FY2020. This was the same as the vesting conditions associated with Class A options outlined above. The Board determined the Group audited revenue for 2021 satisfied the FY2021 Revenue Condition and the rights vested in June 2022. The number of performance rights that vested was reduced by changes in lieu of allocation. The number of performance rights ultimately issued as shares amounted to 1,238,051.

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;
- all of a financial year's total award potential will vest if a Maximum Threshold is met; and
- vesting date within 1 month of release of the full year results for the relevant financial year by the Group.

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Directors' Report

31 December 2022

Remuneration report (continued)

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

Performance milestone	Proportion of total Tranche B award each year	Medium threshold 20% growth	Maximum 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.

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.

Reconciliation of options, rights and ordinary shares held by Directors/KMP

The table below shows a reconciliation of options held by each Director/KMP from the beginning to the end of the financial year. All vested options were exercisable.

2022 Director/KMP and Grant dates	Balance at the start of the year	Granted as compensation	Vested No. During Year	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	-	5,533,333	39%	-	-	-	-	5,533,333	8,266,667
31-Aug-19	2,600,000	-	666,666	26%	-	-	-	-	2,600,000	-
Chris Kavanaugh										
19-Oct-21	6,300,000	-	3,313,331	53%	-	-	-	-	3,313,331	2,986,669
31-Aug-19	180,000	-	-	-	-	-	-	-	180,000	-
Adem Karafili										
27-May-22	-	53,571	-	-	-	-	-	-	-	53,571
19-Oct-21	1,000,000	-	-	-	-	-	-	-	1,000,000	-
31-Aug-19	900,000	-	-	-	-	-	-	-	900,000	-
1-Jan-19	74,739	-	-	-	-	-	-	-	74,739	-
George Livery										
27-May-22	-	71,429	-	-	-	-	-	-	-	71,429
Gretta van Riel										
27-May-22	-	53,571	-	-	-	-	-	-	-	53,571
Margaret Hardin										
27-May-22	-	53,571	-	-	-	-	-	-	-	53,571

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Directors' Report

31 December 2022

Remuneration report (continued)

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

2021 Director/KMP and Grant dates	Balance at the start of the year	Granted as compensati on	Vested		Exercised	Forfeited		Other changes*	Year-end balance Vested and exercisable	Year-end balance Unvested
			No. During Year	Vested %		No.	%			
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 of historical options in the prior financial year.

(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:

2022	Balance at start of the year	Share from options exercised	Shares received on vesting of performance rights	Shares acquired during the year	Balance at end of the year
Directors					
Adem Karafili	1,560,417	-	-	-	1,560,417
George Livery	-	-	-	207,000	207,000
Gretta van Riel	-	-	-	40,000	40,000
Margaret Hardin	-	-	-	-	-
Other Key Management Personnel					
Oliver Baker	132,709	-	682,509	-	815,218
Chris Kavanaugh	-	-	555,542	-	555,542

The Hydration Pharmaceuticals Company Limited

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Directors' Report

31 December 2022

Remuneration report (continued)

(i) Shareholdings (continued)

2021	Balance at start of the year	Share from options exercised	Shares received on vesting of performance rights	Other changes during the year	Balance at end of the year
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	-	-	-	-	-

This is the end of the Remuneration Report.

Audit and non-audit services

Details of the amounts paid or payable to the auditor for audit and non-audit services during the year are disclosed in note 22.

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

The board of directors, in accordance with advice provided by the Audit, Risk & Compliance Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit, Risk & Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Auditor's independence declaration

A copy of the auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* is set out on page 14.

Rounding of amounts

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with the instrument to the nearest dollar.

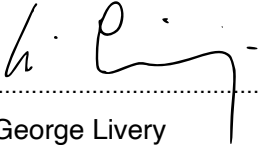
The Hydration Pharmaceuticals Company Limited

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Directors' Report

31 December 2022

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



.....

George Livery

Melbourne

Dated this 31 day of March 2023

For personal use only



Auditor's Independence Declaration

As lead auditor for the audit of The Hydration Pharmaceuticals Company Limited for the year ended 31 December 2022, 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.

A handwritten signature in blue ink that reads 'Graeme McKenna'.

Graeme McKenna
Partner
PricewaterhouseCoopers

Melbourne
31 March 2023

The Hydration Pharmaceuticals Company Limited

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2022

	Note	2022 \$	2021 \$
Revenue	4	9,099,968	6,127,178
Cost of sales		(4,403,610)	(3,337,579)
Gross profit		4,696,358	2,789,599
Other income		5	93
Sales and marketing expenses		(9,227,254)	(5,060,470)
Administrative expenses		(1,695,273)	(1,546,234)
Employee benefits expense	6	(4,475,611)	(3,012,662)
Depreciation and amortisation expense	6	-	(3,337)
Transaction costs associated with IPO	6	-	(663,275)
Fair value movement on derivative financial instruments	13	65,331	-
Foreign exchange gain/(loss)		120,485	1,410,662
Finance costs	5	(91,207)	(2,866,037)
Loss before income tax		(10,607,166)	(8,951,661)
Income tax expense	7	-	-
Loss for the year		(10,607,166)	(8,951,661)
Other comprehensive income, net of tax			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign controlled entities		(611,622)	(1,241,976)
Other comprehensive income for the year, net of tax		(611,622)	(1,241,976)
Total comprehensive loss for the year		(11,218,788)	(10,193,637)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company:			
Basic and diluted earnings/(loss) per share	27	(0.07)	(0.12)

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

The Hydration Pharmaceuticals Company Limited

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Consolidated Statement of Financial Position

As At 31 December 2022

	Note	2022 \$	2021 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	4,688,191	10,672,533
Trade and other receivables	9	1,306,397	1,012,546
Inventories	10	3,386,379	1,794,742
Other assets	11	1,009,579	1,825,262
TOTAL CURRENT ASSETS		<u>10,390,546</u>	<u>15,305,083</u>
NON-CURRENT ASSETS			
TOTAL NON-CURRENT ASSETS		-	-
TOTAL ASSETS		<u>10,390,546</u>	<u>15,305,083</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12	2,326,070	2,058,195
Derivative financial instruments	13	349,470	-
TOTAL CURRENT LIABILITIES		<u>2,675,540</u>	<u>2,058,195</u>
NON-CURRENT LIABILITIES			
Provisions		22,052	20,537
Borrowings	13	3,711,781	-
TOTAL NON-CURRENT LIABILITIES		<u>3,733,833</u>	<u>20,537</u>
TOTAL LIABILITIES		<u>6,409,373</u>	<u>2,078,732</u>
NET ASSETS		<u>3,981,173</u>	<u>13,226,351</u>
EQUITY			
Contributed equity	14	36,613,006	36,408,321
Reserves	15	2,343,950	1,186,647
Accumulated losses		(34,975,783)	(24,368,617)
TOTAL EQUITY		<u>3,981,173</u>	<u>13,226,351</u>

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

The Hydration Pharmaceuticals Company Limited

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Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2022

2022

	Contributed Equity	Accumulated Losses	Foreign Currency Translation Reserve	Share Based Payment Reserve	Total
Note	\$	\$	\$	\$	\$
Balance at 1 January 2022	36,408,321	(24,368,617)	(630,902)	1,817,549	13,226,351
Loss for the year	-	(10,607,166)	-	-	(10,607,166)
Other comprehensive income	-	-	(611,622)	-	(611,622)
Total comprehensive loss for the year	-	(10,607,166)	(611,622)	-	(11,218,788)
Transactions with owners in their capacity as owners					
Issue of shares	250,000	-	-	-	250,000
Share issue transaction costs	(45,315)	-	-	-	(45,315)
Employee share scheme	-	-	-	1,768,925	1,768,925
Balance at 31 December 2022	36,613,006	(34,975,783)	(1,242,524)	3,586,474	3,981,173

2021

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	-	-	(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	8,850,524	-	-	-	8,850,524
Issue of IPO shares	12,201,590	-	-	-	12,201,590
Share issue transaction costs	(1,138,622)	-	-	-	(1,138,622)
Employee share scheme	-	-	-	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

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

The Hydration Pharmaceuticals Company Limited

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Consolidated Statement of Cash Flows For the Year Ended 31 December 2022

	2022	2021
Note	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers (inclusive of GST)	8,806,122	5,947,918
Payments to suppliers and employees (inclusive of GST)	(18,407,801)	(13,427,118)
Transaction costs associated with borrowings and IPO	(150,161)	(598,850)
Net cash inflow/(outflow) from operating activities	21 <u>(9,751,840)</u>	<u>(8,078,050)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash inflow/(outflow) from investing activities	<u>-</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	4,075,844	-
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	<u>4,075,844</u>	<u>17,027,176</u>
Net increase/(decrease) in cash and cash equivalents	(5,675,996)	8,949,126
Cash and cash equivalents at beginning of financial year	10,672,533	1,644,583
Effects of exchange rate changes on cash and cash equivalents	(308,346)	78,824
Cash and cash equivalents at end of financial year	8 <u>4,688,191</u>	<u>10,672,533</u>

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

The Hydration Pharmaceuticals Company Limited

ABN 83 620 385 677

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

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 2023. The Directors have the power to amend and reissue the financial statements.

1 Basis of preparation

General Purpose

These consolidated financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of the consolidated financial statements are presented below and have been consistently applied unless stated otherwise.

Historical cost convention

The consolidated financial statements, except for cash flow information, have been prepared on an accrual basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected 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 2022:

- AASB 2020-3 Amendments to Australian Accounting Standards - Annual Improvements 2018- 2020 and Other Amendments [AASB 1, AASB 3, AASB 9, AASB 116, AASB 137 & AASB 141].

The amendments listed above did not have any material 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 2022 reporting periods and have not been early adopted by the Group. These standards, amendments and interpretations are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

1 Basis of preparation (continued)

Going Concern

These financial statements have been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Group incurred a loss of \$10,607,166 (2021: \$8,951,661) and had net cash outflows from operating activities of \$9,751,840 (2021: \$8,078,050) for the year ended 31 December 2022 as a result of being a rapidly growing startup company.

The directors and management have considered the Group's projected cash flows and ability to continue as a going concern for at least the next 12 months from the signing date of these financial statements. The continuing viability of the Group is dependent on its ability to generate sufficient funds from its operating activities and securing access to the second tranche of its loan facility with PURE Asset Management. Whilst the directors and management are expecting continued revenue growth and sustained margins, the Group is likely to need access to the second tranche of its loan facility within the next 12 months from the reporting date. As disclosed in note 13, access to the second tranche of the loan facility is subject to various conditions, including a possible need for shareholder approval associated with issuing warrants related to the second tranche.

Management and the directors are of the view that the Group will be successful in meeting these conditions, including the related shareholder approvals should the need arise, and accordingly have prepared the financial statements on a going concern basis. However, due to the factors described above, there is a material uncertainty which may cast significant doubt on whether the Group will be able to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

These financial statements do not include any adjustments that may be appropriate relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

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 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,

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

2 Summary of significant accounting policies (continued)

(a) Foreign currency translation (continued)

- 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) Principles of 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.

A list of controlled entities is contained in Note 17 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. 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.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

2 Summary of significant accounting policies (continued)

(c) Revenue and other income (continued)

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 tax bases of assets and liabilities to the carrying amounts in the consolidated financial statements.

Deferred tax is not provided for the following:

- The initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit/(loss) nor taxable profit or 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.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

2 Summary of significant accounting policies (continued)

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

(h) Inventories

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

(i) Property, plant and equipment

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

Depreciation

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

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

2 Summary of significant accounting policies (continued)

(i) Property, plant and equipment (continued)

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.

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 method less any provision for impairment.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

2 Summary of significant accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

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.

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 is 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

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

2 Summary of significant accounting policies (continued)

(j) Financial instruments (continued)

Financial assets (continued)

months is recognised. Where the asset has experienced significant increase in credit risk then the lifetime losses are estimated and recognised.

(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 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 profit or loss as other income or finance costs.

(l) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. Subsequent changes in the fair value of derivatives are recognised through the profit or loss.

(m) Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs 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.

(n) 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.

(o) 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

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

2 Summary of significant accounting policies (continued)

(o) **Employee benefits (continued)**

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 Group in respect of services provided by employees up to the end of the reporting period.

(p) **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.

(q) **Contributed equity**

Ordinary 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.

(r) **Share-based payments**

The Group provides share-based compensation benefits to selected employees and directors. The fair value of options and performance rights granted to selected employees and directors 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.

(s) **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 period but not distributed at the end of the reporting period.

(t) **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.

(u) **Parent entity financial information**

The financial information for the parent entity, The Hydration Pharmaceuticals Company Limited, disclosed in note 24 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.

The Hydration Pharmaceuticals Company Limited

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

2 Summary of significant accounting policies (continued)

(u) Parent entity financial information (continued)

Tax consolidation legislation

The Hydration Pharmaceuticals Company Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group.

Each entity in the tax consolidated group accounts for their own current and deferred tax amounts. These tax amounts are measured using the 'stand-alone taxpayer' approach to allocation.

Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the parent entity.

The tax consolidated group has entered into a tax funding agreement whereby each entity within the group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding agreement are recognised as either a contribution by, or distribution to the head entity.

3 Critical accounting estimates and judgments

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

The areas involving a higher degree of judgement or estimates include the warrants issued by the Group and the Group's share based payment awards.

The fair value of the warrants was determined using valuation methods, including Monte Carlo simulation, which takes into account various inputs and assumptions including the share price at the valuation date, the exercise price, dividend yield, the risk-free rate, the effective life, expected price volatility and other dilutionary impacts. The fair value was determined using valuation techniques that maximise the use of observable market data and as such this is considered to be in level 2 of the fair value hierarchy. Further details are outlined in note 13.

The fair values of the share based payment awards 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 26.

4 Revenue

	2022	2021
	\$	\$
Revenue from contracts with customers	9,099,968	6,127,178
	<u>9,099,968</u>	<u>6,127,178</u>

The Hydration Pharmaceuticals Company Limited

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

4 Revenue (continued)

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

	2022	2021
	\$	\$
US	4,500,526	3,131,180
Canada	4,599,442	2,995,998
Total	9,099,968	6,127,178

5 Finance costs

	2022	2021
	\$	\$
Loss on conversion of convertible notes	-	1,894,516
Interest expense on convertible notes	-	648,565
Pre-IPO borrowing costs	-	322,956
Interest expense	91,207	-
Total	91,207	2,866,037

6 Result for the year

The result for the year includes the following specific expenses:

	2022	2021
	\$	\$
Employee benefits expense	4,475,611	3,012,662
Depreciation expense	-	3,337
Expense relating to short-term leases	89,436	32,494
Transaction costs associated with IPO	-	663,275

The employee benefits expense line includes \$1,715,896 of share based payments expense, refer to further details outlined in note 26.

7 Income tax expense

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

	2022	2021
	\$	\$
Current tax expense		
Income tax	-	-
Deferred tax expense		
Deferred tax	-	-
Total income tax expense	-	-

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

7 Income tax expense (continued)

(b) Numerical reconciliation of income tax to prima facie tax payable:

	2022	2021
	\$	\$
Loss from continuing operations before income tax expense	(10,607,166)	(8,951,661)
Tax at the US tax rate of 21.0% (2021 - 21.0%)	21.00 %	21.00 %
	(2,227,505)	(1,879,849)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
- Expenses not deductible for tax purposes	185,816	762,925
- Difference in overseas tax rate	(125,816)	(253,395)
- Current year temporary differences not recognised	159,232	127,596
- Current year tax losses not recognised	2,008,273	1,242,723
Income tax expense	-	-

	2022	2021
	\$	\$
Unused tax losses for which no deferred tax asset has been recognised	33,213,239	31,204,966
Potential tax benefit	6,515,025	6,121,088

The unused tax losses were incurred by the Group and 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

	2022	2021
	\$	\$
Cash at bank and in hand	4,688,191	10,672,533
	4,688,191	10,672,533

9 Trade and other receivables

	2022	2021
	\$	\$
Trade receivables	1,311,855	1,024,378
Provision for doubtful accounts	(12,882)	(12,882)
Other receivables	7,424	1,050
	1,306,397	1,012,546

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 2022.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

	2022	2021
10 Inventories		
	\$	\$
Raw materials and consumables	329,754	303,293
Finished goods	2,694,368	1,313,214
Goods in transit	539,405	290,476
Writedowns	(177,148)	(112,241)
	<u>3,386,379</u>	<u>1,794,742</u>
11 Other assets		
	\$	\$
Prepayments	1,009,579	1,825,262
	<u>1,009,579</u>	<u>1,825,262</u>
12 Trade and other payables		
	\$	\$
Trade payables	453,473	569,239
Returns and other liabilities	305,915	463,998
Accrued expenses	1,566,682	1,024,958
	<u>2,326,070</u>	<u>2,058,195</u>

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 Borrowings and derivative financial instruments

On 17 October 2022, the Company entered into a A\$12m two-tranche secured loan facility (the "facility") with boutique asset manager and existing substantial shareholder PURE Asset Management Pty Ltd ("PURE" or "PURE Asset Management").

The loan is documented in a facility agreement between the Company, its subsidiaries and PURE Asset Management Pty Ltd in its capacity as trustee for The Income and Growth Fund (**Facility Agreement**) dated 14 October 2022 (**Facility Date**) together with a General Security Deed between the same parties dated the same date.

The facility is a A\$12,000,000 two-tranche facility comprising:

- a **First Loan** of A\$6,500,000 to be utilised within 14 days after the Facility Date; and
- a **Second Loan** of A\$5,500,000 to be utilised within 365 days of the Facility Date.

Key terms of the funding

Hydralite North America accessed the first tranche of A\$6,500,000 on 10 November 2022 following the execution of the Facility Agreement and, subject to satisfaction (or waiver by PURE) of certain conditions (see below for further details), the Company can access the remaining A\$5,500,000 within 365 days from the execution of the Facility Agreement.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

13 Borrowings and derivative financial instruments (continued)

The repayment date is 48 months after the utilisation date of the First Loan and includes an interest rate of 10% per annum (payable quarterly) (or 15.0% if a default or review event is subsisting).

The Company may repay the loan prior to the repayment date in tranches of A\$500,000 if it gives PURE at least 30 business days' notice and pays a 2.5% repayment fee on the repayment amount.

The Facility includes a 1.5% establishment fee, payable on the utilisation date of the First Loan, and a line fee of 2.0% of the value of the Second Loan, payable on utilisation of the Second Loan.

The Facility includes the following covenants:

- from utilisation of the First Loan, a minimum cash covenant at all times of US\$750,000;
- from utilisation of the Second Loan, a minimum cash covenant at all times of US\$1,500,000;
- at all times:
 - default event: quarterly gross profit less than or equal to US\$750,000, tested each financial quarter-end; and
 - review event: quarterly gross profit less than or equal to US\$1,000,000, tested each financial quarter-end.

A review event can be cured by clearing the test hurdle at a subsequent quarter.

The Group has complied with the relevant covenants throughout the reporting period.

Conditions to access the Second Loan

The conditions that the Company must satisfy in order to access the Second Loan are:

- Group gross sales being greater than or equal to US\$1.1 million for a minimum of three months in a five month period prior to utilisation;
- 'total return on advertising spend' (calculated as total Group gross sales divided by total Group marketing expenditure) being greater than or equal to 2.2x for a minimum of three months in a five month period prior to utilisation;
- shareholder approval being obtained (or not required) for the issue of the warrants relating to the Second Tranche Warrants; and
- no event of default or review event continuing or expected at the time.

The facility is secured by a first-ranking general security over all present and after-acquired property of the Company and each Group entity in all relevant jurisdictions.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

13 Borrowings and derivative financial instruments (continued)

Warrants

As part of the funding package, the Company issued 22,413,794 warrants to acquire fully paid ordinary shares (**Shares**) to PURE (or nominee) on drawdown of the first tranche, utilising the Company's existing capacity under ASX Listing Rule 7.1 (**First Tranche Warrants**).

The First Tranche Warrants will be exercisable for Shares at an exercise price representing the lower of:

- \$0.29;
- a 20.0% discount to the price of any change of control transaction; and
- an 'anti-dilution price adjustment' price (see below for further details).

Subject to drawdown of the second tranche of the loan and approval of the Company's shareholders for the purposes of Listing Rule 7.1, the Company will issue to PURE (or nominee) the number of warrants over Shares calculated in accordance with the formula outlined below (**Second Tranche Warrants**).

The Second Tranche Warrants will be exercisable for Shares at an exercise price representing the lower of:

- 150% of the trailing volume weighted average price of shares immediately prior to the second tranche utilisation notice, subject to a floor price (minimum) of \$0.15 and a price cap (maximum) of \$0.40;
- a 20.0% discount to the price of any change of control transaction; and
- an 'anti-dilution price adjustment' price (see below).

Using the 'floor price' for the purposes of the formula, this would result in the issue of 36,666,667 warrants.

If the warrants are exercised, the proceeds are expected to provide sufficient funding to extinguish the loan in full, or the funds can be applied to future corporate funding requirements.

Anti-dilution price adjustment

If the Company makes an issue of equity securities (or a series of consecutive issuances of equity securities in any period not exceeding 12 months), other than the exercise or conversion of options, rights or other convertible securities on issue at the Facility Date, and the diluted amount of those equity securities (in aggregate) exceeds 15% of the number of Shares on issue immediately before the announcement of the issue or first issuance, the anti-dilution price adjustment price of the Warrants will be calculated in accordance with the following formula:

(A + B) / C, where:

- **A** is the market capitalisation of the Company on the trading day prior to the announcement of the issue of equity securities;
- **B** is the number of equity securities the subject of the issue multiplied by their issue price; and
- **C** is the number of Shares on issue immediately before the announcement of the issue of equity securities plus the diluted amount of the issued equity securities.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

13 Borrowings and derivative financial instruments (continued)

Expiry of the Warrants

The Warrants expire on the date that is 7 days prior to the Repayment Date of the loan (being 48 months after utilisation of the First Loan).

Prohibited issuances

The Company may not issue any shares other than ordinary shares while the Warrants are on issue (absent PURE's consent).

Other terms

The Warrants:

- do not confer any entitlement to dividends or other distributions, nor any right to attend or vote at a general meeting of the Company;
- have no entitlement to participate in a new issue of capital offered to shareholders without first being exercised;
- will not be quoted on ASX, however the Company will apply for quotation of the Shares issued on exercise of the Warrants; and
- contain standard adjustment terms, consistent with the ASX Listing Rules, in the event of a bonus issue, pro rata issue, reorganisation or reconstruction of capital.

The following tables summarise the carrying value of borrowings and derivative financial instruments associated with the funding package entered into by the Company:

Borrowings

	AUD	USD
	\$	\$
Total facility amount	6,500,000	4,205,236
Transaction costs	(434,291)	(279,553)
Initial fair value of warrants	(614,447)	(397,522)
Initial carrying value of borrowings	5,451,262	3,528,161
Amortisation of transaction costs	26,902	18,109
Foreign currency adjustment	-	165,511
Closing carrying value of borrowings	5,478,164	3,711,781

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

13 Borrowings and derivative financial instruments (continued)

Derivative financial instruments

	AUD	USD
	\$	\$
Initial fair value of warrants	614,447	397,522
Fair value movement on warrants	(96,775)	(65,331)
Foreign currency adjustment	-	17,279
Closing carrying value of warrants	<u>517,672</u>	<u>349,470</u>

The Group determined that an obligation to issue warrants arose from the draw down of the first tranche of the facility, and consequently, a liability for the warrants was recognised on 10 November 2022.

The warrants were initially measured as a derivative at fair value of A\$614,447 (US\$397,522). Borrowings were measured as the difference between the A\$6,500,000 first tranche debt amount less the transaction costs of A\$434,291, less the fair value of the warrants of A\$614,447, resulting in an initial carrying value of A\$5,451,262 (US\$3,528,161). Subsequent adjustments to the carrying value have been made for foreign currency translation (US\$165,511) and amortisation of borrowing costs (US\$18,109), resulting in a closing carrying value for the first tranche of US\$3,711,781.

On the statement of cash flows, the proceeds from these borrowings are recorded as the net amount of proceeds received after setup and legal fees of US\$129,392 were deducted, resulting in the US\$4,075,844 presented on the statement of cash flows.

The initial derivative fair value of A\$614,447 (US\$397,522) tied to the warrants is presented in current liabilities with the title "Derivative financial instruments". An adjustment to update the fair value of the derivative based on conditions as at 31 December 2022 was recognised, which decreased the derivative liability by US\$65,331.

14 Contributed equity

	2022	2021	2022	2021
	Shares	Shares	\$	\$
Ordinary shares on issue	163,755,295	161,026,683	37,796,943	37,546,943
Share issue transaction costs	-	-	(1,183,937)	(1,138,622)
	<u>163,755,295</u>	<u>161,026,683</u>	<u>36,613,006</u>	<u>36,408,321</u>

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.

Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2022

15 Reserves

(a) Share based payment reserve

	2022	2021
	\$	\$
Employee share scheme	<u>3,586,474</u>	<u>1,817,549</u>
Movements:		
<i>Employee share scheme</i>		
Opening balance	1,817,549	313,903
Employee share scheme	<u>1,768,925</u>	<u>1,503,646</u>
	<u><u>3,586,474</u></u>	<u><u>1,817,549</u></u>

During the financial year, \$1,715,896 (2021: \$1,393,051) of share-based payments were expensed in relation to performance rights and options granted to employees and directors. Refer to further details outlined in note 26.

(b) Foreign currency translation reserve

	2022	2021
	\$	\$
Opening balance	(630,902)	611,074
Other comprehensive income	<u>(611,622)</u>	<u>(1,241,976)</u>
Total	<u><u>(1,242,524)</u></u>	<u><u>(630,902)</u></u>

16 Key management personnel remuneration

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

	2022	2021
	\$	\$
Short-term employee benefits	1,053,383	813,618
Post-employment benefits	38,373	22,350
Share-based payments	<u>1,477,042</u>	<u>1,254,615</u>
	<u><u>2,568,798</u></u>	<u><u>2,090,583</u></u>

Detailed remuneration disclosures are provided in the remuneration report on pages 3 to 12.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

17 Interests in subsidiaries

Composition of the Group

	Principal place of business / Country of incorporation	Percentage Owned (%)*	Percentage Owned (%)*
		2022	2021
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.

18 Related parties

(a) Parent entity

The Hydration Pharmaceuticals Company Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 17.

(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 16.

(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:

	2022	2021
	\$	\$
Services surrounding capital raising and restructure	-	255,000
Reimbursement of administrative and office costs	-	26,129
IT services	-	4,096
Sales broker fees	-	133,271

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

19 Contingencies and commitments

In the opinion of the Directors, the Group did not have any contingencies or commitments at 31 December 2022 (31 December 2021: nil).

20 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 decisions. 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 or loss on a consolidated basis.

The breakdown of revenue by geography and reconciliation of operating results for each year is presented as follows:

	2022	2021
	\$	\$
Revenue by geography		
United States	4,500,526	3,131,180
Canada	4,599,442	2,995,998
Other income	5	93
Cost of sales	(4,403,610)	(3,337,579)
Sales and marketing expenses	(9,227,254)	(5,060,470)
Administrative expenses	(1,695,273)	(1,546,234)
Employee benefits expense	(4,475,611)	(3,012,662)
Depreciation and amortisation expense	-	(3,337)
Transaction costs associated with IPO	-	(663,275)
Operating losses	(10,701,775)	(7,496,286)
Foreign exchange gains/(losses)	120,485	1,410,662
Fair value movement on derivative financial instruments	65,331	-
Finance costs	(91,207)	(2,866,037)
Net loss for the year	(10,607,166)	(8,951,661)

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

21 Cash flow information

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

	2022	2021
	\$	\$
Loss for the year	(10,607,166)	(8,951,661)
Non-cash flows in profit/(loss):		
- Depreciation and amortisation expense	-	3,337
- Foreign exchange (gain)/loss	(120,485)	(1,410,662)
- Non-cash share-based payments expense	2,132,563	1,393,051
- Provision for obsolete inventory	64,908	4,523
- Non-cash GST	26,889	-
- Interest expense	91,207	648,565
- Loss on conversion of convertible notes	-	1,894,516
- Pre-IPO borrowing costs	-	322,956
- Fair value movement on derivative financial instruments	(65,331)	-
Changes in assets and liabilities:		
- (Increase)/decrease in trade and other receivables	(293,851)	(237,951)
- Increase/(decrease) in trade and other payables	73,841	(132,629)
- (Increase)/decrease in inventories	(1,721,452)	(209,239)
- (Increase)/decrease in other assets	815,683	(1,404,984)
- (Increase)/decrease in provisions	1,515	2,128
- (Increase)/decrease in other operating assets	(150,161)	-
Net cash inflow/(outflow) from operating activities	<u>(9,751,840)</u>	<u>(8,078,050)</u>

22 Auditors remuneration

	2022	2021
	\$	\$
Audit and review of financial reports		
- Group	166,745	130,744
Total audit and review of financial reports	<u>166,745</u>	<u>130,744</u>
Other services		
- Tax compliance services	26,700	19,000
- IPO advisory services	-	318,452
Total other non-audit services	<u>26,700</u>	<u>337,452</u>
Total services provided by PwC	<u>193,445</u>	<u>468,196</u>

23 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.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

24 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.

	2022	2021
	\$	\$
Statement of Financial Position		
Assets		
Current assets	2,968,903	4,045,656
Non-current assets	3,728,787	-
Total assets	<u>6,697,690</u>	<u>4,045,656</u>
Liabilities		
Current liabilities	528,464	101,915
Non-current liabilities	3,893,013	-
Total liabilities	<u>4,421,477</u>	<u>101,915</u>
Equity		
Contributed equity	36,613,006	36,408,321
Accumulated losses	(37,923,267)	(34,282,129)
Other reserves	3,586,474	1,817,549
Total equity	<u>2,276,213</u>	<u>3,943,741</u>
Statement of Profit or Loss and Other Comprehensive Income		
Loss for the year	<u>(3,641,138)</u>	<u>(17,564,379)</u>
Total comprehensive loss	<u>(3,641,138)</u>	<u>(17,564,379)</u>

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

24 Parent entity (continued)

Contingent liabilities

The parent entity did not have any contingent liabilities as at 31 December 2022 or 31 December 2021.

Contractual commitments

The parent entity did not have any commitments as at 31 December 2022 or 31 December 2021.

25 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.

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

	31 December 2022					31 December 2021				
	CAD	AUD	CHF	USD	Total	CAD	AUD	CHF	USD	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Assets										
Cash and cash equivalents	706,178	2,786,346	-	1,195,667	4,688,191	498,174	3,590,458	-	6,583,901	10,672,533
Trade and other receivables	816,897	(169)	-	489,669	1,306,397	724,420	1,242	-	286,884	1,012,546
Other assets	7,394	194,609	536,567	271,009	1,009,579	30,131	224,986	1,360,415	209,730	1,825,262
Liabilities										
Trade and other payables	1,050,443	192,485	162,123	921,019	2,326,070	914,402	40,031	62,512	1,041,250	2,058,195
Borrowings	-	3,711,781	-	-	3,711,781	-	-	-	-	-
Derivative financial instruments	-	349,470	-	-	349,470	-	-	-	-	-

(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.

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

25 Financial risk management (continued)

Market risk (continued)

	31 December 2022	31 December 2021
	\$	\$
Australian Dollar	127,295	(377,665)
Canadian Dollar	(48,003)	(33,832)
Swiss Franc	(37,444)	(129,790)

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 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.

Notes to the Consolidated Financial Statements
For the Year Ended 31 December 2022

25 Financial risk management (continued)

Liquidity risk (continued)

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.

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 2022 US\$						
Trade and other payables	2,326,070	2,326,070	-	-	-	2,326,070
Borrowings	3,711,781	531,297	533,395	5,009,453	-	6,074,145
Derivative financial instruments	349,470	-	-	349,470	-	349,470
31 December 2021 US\$						
Trade and other payables	2,058,194	2,058,194	-	-	-	2,058,194

26 Share-based payments

During 2021, 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 conditions 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.

During the current year, directors were issued a combined total of 232,142 options.

Options granted during the current and prior year are summarised below:

Description	Year Option Issued	
	2022	2021
Class A options	-	3,470,000
Class B options	-	3,469,600
Class C options	-	5,208,400
Class D options	-	5,208,400
Class E options	-	5,208,400
Director options	-	2,000,000
Broker options	-	3,000,000
Director options	232,142	-
Total	232,142	27,564,800

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Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

26 Share-based payments (continued)

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

	2022 Average exercise price per share option \$	2022 Number of options	2021 Average exercise price per share option \$	2021 Number of options
As at 1 January	AUD 0.48	38,689,619	USD 0.45	10,223,346
Modifications during the year	-	-	AUD 0.41	901,473
Granted during the year	AUD 0.476	232,142	AUD 0.49	27,564,800
Exercised during the year	-	-	-	-
Forfeited during the year	-	-	-	-
As at 31 December	AUD 0.468	38,921,761	AUD 0.48	38,689,619
Vested and exercisable at 31 December	AUD 0.44	25,959,736	AUD 0.44	15,708,153

No options expired during the periods covered by the above tables.

Options outstanding

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

Grant Date	Expiry Date	Exercise price AUD\$	Share options 31 December 2022	Share options 31 December 2021
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	1,314,446
14 Jan 19	13 Jan 29	0.45	2,520,212	2,520,212
3 May 19	2 May 29	0.45	713,497	713,497
14 Sep 18	14 Sep 28	1.34	956,664	956,664
19 Oct 21	1 Dec 26	0.29 - 0.73	22,100,000	22,100,000
19 Oct 21	1 Dec 24	0.51 - 0.65	3,000,000	3,000,000
3 Dec 21	1 Dec 26	0.29 - 0.73	2,464,800	2,464,800
27 May 22	22 Jul 27	0.476	232,142	-
			38,921,761	38,689,619

Weighted average remaining contractual life of options outstanding at the end of the period

3.81

4.82

(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.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

26 Share-based payments (continued)

Options outstanding (continued)

- 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.

As a result of these modifications, the Group recognised an additional expense of US\$72,805 in 2021.

(ii) Fair value of new options granted in 2022

The assessed fair value at grant date of new options granted during the year ended 31 December 2022 was A\$0.117 per option. The fair value at grant date was 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 2022 included:

- a) Options were granted to the directors for no consideration and have the following vesting conditions:
 - i. Continued employment with the Company as at the relevant vesting date (or being a good leaver, depending on Board discretion), being the three-year anniversary of the date of issue of the options
- b) Exercise price: A\$0.476
- c) Grant date: 27 May 2022
- d) Expiry date: 22 July 2027
- e) Share price at grant date: A\$0.25
- f) Expected price volatility of the company's shares: 72%
- g) Expected dividend yield: 0%, and
- h) Risk free interest rate: 2.71%

The expected price volatility was based on a calculation of the historic volatility of Hydralyte's share price.

(iii) Fair value of options granted in 2021

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. 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.

These vesting conditions were met and the Class A options vested during the current year.

- 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). One third of the Class B, C, D and E options vested during December 2022.
- Options issued to Directors and advisors vested immediately with no further conditions.

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

26 Share-based payments (continued)

Options outstanding (continued)

- 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: 1 December 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.

(iv) Fair value of performance rights granted in 2021

The Company granted 6,288,028 performance rights in 2021. 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.

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

As at 1 January 2022	6,288,028
Granted during the year	-
Vested and exercised during the year	(1,547,779)
Changes in lieu of allocation	(1,270,649)
Forfeited during the year	-
As at 31 December 2022	3,469,600

The weighted average remaining contractual life of the performance rights outstanding at the end of the year is 3 years.

The assessed fair value at grant date of performance rights granted during the year ended 31 December 2021 was A\$0.29. 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.

These vesting conditions were met and the Tranche A performance rights vested during the current year.

The Hydration Pharmaceuticals Company Limited

ABN 83 620 385 677

Notes to the Consolidated Financial Statements For the Year Ended 31 December 2022

26 Share-based payments (continued)

Options outstanding (continued)

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.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year were as follows:

	2022	2021
	\$	\$
Expenses related to options	1,125,966	984,407
Expenses related to performance rights	589,930	408,644
Expenses related to issue of shares - Shay Mitchell	416,667	-
Total	2,132,563	1,393,051

Celebrity partner Shay Mitchell was issued 1,180,833 shares as part of her contracted agreement.

27 Loss per share

Basic and diluted earnings/(loss) 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:

	2022	2021
	\$	\$
Basic and diluted earnings/(loss) per share	(0.07)	(0.12)
Loss for the year used in the calculation	10,607,166	8,951,661
Weighted average number of ordinary shares	162,680,426	75,536,697

The Hydration Pharmaceuticals Company Limited

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Directors' Declaration

In the directors' opinion:

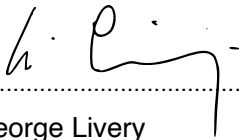
- a. the financial statements and notes, as set out on pages 15 to 47 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2022 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 this31..... day ofMarch..... 2023



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 2022 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 2022
- 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.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a loss of US\$10,607,166 and had net cash outflows from operating activities of US\$9,751,840 for the year ended 31 December 2022. The Group is dependent on generating sufficient funds from its operating activities and securing access to the second tranche of its loan facility, which is subject to various conditions. These conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 controls and the industry in which it operates.



Materiality

- For the purpose of our audit, we used overall Group materiality of US\$300,000, which represents approximately 5% of the Group's average loss before tax over the past three years.
- 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 because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. Due to fluctuations in losses from year to year, we chose a three year average.
- 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.



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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 and Compliance Committee.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter(s) described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Accounting treatment of new financing and valuation of warrants (Refer to note 13 - US\$3,711,781 and US\$349,470)</p> <p>During the year, the Group entered into a new two-tranche loan facility, and the first tranche of the facility was utilised in November 2022. As part of the funding package, the Group issued 22,413,794 warrants to acquire fully paid ordinary shares on draw down of the first tranche.</p> <p>Accounting for the new financing arrangements and the related valuation of the warrants was a key audit matter in the context of the financial significance of these balances to the consolidated financial statements and due to the complexity associated with the fair value estimation for the warrants issued.</p>	<p>We performed the following procedures, amongst others, in relation to this key audit matter:</p> <ul style="list-style-type: none">• Obtained and read the Facility Agreement and Warrant Deed to develop an understanding of the relevant terms and conditions of these agreements.• 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 the warrants.• 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 the warrants issued during the year. The methodology was assessed with reference to standard industry practice and significant assumptions were compared to market observable data where appropriate.• Compared the Group's accounting for the borrowings, transaction costs and warrants with the requirements of Australian Accounting Standards.• Considered the reasonableness of the related disclosures in line with the requirements of Australian Accounting Standards.



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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 2022, 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.

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 3 to 12 of the directors' report for the year ended 31 December 2022.

In our opinion, the remuneration report of The Hydration Pharmaceuticals Company Limited for the year ended 31 December 2022 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 2023

The Hydration Pharmaceuticals Company Limited

Shareholder Information

The following information was applicable as at 3 March 2023.

1. Corporate Governance Statement

The Corporate Governance Statement can be found at <https://hydralyte.com/pages/investors>

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
The Hydration Pharmaceuticals Company Ltd ³	34,903,965	21.31%
Woobinda Nominees Pty Limited <The Woobinda Family A/C>	15,005,877	9.32%
Regal Funds Management Pty Ltd	14,018,023	8.64%
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 A restriction on disposal of shares under voluntary and mandatory escrow arrangements gives The Hydration Pharmaceuticals Company Ltd a deemed relevant interest in the shares subject of the escrow arrangements under section 608(1)(c) of the Corporations Act. However, The Hydration Pharmaceuticals Company Ltd has no right to acquire these shares or to exercise, or control the exercise of, a right to vote attaching to these shares.

3. Number of Security Holders

Securities	Number of Holders
Ordinary Shares	634
Unlisted Options (Options)	57
Performance Rights	11
Warrants	1

4. Voting Rights

Securities	Voting Rights
Ordinary Shares	<p>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:</p> <p>(a) each shareholder is entitled to vote and may vote in person or by proxy, attorney or representative;</p> <p>(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</p> <p>(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</p>

The Hydration Pharmaceuticals Company Limited

Shareholder Information

	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.
Warrants	Warrants do not carry any voting rights.

5. Distribution Schedule

Ordinary Shares

Spread of Holdings	Holders	Securities	%
1 - 1,000	10	2,460	0.00%
1,001 - 5,000	115	307,560	0.19%
5,001 - 10,000	73	572,956	0.35%
10,001 - 100,000	251	10,887,152	6.65%
100,001 - 9,999,999,999	185	151,985,167	92.81%
Totals	634	163,755,295	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	29	1,211,835	3.11%
100,001 - 9,999,999,999	23	37,674,051	96.79%
Totals	57	38,921,761	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	8	405,600	11.69%
100,001 - 9,999,999,999	3	3,064,000	88.31%
Totals	11	3,469,600	100.00%

Warrants

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	0	0	0.00%
100,001 - 9,999,999,999	1	22,413,794	100.00%
Totals	1	22,413,794	100.00%

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The Hydration Pharmaceuticals Company Limited

Shareholder Information

6. Holders of Non-Marketable Parcels

Date	Closing price of shares	Number of holders
3 March 2023	\$0.080	134

7. Top 20 Shareholders

The top 20 largest fully paid ordinary shareholders together hold 61.39% 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	9.16%
2.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	14,124,448	8.63%
3.	SUPER RADEK PTY LTD <SUPER RADEK SUPER FUND A/C>	12,314,437	7.52%
4.	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	10,080,333	6.16%
5.	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	9,419,580	5.75%
6.	CITICORP NOMINEES PTY LIMITED	8,828,939	5.39%
7.	TR NOMINEES PTY LTD	4,299,714	2.63%
8.	PAUL ORLIN	3,288,532	2.01%
9.	FF INVESTMENTS NZ LIMITED	2,901,462	1.77%
10.	GOWING BROS LIMITED	2,869,992	1.75%
11.	343 PTY LTD <343 CAPITAL A/C>	2,500,000	1.53%
12.	TAHMEDIA PTY LTD	2,322,404	1.42%
13.	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAIL CLIENT DRP>	2,056,626	1.26%
14.	RICHJAC PTY LTD	1,843,263	1.13%
15.	ANKARA HOLDINGS PTY LTD <THE ANKARA FAMILY A/C>	1,560,417	0.95%
16.	MR JAMES GARDINER	1,500,00	0.92%
17.	GONDWANA INVESTMENT GROUP PTY LTD <KUMOVA FAMILY SUPER FUND A/C>	1,458,577	0.89%
18.	PERSES CUSTODIAN PTY LIMITED	1,434,996	0.88%
19.	BOTANICAL HOSPITALITY GROUP LLC	1,379,310	0.84%
20.	HMS ORANGE PTY LIMITED <HMS ORANGE UNIT TRUST A/C>	1,345,308	0.82%
		100,534,215	61.39%

8. Company Details

Company secretary: Victoria Alexis Nadalin

Principal place of business:

Level 2, 6 Palmer Parade, Cremorne VIC 3121

The Hydration Pharmaceuticals Company Limited

Shareholder Information

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 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
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
Ordinary shares subject to voluntary escrow until 14/06/2023	14/06/2023	295,208
Ordinary shares subject to voluntary escrow until 14/12/2023	14/12/2023	885,625

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

The Hydration Pharmaceuticals Company Limited

Shareholder Information

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
Unlisted Options	22/07/2027	AUD\$0.476	232,142
			38,921,761

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

Performance Rights

There is a total of 3,469,600 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.

Warrants

There is a total of 22,413,794 unlisted warrants on issue.

The number of warrant holders is 1.

The following holder hold more than 20% of the Warrants in the Company:

Rank	Holder Name	Warrants	%
1	PURE ASSET MANAGEMENT PTY LTD <INCOME AND GROWTH FUND A/C>	22,413,794	100.00%

11. Use of Cash and Assets

From the date of the Company's admission, being 14 December 2021, until 31 December 2022, 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.