743 Prospect Street
La Jolla, CA 92037

Company Announcement
ASX: HPC

DATE: 30/08/2024

All amounts in $US and unaudited unless otherwise specified.

H1 FY24 Half Year Report and Appendix 4D: 29% reduction in Net Cash Used in Operating Activities alongside stable revenue

KEY HIGHLIGHTS

- **34% reduction in EBITDA loss to $2.4m (H1 2023: $3.6m) through stated strategy to reduce expenditure and drive cost efficiencies**
- **29% or $0.8m previous corresponding period ("PCP") reduction in net cash used in operating activities to $2.1m with continuing improvements being implemented**
- **Gross margin increase of 4ppt from PCP to 53% (1H 2023: 49%), a result of multiple margin improvement strategies coming to fruition**
- **Net sales of $5.0m with increases expected to be realised during H2 2024**
- **52% ($0.4m) growth in Canadian ecommerce revenue from the PCP to $1.1m (H1 2023: $0.7m) driven by strong demand for the product in the ecommerce channel combined with effective and efficient marketing and advertising spend**
- **Launch of new consolidated Amazon packaging during the period expected to save 4ppt in margin on Amazon sales in US and Canada**
- **Advanced negotiations in progress for either the sale of the Company or a strategic divesture of assets**

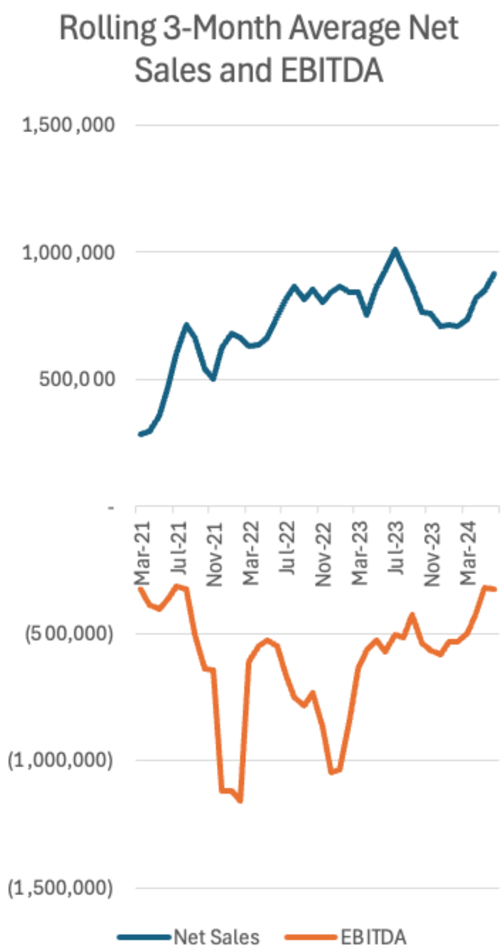
Hydration solutions company **The Hydration Pharmaceuticals Company Limited (ASX: HPC) ("Hydralyte North America" or "the Company")** is pleased to provide the following update on the six-month period ended 30 June 2024 (the "half year" or "H1 FY2024") and the Company's Appendix 4D.

Financial overview:

With a continued focus on profitability and cash preservation, the Company achieved its lowest half-year expenditure since listing. This was highlighted by a 34% year-on-year

("YoY") reduction in EBITDA loss to $2.4m (H1 2023: $3.6m), marking strong execution of the Company's stated strategy to reduce expenditure and push towards profitability.

Gross margin as a percentage of net sales increased by 4ppt YoY to 53% (H1 2023: 49%). This was despite the negative impact of stock keeping unit ("SKU") reductions resulting in a cost of goods increase of $0.4m during the period. SKU reductions are part of the continued effort to improve cash flow and profitability by eliminating the lowest performing products.



The Company's ongoing review of marketing expenditure was another key aspect in the improved cash flow and reduction in losses. As a percentage of net sales, YoY marketing spend decreased by 11ppt to $1.5m. This equated or 31% of net sales (1H 2023 marketing spend: 42% of net sales or $2.2m).

During the period, the Company implemented additional reductions in marketing spend and margin improvements and anticipates that these combined efforts will be realised in the coming months.

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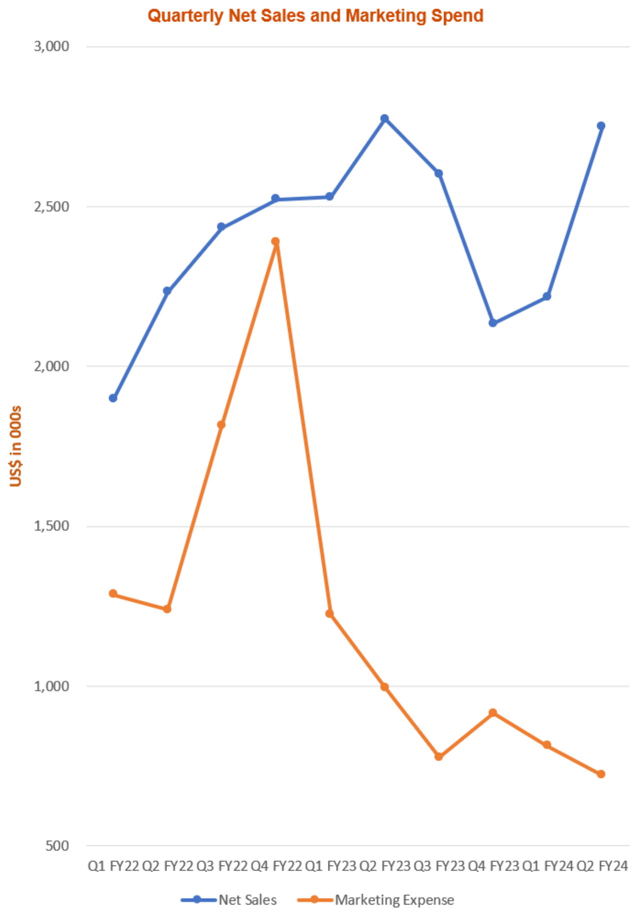
The following chart displays the increased efficiency of marketing and advertising spend:

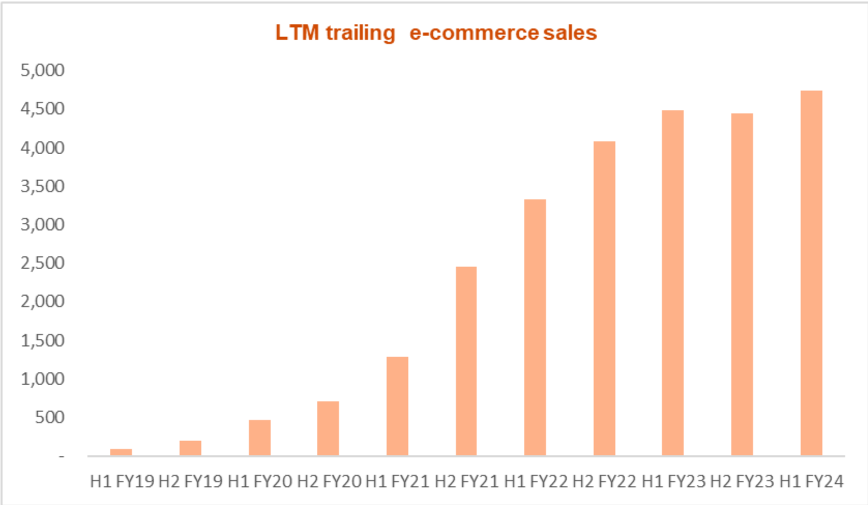


YoY net sales decreased slightly to $5.0m (H1 2023: $5.3m). This was primarily due to US retail group, Rite Aid filing for Chapter 11 bankruptcy in the US market. Sales to Rite Aid made up a large portion of US H1 2023 sales, which did not materialise during the period. Despite this, Rite Aid is expected to recover from Chapter 11 bankruptcy filing and the Company expects sales to the retailer to regulate in H2 2024.

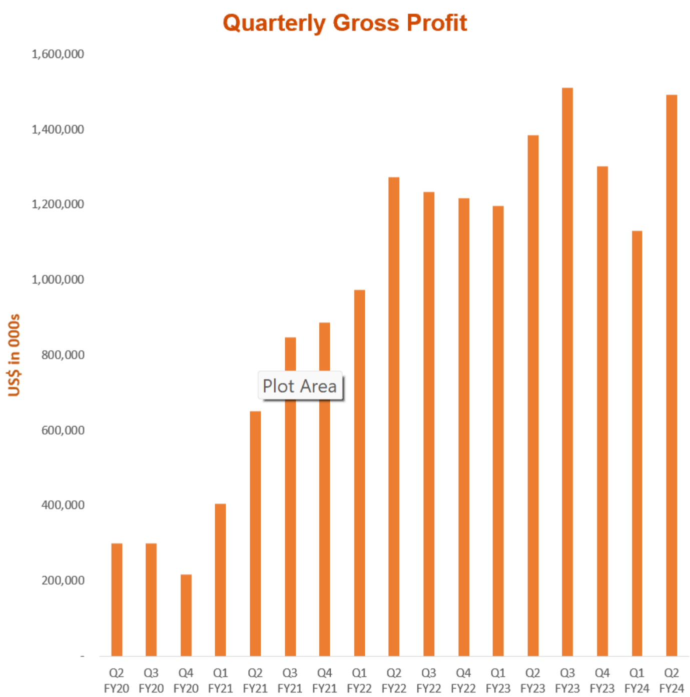
H1 2024 sales were also impacted by inventory systems issues at Canadian retailer, Shoppers Drug Mart, resulting in a lack of ordering proper amounts of inventory. This issue was resolved within the half year and ordering levels recovered to normal, helping to achieve a record high retail sell through rate in June at both Shoppers Drug Mart and Loblaws. Additional sales to Shoppers Drug Mart are expected to be realised during H2 2024.

After adjusting for the above-mentioned negative impacts on US and Canadian retail sales, consolidated net sales from PCP increases by approximately 3%.

The following chart displays the continued strong growth in ecommerce sales in the US and Canada:



Gross profit increased by 2% to $2.62m (1H 2023: $2.58m) with a particularly strong second quarter up 8% from PCP to $1.5m (Q2 2023: $1.4m). The higher Q2FY24 profit is in line with the Company's sustainable targets, having the product rationalization project and resulting inventory write-offs completed in the quarter, leaving room for more growth in gross margin and gross profit. The following chart displays the strong quarterly growth in gross profit:



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The following table summarises change in revenues and gross margins for the period:

	H1 FY23	H1 FY24	YoY Change
Total net revenue	5,305	4,967	-6%
E-commerce sales	2,204	2,489	13%
Traditional retail sales	3,101	2,477	-20% *
Gross Margin	2,581	2,622	2%
Gross Margin %	49%	53%	4 ppt
EBITDA	(3,645)	(2,409)	-34%

* Traditional retail sales growth is broadly flat after adjusting for the negative impacts of US customer Rite Aid filing for Chapter 11 bankruptcy and ordering and inventory systems issues at Canadian retail customer Shoppers Drug Mart.

Corporate overview:

On 27 March 2024, the Company signed a variation to its Facility Agreement with boutique asset manager and existing substantial shareholder PURE Asset Management Pty Ltd as trustee for The Income and Growth Fund ("PURE" or "PURE Asset Management") as previously announced to the market on 17 October 2022 ("Original PURE Facility").

As part of the variation, Hydralyte secured an additional A$1.7 million in funding ("Amended PURE Facility"). The Amended PURE Facility also includes two additional tranches, valued at A$1.5 million each, which can be accessed at the discretion of PURE Asset Management. The Group is utilising the funding under the Amended PURE Facility to progress an orderly sales process of the business. Additional details are included in the notes to the financial statements.

Operational overview:

Sale of the Company of Divestiture of Assets

The Company is in advanced negotiations in the sale of the Company or divestiture of assets and expects to update shareholders in due process.

Additional margin improvement and cost savings:

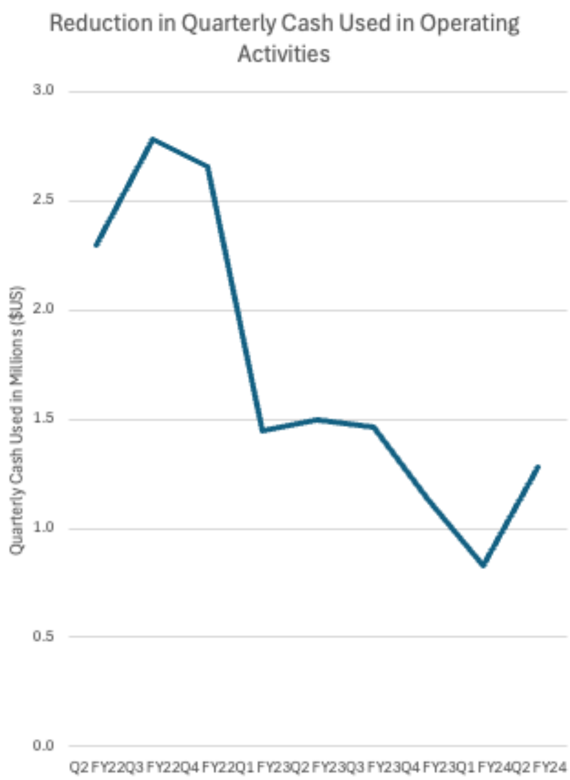
The Company continued to implement a number of margin improvement and cost savings initiatives during the period. This has included the implementation of staff reductions, decreased spending on other expenses, reduced selling and fulfillment expenses by transitioning to a direct to retailer model. As well and most recently, Hydralyte also launched new Amazon packaging to realise additional margin gains from its largest customer.

Comments on Cash Flows:

Net cash used in operating activities was US$2.1m, a $0.8m decrease on the previous corresponding period ("PCP"), underpinned by an increased focus on reducing operating expenditure to extend cash life through significant reduction in marketing and operating costs, while leveraging market footprint to maintain revenue. Net non-cash working capital in the period decreased by $0.3m to $2.1m (H2 2023 ending balance: $2.4m).

As at 30 June, Hydralyte North America had cash and cash equivalents of $0.9m. In addition, at the discretion of PURE Asset Management, the Company may draw on additional tranches of the Amended PURE Facility. During the period, the Company drew A$1.7m in debt under the facility. Additional details are included in the notes to the financial statements.

The Board remains confident that management will be successful in securing a divestiture of assets or sale of the Company, particularly as Hydralyte North America maintains path towards cash-flow break-even and continues to implement a significant reduction in cash use as part of its continuing operations.



Management commentary:

Hydralyte North America CEO Oliver Baker said: "*During H1 2024, the Company has witnessed the benefits of its stated strategy to reduce expenditure and push closer to profitability. Pleasingly, Hydralyte North America has continued to maintain sales, despite some industry headwinds. During the half, the Board and management have identified several*

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other areas of the business where operating expenditure can be further reduced and anticipate savings to be realised over the remainder of the year.

"Operations during the half were also very much focused on advancing a sale of the business or a divesture of assets. Negotiations in this regard have progressed well and we look forward to updating shareholders in due course."

ENDS

This announcement was authorised for release by the Board of Hydralyte North America.

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