



## Appendix 4E – Preliminary Final Report

(ASX Listing rule 4.2A)

Company Name: The Hydration Pharmaceuticals Company Limited (the 'Company')  
ABN: 83 620 385 677  
Reporting Period: Financial year ended 31 December 2021  
Previous Reporting Period: Financial year ended 31 December 2020

Hydration solutions company, The Hydration Pharmaceuticals Company Limited (ASX: HPC) ("Hydralyte North America" or "the Company"), is pleased to report on its activities and cash flows for the 12 months ending 31 December 2021 (FY2021).

**IMPORTANT NOTE:** *The consolidated financial statements and this associated analysis is presented in USD (\$), which is The Hydration Pharmaceuticals Company Limited's functional and presentation currency.*

### Results for Announcement to the Market for Year Ending 31 Dec 2021:

Revenue	Up	58%	to	\$5,918,580
Loss after tax attributable to members	Up	1,106%	to	\$8,966,505
Net loss for the period attributable to members	Up	1,106%	to	\$8,966,505
Net cash used in operating activities	Up	109%	to	\$8,080,200

### Highlights

- 58% increase in FY2021 net sales to \$5.9M
- 23% increase in Gross Margin to 44% resulting in a 93% increase in Gross Profit from \$1.3M to \$2.6M
- E-commerce sales increased to 45% of total net sales
- Strong investment in sales and marketing capability to support scaling of the business
- Underlying EBITDA Loss of (\$4M) – after adjusting for non-recurring costs associated with capital raising activities convertible notes and an IPO

### ASX Listing

Hydralyte North America listed on the Australian Securities Exchange (ASX) on 14 December 2021 following an Initial Public Offer (IPO) which raised A\$17 million (US\$12.1 million). Hydralyte North America issued ~59 million shares at A\$0.29 per share under its IPO, giving it an indicative market capitalisation of A\$46M. Hydralyte is using funds from the IPO for marketing of online and retail channels, new product development, operating expenses and working capital.

### Financial Results

#### Net Sales

The Company achieved net revenue of \$5,918,580 for FY21, which represented a 58% or \$2.2 million increase on the previous 12-month period (FY20: \$3,756,695).

#### Gross Margin

The Company's gross margin improved by 23% or eight percentage points from 36% to 44% for FY21, up 93% in dollars to \$2,581,001 (FY20: \$1,335,465).

#### Sales and Marketing Expenses

With 58% YOY sales growth and continued growth focus, Hydralyte invested more heavily in sales and marketing resulting in a \$3.1M increase in sales and marketing expense. The increases are outlined in the following table:

Sales Rep and Processing Increase	\$1.0M
Other Marketing Increase	\$0.2M
Digital Ads Increase	\$1.9M
Total Increase in Sales and Marketing Expenses	\$3.1M

#### *One-off or non-cash items*

Costs were impacted materially by non-recurring costs associated with capital raising activities. After removing non-cash and one-off costs largely surrounding the IPO, Hydralyte calculates an underlying loss for the year at \$4.0M. Hydralyte listed on the ASX in December 2021 following a Pre-IPO issuance of convertible notes in March 2021. With the listing came significant expenses hitting the FY21 statement of profit and loss. Following is a summary of the non-cash or one-off costs hitting the unaudited Consolidated Statement of Profit or Loss:

	Loss for the Year	.....	(\$8.9M)
<b>One-off or Non-Cash Costs:</b>			
Loss on Conversion of Convertible Notes	\$1.9M		non-cash
Costs of Pre-IPO Raise	\$0.3M		
Interest Expense on Convertible Notes	\$0.7M		non-cash
Portion of IPO Related Expense Hitting the P&L	\$0.6M		
IPO Broker Options Expense	\$0.2M		non-cash
Share Based Payments Triggered on IPO	\$1.2M		non-cash
Total Exceptional or Non-Cash Costs		\$4.9M	
<b>Underlying EBITDA for the Year</b>		<b>(\$4.0M)</b>	

Of additional note, the change in loss from 2020 to 2021 was impacted by a one-off sale of territories to raise \$2.75M in 2020. This is reflected in other income for 2020, netting into the lower 2020 Loss for the year.

#### **COVID-19**

COVID-19 had a pronounced impact on bricks and mortar retail sales during 2020 and into the first half of 2021. This led to inconsistent sales in Canada due to lockdown periods, which was most pronounced between Q4FY20 and Q1FY21.

However, Hydralyte North America experienced strong growth during the period whilst also taking proactive steps to build stock and navigate supply chain challenges felt globally as a result of COVID-19. The Company continues to keep all major customers in stock with top-selling products, maintaining a balance of air, sea and land freight to ensure supply remains uninterrupted.

On key SKUs, Hydralyte North America is carrying extra inventory to mitigate the risk of supply problems that could disrupt sales spikes in 2022.

#### **Outlook**

Hydralyte is focused on new product innovation and plans to launch up to five new products across the USA and Canada in the first half of FY22. The company continues to discuss inventory build with major retailers, particularly leading up to summer, which is a peak sales period.

The Company expects future growth relative to prior periods to be inconsistent up until Q3 FY22, due to abnormal trading trends resulting from the impacts of COVID-19 lockdowns in FY20 and H1FY21.

#### **Dividends**

No dividends have been paid or declared since the beginning of the current reporting period. No dividends were paid for the previous reporting period.

#### **Net Tangible Assets**

	31 December 2021	31 December 2020
Net Tangible Assets/(Liabilities)	\$13,274,606	\$2,002,850
Shares (No.)	161,026,683	56,766,926

**Loss per Share**

	31 December 2021	31 December 2020
Basic/Diluted loss per share (cents)	13.783	1.310

There are no entities for which control was gained or lost in the period.

**About Hydralyte North America:**

A well-known brand developed in Australia in 2001 to produce a range of electrolyte-rich tablets, liquids and powders, Hydralyte North America formed in 2014 and aims to grow its footprint in new international markets, led by an experienced management team and high skilled Board of Directors. Hydralyte North America does not operate in Australia or New Zealand, where the brand is owned by Care Pharmaceuticals, but has exclusive rights to the Hydralyte brand in North and South America, Europe (excluding Turkey), China (excluding Taiwan) and Hong Kong. Current operations are focused on the United States and Canada, with headquarters in San Diego, California.

**Status of Audit of Accounts**

This Preliminary Financial Report is based accounts which are in the process of being audited.



ABN 83 620 385 677

## **Appendix 4E Preliminary Final Report**

**For the year ended 31 December 2021**

# **The Hydration Pharmaceuticals Company Limited**

## **Consolidated Financial Statements**

**For the Year Ended 31 December 2021**

The Hydration Pharmaceuticals Company Limited

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2021

	Note	2021 \$	2020 \$
Revenue	3	5,918,580	3,756,695
Cost of sales		<u>(3,337,579)</u>	<u>(2,421,230)</u>
<b>Gross profit</b>		<b>2,581,001</b>	1,335,465
Other income	3	93	2,815,135
Sales and marketing expenses		(4,827,146)	(1,743,537)
Administrative expenses		(1,522,705)	(1,233,031)
Employee benefits expense		(2,965,166)	(1,635,203)
Depreciation and amortisation expense		(3,337)	(23,488)
Foreign exchange gain/(loss)		1,410,662	(246,685)
Finance expenses		<u>(3,639,907)</u>	<u>(12,319)</u>
<b>Loss before income tax</b>		<b>(8,966,505)</b>	(743,663)
Income tax expense		-	-
<b>Loss for the year</b>		<b><u>(8,966,505)</u></b>	<b><u>(743,663)</u></b>
<b>Other comprehensive income, net of income tax</b>			
Exchange differences on translating foreign controlled entities		<u>(1,171,721)</u>	285,610
<b>Other comprehensive income/(loss) for the year, net of tax</b>		<b><u>(1,171,721)</u></b>	285,610
<b>Total comprehensive loss for the year</b>		<b><u>(10,138,226)</u></b>	<b><u>(458,053)</u></b>

The accompanying notes form part of these consolidated financial statements.

# The Hydration Pharmaceuticals Company Limited

## Consolidated Statement of Financial Position

As At 31 December 2021

	Note	2021 \$	2020 \$
<b>ASSETS</b>			
CURRENT ASSETS			
Cash and cash equivalents	4	10,672,533	1,644,583
Trade and other receivables	5	1,036,075	787,477
Inventories	6	1,794,742	1,590,026
Other assets	7	1,825,262	420,278
TOTAL CURRENT ASSETS		<u>15,328,612</u>	<u>4,442,364</u>
NON-CURRENT ASSETS			
Property, plant and equipment		-	3,337
TOTAL NON-CURRENT ASSETS		<u>-</u>	<u>3,337</u>
TOTAL ASSETS		<u>15,328,612</u>	<u>4,445,701</u>
<b>LIABILITIES</b>			
CURRENT LIABILITIES			
Trade and other payables	8	2,033,469	2,424,442
TOTAL CURRENT LIABILITIES		<u>2,033,469</u>	<u>2,424,442</u>
NON-CURRENT LIABILITIES			
Long-term provisions	9	20,537	18,409
TOTAL NON-CURRENT LIABILITIES		<u>20,537</u>	<u>18,409</u>
TOTAL LIABILITIES		<u>2,054,006</u>	<u>2,442,851</u>
NET ASSETS		<u>13,274,606</u>	<u>2,002,850</u>
<b>EQUITY</b>			
Contributed equity		36,448,661	16,494,829
Reserves		1,209,406	924,977
Accumulated losses		(24,383,461)	(15,416,956)
TOTAL EQUITY		<u>13,274,606</u>	<u>2,002,850</u>

The accompanying notes form part of these consolidated financial statements.

## The Hydration Pharmaceuticals Company Limited

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

2021

	Contributed Equity	Accumulated Losses	Foreign Currency Translation Reserve	Share Based Payment Reserve	Total
Note	\$	\$	\$	\$	\$
<b>Balance at 1 January 2021</b>	<b>16,494,829</b>	<b>(15,416,956)</b>	<b>611,074</b>	<b>313,903</b>	<b>2,002,850</b>
Loss for the year	-	(8,966,505)	-	-	(8,966,505)
Other comprehensive income	-	-	(1,171,721)	-	(1,171,721)
<b>Transactions with owners in their capacity as owners</b>					
Issue of convertible notes	8,850,524	-	-	-	8,850,524
Issue of IPO shares	12,201,590	-	-	-	12,201,590
Share issue costs	(1,098,283)	-	-	-	(1,098,283)
Employee share scheme	-	-	-	1,456,151	1,456,151
<b>Balance at 31 December 2021</b>	<b>36,448,660</b>	<b>(24,383,461)</b>	<b>(560,647)</b>	<b>1,770,054</b>	<b>13,274,606</b>

2020

Note	\$	\$	\$	\$	\$
<b>Balance at 1 January 2020</b>	<b>16,494,829</b>	<b>(14,673,293)</b>	<b>325,464</b>	<b>238,772</b>	<b>2,385,772</b>
Loss for the year	-	(743,663)	-	-	(743,663)
Other comprehensive income	-	-	285,610	-	285,610
Employee share scheme	-	-	-	75,131	75,131
<b>Balance at 31 December 2020</b>	<b>16,494,829</b>	<b>(15,416,956)</b>	<b>611,074</b>	<b>313,903</b>	<b>2,002,850</b>

The accompanying notes form part of these consolidated financial statements.



# The Hydration Pharmaceuticals Company Limited

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

	2021	2020
Note	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers (inclusive of GST)	5,760,075	3,523,210
Payments to suppliers and employees (inclusive of GST)	(13,234,085)	(7,373,214)
Transaction costs from issuance of IPO shares	(606,190)	-
Interest paid	-	(12,319)
Net cash provided by/(used in) operating activities	<u>(8,080,200)</u>	<u>(3,862,323)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds on disposal of intellectual properties	-	2,750,000
Purchase of property, plant and equipment	-	(18,075)
Net cash provided by/(used in) investing activities	<u>-</u>	<u>2,731,925</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from the issue of convertible notes	6,415,000	-
Proceeds from issue of IPO shares	12,033,415	-
Transaction cost from issuance of convertible notes and shares	(1,421,239)	-
Net cash provided by/(used in) financing activities	<u>17,027,176</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents held	8,946,976	(1,130,398)
Cash and cash equivalents at beginning of year	1,644,583	2,736,056
Effects of exchange rate changes on cash and cash equivalents	80,974	38,925
Cash and cash equivalents at end of financial year	<u>4 10,672,533</u>	<u>1,644,583</u>

The accompanying notes form part of these consolidated financial statements.

# The Hydration Pharmaceuticals Company Limited

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

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 Company limited by shares, incorporated and domiciled in Australia.

Each of the entities within the Group prepare their financial statements based on the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in USD (\$) which is the parent entity's functional and presentation currency.

### 1 Basis of Preparation

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 financial statements are presented below and have been consistently applied unless stated otherwise.

#### *Historical cost convention*

The 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 non-current assets, financial assets and financial liabilities. The amounts presented in the financial statements have been rounded to the nearest dollar unless stated otherwise.

### 2 Summary of Significant Accounting Policies

#### (a) Foreign currency translation

##### *Functional and presentation currency*

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in USD (\$), which is The Hydration Pharmaceuticals Company Limited's functional and presentation currency.

##### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

#### (b) Basis for consolidation

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

Intragroup assets, liabilities, equity, income, expenses and cashflows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a December financial year end.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2021

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

##### (b) Basis for consolidation (continued)

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

##### *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the parent has control. Control is established when the parent is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

##### *Group companies*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position,
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

##### (c) Revenue and other income

Sales of goods are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customers acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

Goods are often sold with discounts, rebates and promotional incentives. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated discounts, rebates and promotional incentives which are highly dependent or inter-related with the sales contracts such that the customer could not benefit from one without other. They are therefore not accounted for as a separate performance obligation. Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Accumulated experience is used to estimate and provide for such discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2021

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

##### (c) Revenue and other income (continued)

Customers are invoiced on a monthly basis and consideration is payable when invoiced.

##### *Government grants*

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants are recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate

##### *Interest income*

Interest income is recognised using the effective interest method.

##### (d) Income Tax

The tax expense recognised in the consolidated statement of profit or loss and other comprehensive income comprises current income tax expense.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (loss) for the year and is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and laws that have been enacted or substantively enacted by the end of the reporting period. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred tax is provided on temporary differences which are determined by comparing the carrying amounts of tax bases of assets and liabilities to the carrying amounts in the consolidated financial statements.

Deferred tax is not provided for the following:

- The initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
- Taxable temporary differences arising on the initial recognition of goodwill.
- Temporary differences related to investment in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised.

Current and deferred tax is recognised as income or an expense and included in profit or loss for the period except where the tax arises from a transaction which is recognised in other comprehensive income or equity, in which case the tax is recognised in other comprehensive income or equity respectively.

## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

### 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 with other receivables or payables in the consolidated statement of financial position.

#### (f) Cash and cash equivalents

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

#### (g) Trade and other receivables

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

The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less loss allowance. The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of previous sales and the corresponding historical credit losses experienced.

#### (h) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost of inventory is determined using the 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 2021

#### 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*

On initial recognition, the Group classifies its financial assets into the following categories, those measured at:

- amortised cost

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets.

###### *Amortised cost*

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2021

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

##### (j) Financial instruments (continued)

###### **Financial assets (continued)**

method less provision for impairment.

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

###### *Impairment of financial assets*

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

- financial assets measured at amortised cost

When determining whether the credit risk of 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 is more than 90 days past due.

Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows expected to be received. This is applied using a probability weighted approach.

###### *Trade receivables and contract assets*

Impairment of trade receivables and contract assets have been determined using the simplified approach in AASB 9 which uses an estimation of lifetime expected credit losses. The Group has determined the probability of non-payment of the receivable and contract asset and multiplied this by the amount of the expected loss arising from default.

The amount of the impairment is recorded in a separate allowance account with the loss being recognised in finance expense. Once the receivable is determined to be uncollectable then the gross carrying amount is written off against the associated allowance.

Where the Group renegotiates the terms of trade receivables due from certain customers, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in profit or loss.

###### *Other financial assets measured at amortised cost*

Impairment of other financial assets measured at amortised cost are determined using the expected credit loss

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2021

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

##### (j) Financial instruments (continued)

###### Financial assets (continued)

model in AASB 9. On initial recognition of the asset, an estimate of the expected credit losses for the next 12 months is recognised. Where the asset has experienced significant increase in credit risk then the lifetime losses are estimated and recognised.

###### Financial liabilities

The Group measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.

The financial liabilities of the Group comprise trade payables, bank and other loans and lease liabilities.

##### (k) Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost of disposal and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting year.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

##### (l) Trade and other payables

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

##### (m) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the end of the reporting period.



## Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2021

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

#### (n) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured at the present value of management's best estimate of the outflow required to settle the obligation at the end of the reporting period. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the unwinding of the discount is taken to finance costs in the consolidated statement of profit or loss and other comprehensive income.

#### (o) Contributed equity

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

#### (p) Share-based payments

The Group provides share-based compensation benefits to selected employees and directors. The fair value of options granted are recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

#### (q) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting year but not distributed at the end of the reporting year.

#### (r) Rounding of amounts

The Group is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Instrument to the nearest dollar.

#### (s) Parent entity financial information

The financial information for the parent entity, Hydration Pharmaceuticals Company Limited, disclosed in note 27 has been prepared on the same basis as the consolidated financial statements except as disclosed below.

##### *Investments in subsidiaries, associates and joint ventures*

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the parent entity. Dividends received from associates are recognised in the parent entity profit or loss, rather than being deducted from the carrying amount of these investments.

##### *Tax consolidation legislation*

The Hydration Pharmaceuticals Company Limited and its wholly-owned Australian subsidiaries have formed an

## Notes to the Consolidated Financial Statements

### For the Year Ended 31 December 2021

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

**(s) Parent entity financial information (continued)**  
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 Revenue and Other Income

	2021 \$	2020 \$
<i>Revenue</i>		
Revenue from contracts with customers	5,918,580	3,756,695
	<b>5,918,580</b>	<b>3,756,695</b>

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

	2021 \$	2020 \$
US	2,897,856	1,757,288
Canada	3,020,724	1,999,407
Australia	-	-
	<b>5,918,580</b>	<b>3,756,695</b>

	2021 \$	2020 \$
<i>Other Income</i>		
- Other income from sales of intellectual properties	-	2,750,000
- Government grants	-	65,000
- Interest income	93	135
	<b>93</b>	<b>2,815,135</b>

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

# The Hydration Pharmaceuticals Company Limited

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

### 4 Cash and Cash Equivalents

	2021	2020
	\$	\$
Bank balances	10,672,533	1,644,583
	<u>10,672,533</u>	<u>1,644,583</u>

### 5 Trade and Other Receivables

	2021	2020
	\$	\$
Trade receivables	1,035,025	787,134
Other receivables	1,050	343
	<u>1,036,075</u>	<u>787,477</u>

### 6 Inventories

	2021	2020
	\$	\$
Raw materials and consumables	303,293	141,874
Finished goods	1,313,214	1,001,190
Goods in transit	290,476	554,680
Writedowns	(112,241)	(107,718)
	<u>1,794,742</u>	<u>1,590,026</u>

### 7 Other Assets

	2021	2020
	\$	\$
Prepayments	1,825,262	420,278
	<u>1,825,262</u>	<u>420,278</u>

### 8 Trade and Other Payables

	2021	2020
	\$	\$
Trade payables	569,239	1,177,083
Accrued rebates and incentives	463,998	766,502
Accrued expenses	1,000,232	394,491
Other payables	-	86,366
	<u>2,033,469</u>	<u>2,424,442</u>

### 9 Provisions

	2021	2020
	\$	\$
Provisions for leave entitlements	20,537	18,409