743 Prospect Street
La Jolla, CA 92037

Company Announcement
ASX: HPC

DATE: 30/08/2024

All amounts in $US and unaudited unless otherwise specified.

1H FY24 Half Year Report and Appendix 4D: Hydralyte North America Record Gross Profit

1. Company details

Name of entity:	The Hydration Pharmaceuticals Company Limited
ABN:	83 620 385 677
Reporting period:	For the half-year ended 30 June 2024
Previous period:	For the half-year ended 30 June 2023

2. Results for announcement to the market

				$m's
Revenues from ordinary activities	down	6%	to	5.0m
Loss from ordinary activities after tax attributable to the owners of The Hydration Pharmaceuticals Company Limited	down	12%	to	(3.1m)
EBITDA[1] Loss	down	34%	to	(2.4m)
Loss for the half-year attributable to the owners of The Hydration Pharmaceuticals Company Limited	down	12%	to	(3.1m)

Loss per share
Basic and diluted earnings per share

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

	1H FY2024 $	1H FY2023 $
Basic and diluted earnings/(loss) per share	(.01)	(.02)
Loss for the year used in the calculation	3,111,616	3,531,115
Weighted average number of ordinary shares	276,286,500	163,820,596

Dividends
There were no dividends paid, recommended, or declared during the current financial period.

Comments
The loss for the consolidated entity after providing for income tax amounted to $US3.1m (30 June 2023: $US3.5m).

[1] EBITDA excludes SBP, FX gain(loss), FV movement on derivative financial instrument, Interest and Amortization.

Refer to the 'Review of operations' section of the Directors' report for further commentary on the results of the consolidated entity.

743 Prospect Street
La Jolla, CA 92037

3. Net tangible assets

	30 Jun 2024 $	30 Jun 2023 $
Net assets	(2,760,385)	432,753
Less: Intangibles	0	0
Net tangible assets	(2,760,385)	432,753
	Number	Number
Total shares issued	304,913,073	164,318,128
	Reporting Period Cents	Reporting Period Cents
Net tangible assets per ordinary security	(0.01)	0

4. Loss of control over entities

Not applicable

5. Dividends

Current Period
There were no dividends paid, recommended, or declared during the current financial period.

Previous Period
There were no dividends paid, recommended, or declared during the previous financial period.

6. Dividend reinvestment plans

Not applicable.

7. Details of associates and joint venture entities

Not applicable

8. Foreign entity

Details of origin of accounting standards used in compiling the report:
The foreign entities are presented in compliance with Australian Accounting Standards

9. Audit qualification or review

Details of audit/review dispute or qualification (if any):
The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim report. The review report includes an emphasis of matter related to going concern.

10. Attachments

Details of attachments (if any):
The Interim report of The Hydration Pharmaceuticals Company Limited for the half-year ended 30 June 2024 is attached.

11. Signed

Signed ______________________ Date: 30 August 2024

Adem Karafili
Chairman
Melbourne

The Hydration Pharmaceuticals Company Limited

ABN 83 620 385 677

Consolidated Interim Financial Report

30 June 2024

The Hydration Pharmaceuticals Company Limited

ABN 83 620 385 677

Contents

For the Half Year Ended 30 June 2024

The directors present their report, together with the consolidated interim financial statements of the Group, being the Company and its controlled entities, for the half-year ended 30 June 2024.

Directors

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

Adem Karafili	
George Livery	Resigned 25 May 2024
Margaret Hardin	
Nick Berry	Appointed 25 May 2024

Principal activities

The principal activities of the Group during the financial period 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 period.

Operating results

The consolidated loss of the Group amounted to $3,111,616 (2023: consolidated loss of $3,531,115).

Review of operations

With the continued focus on profitability and cash preservation, the Company achieved its lowest losses since IPO with a 34% reduction in EBITDA loss (EBITDA loss 1H 2023: $3.6m vs 1H 2024: $2.4m loss). Gross margin as a percentage of net sales increased by 4ppt to 53% (1H 2023: 49%) despite the negative impact of SKU reductions resulting in a cost of goods increase of $0.4m during the period. The SKU reductions are part of the continued effort to improve cash flow and profitability by eliminating the lowest performing products.

Another key aspect of the improved cash flow and reduction in losses was a drastic increase in the efficiency of marketing spend. As a percentage of net sales, marketing spend decreased by 11ppt to $1.5m or 31% of net sales (1H 2023 marketing spend: 42% of net sales or $2.2m). The Company made additional cost cuts and margin improvements during the period and expects the combined efforts of the improvements across several fronts to continue to be realised as the year progresses.

Primarily due to external factors, net sales decreased by 6%, $0.3m (1H 2023: $5.3m vs 1H 2024: $5.0m). A significant factor was the Chapter 11 bankruptcy filing of Rite Aid in the US market. Rite Aid was the top US retail customer in 1H 2023 but had a negative impact on 1H 2024 revenue due to the bankruptcy filing. Net sales to Rite Aid decreased by $0.3m. Rite Aid is expected to recover from Chapter 11 bankruptcy filing and the Company expects sales to regulate in 2H 2024. Another negative impact on net sales early in the half year was inventory systems issues at the top 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.

Although net sales decreased by 6%, gross profit increased by 2% to $2.62m (1H 2023: $2.58m).

Review of operations (continued)

The financial position and performance of the Group was affected by the following key events and transactions during the half year ended 30 June 2024:

- 52% ($0.4m) growth in Canadian eComm revenue from the PCP to $1.1m (1H 2023: $0.7m) driven by strong demand for the product in the eComm channel combined with effective and efficient marketing and advertising spend
- Gross margin increase of 4ppt to 53% (1H 2023: 49%)
- 21% ($0.5m) decline in US traditional retail net revenue to $1.8m (1H 2023: $2.3m) due to Rite Aid bankruptcy filing from which they are expected to recover
- 29% ($0.9m) reduction in net cash used in operating activities to $2.1m (1H 2023: $2.9m) with continuing improvements
- 34% reduction in EBITDA loss (EBITDA loss 1H 2023: $3.6m vs 1H 2024: $2.4m loss)

Strong improvement in cash used and reduction in EBITDA losses is attributed to the Company's efforts to shift focus to cash preservation and improved profitability through cost savings across all aspects of the Company including gross margin improvements, reduction of marketing and advertising spend with increased efficiency, and reduction of all other expenses across the board.

On 27 March 2024, the Group 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).

Hydralyte secured A$1.7 million in new funding under the terms of the variation (Amended PURE Facility) in May 2024. 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 Group.

Events after the reporting date

The Company is at an advanced point of negotiations on strategic transactions to sell the Company or divest assets.

Except for the above, no other matters or circumstances have arisen since the end of the financial half 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.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* for the half year ended 30 June 2024 is set out on page 4.

ASIC corporations instrument 2016/191 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 and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest dollar in accordance with the instrument, unless otherwise stated.

Directors' Report
30 June 2024

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

....

Chairman

Melbourne

Dated this ....30.............. day of ....August.............. 2024

Auditor's Independence Declaration

As lead auditor for the review of The Hydration Pharmaceuticals Company Limited for the half-year ended 30 June 2024, 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 review; and

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

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

Graeme McKenna

Graeme McKenna
Partner
PricewaterhouseCoopers

Melbourne
30 August 2024

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Half Year Ended 30 June 2024

	Note	30 June 2024 $	30 June 2023 $
Revenue	8	**4,966,376**	5,304,665
Cost of sales		**(2,344,019)**	(2,724,085)
Gross profit		**2,622,357**	2,580,580
Other income		**178**	-
Sales and marketing expenses		**(2,803,069)**	(3,728,536)
Administrative expenses		**(1,002,075)**	(1,110,889)
Employee benefits expense		**(1,325,053)**	(1,733,870)
Foreign exchange gain/(loss)		**108,909**	555,305
Fair value movement on derivative financial instruments		**173,902**	228,417
Finance costs		**(886,765)**	(322,122)
Loss before income tax		**(3,111,616)**	(3,531,115)
Income tax expense		**-**	-
Loss for the half-year		**(3,111,616)**	(3,531,115)
Other comprehensive income, net of tax			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign controlled entities		**21,500**	(458,004)
Other comprehensive income/(loss) for the half-year, net of tax		**21,500**	(458,004)
Total comprehensive income/(loss) for the half-year		**(3,090,116)**	(3,989,119)
Loss per share			
Basic loss per share	11	(0.01)	(0.02)
Diluted loss per share	11	(0.01)	(0.02)

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

ABN 83 620 385 677

Consolidated Statement of Financial Position

As at 30 June 2024

	Note	30 June 2024 $	31 December 2023 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	2	**853,957**	1,840,274
Trade and other receivables	3	**1,260,486**	1,748,571
Inventories	4	**2,594,917**	2,392,082
Other assets	5	**926,761**	710,492
TOTAL CURRENT ASSETS		**5,636,121**	6,691,419
TOTAL ASSETS		**5,636,121**	6,691,419
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	6	**3,433,997**	3,064,336
Derivative financial instruments	12	**238,282**	69,232
TOTAL CURRENT LIABILITIES		**3,672,279**	3,133,568
NON-CURRENT LIABILITIES			
Provisions		**22,712**	23,352
Borrowings	12	**4,701,515**	3,892,754
TOTAL NON-CURRENT LIABILITIES		**4,724,227**	3,916,106
TOTAL LIABILITIES		**8,396,506**	7,049,674
NET ASSETS		**(2,760,385)**	(358,255)
EQUITY			
Contributed equity	7	**39,672,837**	39,328,597
Reserves		**3,756,555**	3,391,309
Accumulated losses		**(46,189,777)**	(43,078,161)
TOTAL EQUITY		**(2,760,385)**	(358,255)

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

The Hydration Pharmaceuticals Company Limited

ABN 83 620 385 677

Consolidated Statement of Changes in Equity

For the Half Year Ended 30 June 2024

	Contributed Equity	Accumulated Losses	Foreign Currency Translation Reserve	Share Based Payment Reserve	Total
	$	$	$	$	$
Balance at 1 January 2024	**39,328,597**	**(43,078,161)**	**(1,316,670)**	**4,707,979**	**(358,255)**
Loss for the half-year	**-**	**(3,111,616)**	**-**	**-**	**(3,111,616)**
Other comprehensive income	**-**	**-**	**21,500**	**-**	**21,500**
Transactions with owners in their capacity as owners					
Issue of shares	**344,240**	**-**	**-**	**-**	**344,240**
Employee share scheme	**-**	**-**	**-**	**343,746**	**343,746**
Balance at 30 June 2024	**39,672,837**	**(46,189,777)**	**(1,295,170)**	**5,051,725**	**(2,760,385)**

	Contributed Equity	Accumulated Losses	Foreign Currency Translation Reserve	Share Based Payment Reserve	Total
	$	$	$	$	$
Balance at 1 January 2023	36,613,006	(34,975,783)	(1,242,524)	3,586,474	3,981,173
Loss for the half-year	-	(3,531,115)	-	-	(3,531,115)
Other comprehensive income	-	-	(458,004)	-	(458,004)
Transactions with owners in their capacity as owners					
Share issue transaction costs	(5,329)	-	-	-	(5,329)
Employee share scheme	-	-	-	446,028	446,028
Balance at 30 June 2023	36,607,677	(38,506,898)	(1,700,528)	4,032,502	432,753

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

Consolidated Statement of Cash Flows

For the Half Year Ended 30 June 2024

	Note	30 June 2024 $	30 June 2023 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		**5,454,639**	4,828,170
Payments to suppliers and employees (inclusive of GST)		**(7,446,095)**	(7,464,710)
Interest paid		**(100,236)**	(270,699)
Net cash inflow/(outflow) from operating activities		**(2,091,692)**	(2,907,239)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash inflow/(outflow) from investing activities		**-**	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**1,109,673**	-
Transaction costs		**(23,970)**	(5,329)
Net cash inflow/(outflow) from financing activities		**1,085,703**	(5,329)
Net increase/(decrease) in cash and cash equivalents		**(1,005,989)**	(2,912,568)
Cash and cash equivalents at beginning of the half-year		**1,840,274**	4,688,191
Effects of exchange rate changes on cash and cash equivalents		**19,672**	(36,190)
Cash and cash equivalents at end of the half-year	2	**853,957**	1,739,433

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

Notes to the Consolidated Financial Statements

For the Half Year Ended 30 June 2024

The consolidated interim 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 interim financial statements are presented in USD ($) which is the parent entity's functional and presentation currency.

The consolidated interim financial report was authorised for issue by the Directors on 30 August 2024.

1 Basis of preparation

This consolidated interim financial report for the half-year reporting period ended 30 June 2024 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2023 and any public announcements made by The Hydration Pharmaceuticals Company Limited during the interim reporting period in accordance with the continuous disclosure requirements.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Going concern

The consolidated interim financial report has 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 $3,111,616 (2023: $3,531,115) and had net cash outflows from operating activities of $2,091,692 (2023: $2,907,239 net cash outflows) for the half year ended 30 June 2024.

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 this consolidated interim financial report. The continuing viability of the Group is dependent on its ability to generate sufficient funds from its operating activities, successfully completing a transaction to sell the business or divest assets, securing alternative working capital financing options which will require approval from current lenders, and/or securing access to the additional tranches of debt under the variation to its Facility Agreement, which is subject to various conditions.

Variation to Facility Agreement with PURE Asset Management

On 27 March 2024, the Group 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).

Hydralyte secured A$1.7 million in new funding under the terms of the variation (Amended PURE Facility) in May 2024. 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 Group.

Group to seek a sale of business or divestment of assets

In addition to the arrangements with PURE Asset Management described above, the Board is at an advanced point of negotiations on strategic transactions, however, there is no guarantee that any transaction will eventuate. The Company will update the market as to the progress of any strategic transaction as and when required by the Listing Rules.

1 Basis of preparation (continued)

Going concern (continued)

As at the signing date of the consolidated interim financial report, the Group has approximately US$1.1 million of available cash and cash equivalents. If a transaction to sell the business or divest assets is not completed, further amounts may need to be drawn under the Amended PURE Facility or sourced from alternative working capital financing options, subject to PURE's discretion and approval, to meet ongoing debts and obligations as and when they fall due.

With the advanced point of negotiations, the directors and management are of the view that the Group will be successful in these matters, and accordingly have prepared the consolidated interim financial report 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 consolidated interim financial report.

The consolidated interim financial report does 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 Cash and cash equivalents

	30 June 2024 $	31 December 2023 $
Cash at bank and in hand	**853,957**	1,840,274
	853,957	1,840,274

3 Trade and other receivables

	30 June 2024 $	31 December 2023 $
Trade receivables	**1,264,603**	1,783,986
Provision for doubtful accounts	**(14,860)**	(38,987)
Other receivables	**10,743**	3,572
	1,260,486	1,748,571

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 $14,860 as at 30 June 2024.

Notes to the Consolidated Financial Statements

For the Half Year Ended 30 June 2024

4 Inventories

	30 June 2024 $	31 December 2023 $
Raw materials and consumables	**145,435**	372,016
Finished goods	**2,973,998**	2,340,357
Goods in transit	**55,291**	-
Write-downs	**(579,807)**	(320,291)
	2,594,917	2,392,082

5 Other assets

	30 June 2024 $	31 December 2023 $
Prepayments	**926,761**	710,492

6 Trade and other payables

	30 June 2024 $	31 December 2023 $
Trade payables	**1,511,711**	1,059,466
Accrued expenses	**1,564,997**	1,645,180
Returns and other liabilities	**357,289**	359,690
	3,433,997	3,064,336

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

7 Contributed equity

	2024 Shares	2023 Shares	2024 $	2023 $
Ordinary shares	**304,913,073**	265,141,804	41,098,136	40,753,896
Share issue transaction costs	**-**	-	(1,425,299)	(1,425,299)
	304,913,073	265,141,804	39,672,837	39,328,597

As part of the Amended PURE Facility outlined below in note 12, on 10 May 2024, the Group issued 39,771,269 fully paid ordinary shares to PURE and their nominees as satisfaction of the Group's requirement to prepay PURE an amount of interest. See note 12 for more details.

8 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/(loss) on a consolidated basis.

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

	30 June 2024 $	30 June 2023 $
Revenue by geography		
United States	**1,801,535**	2,285,519
Canada	**3,164,841**	3,019,146
Total revenue	**4,966,376**	5,304,665
Other income	**178**	-
Cost of sales	**(2,344,019)**	(2,724,085)
Sales and marketing expenses	**(2,803,069)**	(3,728,536)
Administrative expenses	**(1,002,075)**	(1,110,889)
Employee benefits expense	**(1,325,053)**	(1,733,870)
Operating losses	**(2,507,662)**	(3,992,715)
Foreign exchange gains/(losses)	**108,909**	555,305
Finance costs	**(886,765)**	(322,122)
Fair value movement on derivative financial instruments	**173,902**	228,417
Net loss for the half-year	**(3,111,616)**	(3,531,115)

9 Dividends

No dividends have been paid during the financial period. The directors do not recommend that a dividend be paid in respect of the financial period.

10 Contingencies

In the opinion of the Directors, the Company did not have any contingencies at 30 June 2024 (31 December 2023: Nil).

11 Loss per share

	30 June 2024 $	30 June 2023 $
Basic and diluted loss per share	**(0.01)**	(0.02)
Net loss used in the calculation of basic and diluted loss per share	**3,111,616**	3,531,115
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic and diluted loss per share	**276,286,500**	163,820,596

12 Borrowings

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).

The Company amended the Original PURE Facility to make available additional tranches of debt, tranches three, four, and five. Tranche three totals A$1.7m and tranche four and five are A$1.5m each. The A$1.7m tranche three was made immediately available to the Company subject to an ASX waiver that was granted on 24 April 2024. The Company issued 85,000,000 warrants in connection with the tranche three funding (Third Tranche Warrants). Tranches four and five are subject to the discretion of PURE.

Under the terms of the variation (Amended PURE Facility), Hydralyte has secured A$1.7m in new funding.

The Original PURE facility was 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.

The Amended PURE facility is a A$16.7 million five tranche facility comprising:

- a **First Loan** of A$6,500,000 drawn-down in full on 10 November 2022; and
- a **Second Loan** of A$5,500,000 available until 31 December 2024 subject to PURE's discretion - undrawn at 30 June 2024; and
- a **Third Loan** of A$1.7 million drawn-down in full on 29 April 2024; and
- a **Fourth Loan** of A$1.5 million available until 31 December 2024 subject to PURE's discretion - undrawn at 30 June 2024; and
- a **Fifth Loan** of A$1.5 million available until 31 December 2024 subject to PURE's discretion - undrawn at 30 June 2024.

Key terms of the funding

The repayment date is 48 months after the utilisation date of the First Loan and includes an interest rate of 15% per annum. If a Material Default occurs, an interest rate of 30.0% will apply on and from drawdown of the Third Loan.

The parties agree that:

- 50% of the interest payable on the First Loan; and
- 100% of the interest payable on the Third Loan, may be capitalised and added to the amount owing under the relevant Loan (**Capitalised Interest**), provided that there is no default or review event subsisting at the time.

12 Borrowings (continued)

Key terms of the funding (continued)

Subject to the ASX Listing Rules (including Listing Rule 7.1) and the Corporations Act, the Capitalised Interest must be converted into fully paid ordinary shares (Shares) on the last day of each interest period and issued to PURE (or nominee). This will cease to apply on the earlier of the occurrence of a Material Default and PURE giving written notice to the Company that the Capitalised Interest will not be so converted (at its discretion).

Capitalised Interest will be converted to Shares at an effective issue price representing the volume weighted average price of Shares over the 10 trading days on which trades were recorded prior to the date of the conversion (10 Day Trailing VWAP).

A total of approximately 12 months' worth of Capitalised Interest will be prepaid via the Interest Prepayment Amount to PURE or nominee.

Any further Capitalised Interest may only be settled via the issue of Shares:

- provided that PURE's relevant interest in Shares does not exceed 19.99% as a result of the issuance (or to the extent permitted under the 'creep' provision in item 9 of section 611 of the Corporations Act); and
- to the extent that the Company has available capacity under Listing Rule 7.1 at the time (or has sought shareholder approval for the issue under Listing Rule 7.1), failing which the Capitalised Interest will not be settled via the issue of Shares and the amount owing to PURE will increase accordingly.

The Company has prepaid PURE an amount of interest equal to A$742,500, of which A$528,633 was issued in shares and A$213,867 was capitalised.

The Amended PURE Facility includes the following covenants:

- from utilisation of the First Loan, a minimum cash covenant at all times of A$250,000;
- 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.

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

Warrants

First Warrant Deed

As part of the initial 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).

12 Borrowings (continued)

Warrants (continued)

First Warrant Deed (continued)

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 in the Original PURE Facility.

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.

Second Warrant Deed

In conjunction with the Amended PURE Facility, a 'Second Warrant Deed' has been entered into between the Company and PURE.

The Second Warrant Deed provides as follows.

The Company has issued 85,000,000 Warrants in connection with the Third Loan (**Third Tranche Warrants**). If drawn down, additional Warrants will be issued in connection with the Fourth and Fifth Loans.

The Third Tranche Warrants will be exercisable for Shares at an exercise price (**Third Tranche Exercise Price**) representing the lower of:

- $0.02;
- a 20.0% discount to the price of any change of control transaction; and
- an 'anti-dilution price adjustment' price (see below).

12 Borrowings (continued)

Warrants (continued)

Second Warrant Deed (continued)

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.

Warrant Cancellation Fee

If a Material Default occurs under the Amended PURE Facility, PURE may elect to have the Company cancel the Third Tranche Warrants (and any Fourth and Fifth Tranche Warrants) for a Warrant Cancellation Fee of $2 million. The Company must pay the Warrant Cancellation Fee within 5 business days of receipt of notice from PURE.

Expiry of the Warrants

The Third Tranche Warrants expire and lapse if not exercised by the 4 year anniversary of the date of the Second Warrant Deed (being 27 March 2024).

Other terms

The Third Tranche 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 Company may not issue any shares other than fully paid ordinary shares while the Warrants are on issue (absent PURE’s consent).

12 Borrowings (continued)

Warrants (continued)

Second Warrant Deed (continued)

Other terms (continued)

The following table summarises the carrying value of borrowings associated with the funding packages entered into by the Company:

	AUD $	USD $
Total facility amount	8,200,000	5,316,529
Transaction costs	(38,487)	(25,589)
Initial fair value of warrants	(544,359)	(354,481)
Prepaid interest	(742,500)	(483,508)
Initial carrying value of borrowings	6,874,654	4,452,951
Amortisation of transaction costs	161,194	107,288
Foreign currency adjustment	-	141,276
Closing carrying value of borrowings	7,035,848	4,701,515

Derivative financial instruments

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. Additionally, the Group determined that an obligation to issue warrants arose from the draw down of the third tranche of the facility, and consequently, a liability for the new warrants was recognised on 1 May 2024.

The fair value of the warrants is US$238,282 as at 30 June 2024, which is presented in current liabilities with the title "Derivative financial instruments". A Black-Scholes valuation methodology was used to estimate the fair value of the derivatives as at 30 June 2024.

13 Events occurring after the reporting date

The Company is at an advanced point of negotiations on strategic transactions to sell the Company or divest assets.

Except for the above, no other matters or circumstances have arisen since the end of the financial half 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

ABN 83 620 385 677

Directors' Declaration

In the directors' opinion:

1. The consolidated interim financial statements and notes set out on pages 5 to 17 are in accordance with the *Corporations Act 2001*, including:

   (a) complying with Accounting Standard AASB 134 *Interim Financial Reporting*, and other mandatory professional reporting requirements, and

   (b) giving a true and fair view of the consolidated Group's financial position as at 30 June 2024 and of its performance for the half-year ended on that date.

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Director ....

Adem Karafili

Dated this ....30............ day of ....August............ 2024

Independent auditor's review report to the members of The Hydration Pharmaceuticals Company Limited

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of The Hydration Pharmaceuticals Company Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 30 June 2024, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration.

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

1. giving a true and fair view of the Group's financial position as at 30 June 2024 and of its performance for the half-year ended on that date

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

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

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 the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty relating to going concern

We draw attention to Note 1 in the half-year financial report, which indicates that the Group incurred a loss of US$3,111,616 and had net cash outflows from operating activities of US$2,091,692 for the half-year ended 30 June 2024, and is dependent on generating sufficient funds from its operating activities, successfully completing a transaction to sell the business or divest assets, and/or securing access to additional funding from its current lenders or from other alternative sources. 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 conclusion is not modified in respect of this matter.

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Responsibilities of the directors for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report, in accordance with Australian Accounting Standards and the *Corporations Act 2001*, including giving a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2024 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Graeme McKenna

Graeme McKenna
Partner

Melbourne
30 August 2024