

1 Company Information

Name of entity:	HYDRIX LIMITED
ABN:	84 060 369 048
Reporting period:	For the half-year ended 31 December 2019
Previous period:	For the half-year ended 31 December 2018

2 Results for announcement to the market

The consolidated entity has adopted Accounting Standard AASB 16 'Leases' for the half-year ended 31 December 2019. The Accounting Standard was adopted using the modified retrospective approach and as such comparatives have not been restated.

Revenues from ordinary activities	up	35.9% to	\$ 8,188,143
(Loss) from ordinary activities after tax attributable to the owners of Hydrix Limited	down	51.0% to	(1,676,896)
(Loss) for the half-year attributable to the owners of Hydrix Limited	down	51.7% to	(1,665,619)

Dividends

The consolidated entity does not propose to pay a dividend.

No dividend or distribution plans are in operation.

Comments

The loss for the consolidated entity after providing for income tax amounted to \$1,665,619 (31 December 2018: \$3,451,492). The consolidated entity's results for the financial half-year reflect its significant investment in improving the performance of the Hydrix business and ongoing 'Buy, Build, Invest' initiatives.

3 Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(5.94)</u>	<u>(3.58)</u>

The calculation of net tangible assets excludes right-of-use assets recognised under AASB 16 'Leases'.

4 Control gained over entities

On 10 October 2019 the company incorporated a subsidiary, Hydrix Medical Pty Ltd.
On 17 October 2019 the company incorporated a subsidiary, Hydrix Medical Pte Ltd.

5 Loss of control over entities

Not applicable.

6 Details of associates and joint venture entities

Not applicable.

7 Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements have been subject to a review by the auditors and the review report is included in the Interim Financial Report.

8 Attachments

Details of attachments (if any):

The Interim Report of Hydrix Limited for the half-year ended 31 December 2019 is attached.

9 Signed



Mr Gavin Coote
Chairman
Melbourne

Date: 27 February 2020

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HYDRIX LIMITED
INTERIM REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019
ABN: 84 060 369 048

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31 December 2019

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General information

The financial statements cover Hydrix Limited as a consolidated entity consisting of Hydrix Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Hydrix Limited's functional and presentation currency.

Hydrix Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office
30-32 Compark Circuit
Mulgrave VIC 3170

Principal place of business
30-32 Compark Circuit
Mulgrave VIC 3170

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2020. The directors have the power to amend and reissue the financial statements.

Directors	Mr Gavin Coote (Chairman)
	Ms Julie King (Non-Executive Director)
	Ms Joanne Bryant (Non-Executive Director)
	Mr Paul Wright (Non-Executive Director)
Company Secretary	Ms Alyn Tai
Registered Office	30-32 Compark Circuit Mulgrave VIC 3170 Phone: (03) 9550 8100
Principal place of business	30-32 Compark Circuit Mulgrave VIC 3170
Share register	Boardroom Pty Limited Grosvenor Place Level 12, 225 George Street Sydney NSW 2000
Auditor	Grant Thornton Audit Pty Ltd Collins Square, Tower 5 727 Collins Street Melbourne VIC 3008
Solicitors	Holding Redlich Level 8, 555 Bourke Street Melbourne VIC 3000
Stock Exchange Listing	Hydrix Limited's shares are listed on the Australian Securities Exchange (ASX code: HYD)
Website	www.hydrix.com
Country of incorporation and domicile	Australia

Hydrix Limited
Directors' Report
For the half-year 31 December 2019

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Hydrix Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2019.

Directors

The following persons were directors of Hydrix Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Mr Gavin Coote

Chairman

Ms Julie King

Non-Executive Director

Ms Joanne Bryant

Non-Executive Director

Mr Paul Wright

Non-Executive Director

Principal activities

The principal activities of the consolidated entity during the half year were providing design, engineering and regulatory services to customers in the medical, industrial, mining and defence industries. Hydrix engineering services help to create novel solutions for its clients primarily under fee-for-services contracts, often working to create ground-breaking technology to help create market leading positions for client products.

The business offers a comprehensive range of engineering and regulatory services including software, electronics, mechanical, industrial design, and general product development services. It's product development and commercialisation services range from applied research through all stages of engineering design, development, prototyping, manufacturer management, certification process management and supply for global markets.

The approximately 75 employees operate at Hydrix' headquarters located in Mulgrave, Victoria Australia.

Review of financials

For the six months to 31 December 2019, the consolidated entity total revenues of \$8,188,143 grew by 36% over the prior year period (December 2018: \$6,024,407).

The operating loss before income tax for the consolidated entity of \$1,635,603 was a 48% improvement compared to the prior year period (December 2018: \$3,168,040 operating loss). The decrease in the operating loss was due to growth in revenues and focused efforts to lower the operating cost structure of the Company.

Cash used in operating activities by the consolidated entity for the reporting period was \$510,449 (31 December 2018 \$3,072,974) and net cash from financing activities were \$3,451,336 (31 December 2018 \$3,062,974).

Cash receipts during the half-year which support the working capital requirements and strategic growth initiatives of the Company included:

- \$9,501,272 receipts from customers
- \$2,367,625 net receipts from share issue transactions, and
- \$1,506,210 net receipts from borrowings and loan repayments.

The Company's cash position was \$3,136,405 at 31 December 2019, compared to \$234,627 at 30 June 2019. The main uses of cash were to support the principal activities of the business, to finance borrowings and to support the Company's strategic growth initiatives.

The Company entered into a \$5 million, 4-year loan facility arrangement with Pure Asset Management. Of this facility, \$4 million was drawn down with \$3 million used to repay maturing shareholder loans, and \$1 million for working capital purposes. \$1 million of the facility remains undrawn.

Hydrix Limited
Directors' Report
For the half-year 31 December 2019

The Company issued 9.034 million new fully paid ordinary shares at an issue price of 29 cents per share, raising \$2,619,900 excluding transaction costs via a Private placement and share purchase plan.

Review of operations

The key operational highlights for the half-year included the following:

Leadership appointments

The leadership team was strengthened with several senior appointments to lead an increased engineering and regulatory workforce and the expanding strategy. The Board also established a Medical Advisory Board to support both the Company's client services business and its strategic growth initiatives.

Design & Engineering Services

The Company achieved 44% Services revenue growth in the half year 31 December 2019 as compared to the prior half year. Client revenues came from diverse ground-breaking technologies which included controller devices for potential use in the treatment of Alzheimer's disease and implantable cardiac devices, implantable device regulatory approvals, invitro-fertilisation devices, orthopaedic surgical tools, smart water utility metres, wearable mine safety equipment, and industrial battery design and power consumption.

Future developments & prospects

The Hydrix 'buy, build and invest' strategy is built around the Company broadly leveraging its expertise in design and engineering to capture more of the value which it creates through its client services solutions. This strategic growth platform is expected to create recurring product revenue streams through acquisition and development of IP, and through product distribution in technologies in which the Company has product development expertise. Its growth strategy also includes pursuing capital returns through strategic contract pricing on selective client engagements whereby Hydrix will take a portion of 'sweat equity' in lieu of cash payment for services rendered.

Hydrix continued to make progress with its 'buy, build, invest' strategy. Hydrix currently holds small equity capital positions in an orthopaedic surgical tool and an invitro-fertilisation device company to which it provided arms-length design, engineering and regulatory services.

Further, during the reporting period, Hydrix entered into multiple arrangements with Angel Medical Inc., including a multi-million dollar contract for design, engineering and regulatory services; a conditional agreement to acquire exclusive distribution of that company's Guardian System product for eight Asia Pacific countries; and agreement to purchase an approximately 5.0% equity share position.

The Guardian System is the world's first FDA approved implantable heart attack alert system, and this multi-faceted contractual arrangement leverages Hydrix' expertise in developing and bringing to market cardiac technology products. This opportunity reinforces the Company's strategic position in cardiac medical technologies and is expected to become an important driver of future value for shareholders.

The Company continues to progress towards commercial market readiness of the Guardian System in Singapore under a customer sponsored access scheme to accelerate potential revenues ahead of a full submission for regulatory approval with the Health Sciences Authority (HSA). The Company is evaluating other similar schemes and arrangements in other jurisdictions under the impending distribution agreement.

The Company continued to evaluate other technology opportunities with potential to accelerate pathways to recurring product revenue streams.

Outlook for full financial year 2020

The Company achieved a strong first half performance required to meet or exceed its full year key milestones, which include:

- To exceed revenue growth of 15%;
- To deliver a full year cash operating profit; and
- Implement one initiative under the 'Buy, Build, Invest' strategy.

The Company's revenue opportunities pipeline has in excess of \$40 million of potential contract value which supports the outlook for the second half of 2020 and financial year 2021.

Hydrix Limited
Directors' Report
For the half-year 31 December 2019

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial half-year.

Rounding of amounts

The company is of a kind referred to in *Corporations Instrument 2016/191*, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest dollar.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.

On behalf of the directors



Mr Gavin Coote

Chairman

27 February 2020

Melbourne

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Auditor's Independence Declaration

To the Directors of Hydrix Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Hydrix Limited for the half year ended 31 December 2019, 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.



Grant Thornton Audit Pty Ltd
Chartered Accountants



A C Pitts
Partner – Audit & Assurance

Melbourne, 27 February 2020

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Hydrix Limited
Consolidated Statement of Profit & Loss and Other Comprehensive Income
For the half-year ended 31 December 2019

		Consolidated	
	Note #	31 Dec 2019	31 Dec 2018
		\$	\$
Revenue			
Revenue	2	8,187,802	6,010,070
Interest revenue		341	14,337
		8,188,143	6,024,407
Operating expenses			
Employee benefits expense		(5,820,705)	(5,041,239)
Depreciation and amortisation expense		(570,330)	(344,584)
Gain/(Loss) on derivatives		173,829	-
Impairment of plant and equipment		(201,652)	-
Impairment of receivables		16,675	(31,110)
Rental expense		(78,928)	(402,328)
Research and development expenses		(2,237)	(105,348)
Selling, advertising and distribution expenses		(256,032)	(262,518)
Share based payment expenses	11	(10,602)	(496,118)
Project material expenses		(1,094,879)	(1,184,504)
Finance costs	3	(639,762)	(209,469)
Other expenses	3	(1,339,123)	(1,115,229)
		(9,823,746)	(9,192,447)
Loss before income tax expense		(1,635,603)	(3,168,040)
Income tax (expense)/ benefit		(41,293)	(256,532)
Loss after income tax expense		(1,676,896)	(3,424,572)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Movement in fair value of long term equity investments		11,277	(26,920)
Total comprehensive loss for year attributable to the Owners of Hydrix Limited		(1,665,619)	(3,451,492)
Loss per share			
Basic and diluted earnings per share (cents per share)		Cents (2.41)	Cents (5.50)

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

Hydrix Limited
Consolidated Statement of Financial Position
As at 31 December 2019

	Note	Consolidated	
		31 Dec 2019 \$	30 June 2019 \$
Current assets			
Cash and cash equivalents		3,136,405	234,627
Trade and other receivables	4	2,368,447	3,598,196
Contract assets		1,127,911	851,516
Prepayments		277,107	171,401
Total current assets		6,909,870	4,855,740
Non-current assets			
Financial assets at fair value through other comprehensive income		410,589	399,312
Deferred tax assets		305,434	346,727
Plant and equipment		365,782	594,142
Right of use assets	9	2,768,748	-
Intangible assets	5	3,725,790	3,996,123
Other assets		21,112	567
Security deposits		419,177	419,177
Total non-current assets		8,016,632	5,756,048
Total Assets		14,926,502	10,611,788
Current liabilities			
Trade and other payables		1,715,770	2,010,866
Contract liabilities	6	312,861	635,962
Borrowings	7	1,856,655	4,230,445
Derivative liabilities	8	936,471	-
Employee benefits		535,294	583,925
Lease liabilities	9	482,653	-
Other liabilities		258,000	412,195
Total current liabilities		6,097,704	7,873,393
Non-current liabilities			
Borrowings	7	2,783,153	-
Employee benefits		261,246	228,744
Lease liabilities	9	3,653,785	-
Provisions		184,298	180,854
Other liabilities		-	1,192,289
Total non-current liabilities		6,882,482	1,601,887
Total Liabilities		12,980,186	9,475,280
Net Assets		1,946,316	1,136,508
Equity			
Issued capital	10	82,096,325	79,276,500
Financial assets at fair value reserve		(20,252)	(31,529)
Share based payments reserves		322,377	841,966
Accumulated losses		(80,452,134)	(78,950,429)
Total Equity		1,946,316	1,136,508

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

Hydrix Limited
Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2019

Consolidated	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total \$
Balance at 1 July 2018	75,029,466	1,230,261	(75,303,848)	955,879
Loss after income tax expense for the half-year	-	-	(3,424,572)	(3,424,572)
Other comprehensive income, net of tax	-	(26,920)	-	(26,920)
Total comprehensive loss for the half-year	-	(26,920)	(3,424,572)	(3,451,492)
<i>Transactions with owners in their capacity as owners:</i>				
Share based payments expense	76,000	420,118	-	496,118
Exercised options / performance rights	355,000	(355,000)	-	-
Expired options	-	(573,162)	573,162	-
Contributions of equity, net of transaction costs	3,816,463	-	-	3,816,463
Balance at 31 December 2018	79,276,929	695,297	(78,155,258)	1,816,968

Consolidated	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total \$
Balance at 1 July 2019	79,276,500	810,437	(78,950,429)	1,136,508
Loss after income tax expense for the half-year	-	-	(1,676,896)	(1,676,896)
Other comprehensive income, net of tax	-	11,277	-	11,277
Total comprehensive loss for the half-year	-	11,277	(1,676,896)	(1,665,619)
<i>Transactions with owners in their capacity as owners:</i>				
Share based payments expense	-	10,602	-	10,602
Exercised options / performance rights	355,000	(355,000)	-	-
Expired options	-	(175,191)	175,191	-
Contributions of equity, net of transaction costs	2,464,825	-	-	2,464,825
Balance at 31 December 2019	82,096,325	302,125	(80,452,134)	1,946,316

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

Hydrix Limited
Consolidated Statement of Cash Flows
For the half-year ended 31 December 2019

	Note	31 Dec 2019 \$	31 Dec 2018 \$
Cash Flows from operating activities			
Receipts from customers (including GST)		9,501,272	5,232,509
Payments to suppliers and employees (including GST)		(9,708,796)	(8,595,244)
Interest received		341	14,842
Interest and other finance costs paid		(303,266)	(58,895)
Income tax receipt (R&D tax incentive)		-	308,814
Refund of deposits		-	25,000
		<u>(510,449)</u>	<u>(3,072,974)</u>
Net cash used in operating activities			
Cash Flows from investing activities			
Payments for plant and equipment		(39,109)	(29,634)
		<u>(39,109)</u>	<u>(29,634)</u>
Net cash used in investing activities			
Cash Flows from financing activities			
Proceeds from issue of shares		2,567,700	2,772,500
Share issue transaction costs		(200,075)	(234,526)
Proceeds from borrowings		4,678,235	525,000
Borrowing transaction costs		(120,000)	
Repayments of borrowings		(3,052,025)	-
Repayments of lease liabilities		(422,499)	-
		<u>3,451,336</u>	<u>3,062,974</u>
Net cash flow from financing activities			
Net increase/(decrease) in cash and cash equivalents		2,901,778	(39,635)
Cash and cash equivalents at the beginning of the financial half-year		234,627	160,148
Cash and cash equivalents at end of the financial half-year		<u><u>3,136,405</u></u>	<u><u>120,513</u></u>

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

Hydrix Limited
Notes accompanying the financial statements
For the half-year ended 31 December 2019

1 Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and derivatives.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 16 Leases

The consolidated entity applied for the first time AASB 16 from 1 July 2019. AASB 16 introduced a single, on balance sheet accounting model for lessees. As a result, in relation to various leases, the consolidated entity has recognised right-of-use assets representing its right to use the underlying assets, and lease liabilities, representing its obligation to make lease payments. The new Standard has been applied using the modified retrospective approach, with no adjustment to opening retained earnings.

The consolidated entity has elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of initial application of AASB 16, being 1 July 2019.

Previously, the consolidated entity classified its office lease as an operating lease under AASB 117. This lease runs for a period of ten years and includes extension options which provide operational flexibility. The lease provides for additional rent payments that are based on changes in local price indices. At transition, for leases classified as operating leases under AASB 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the consolidated entity's incremental borrowing rate as at 1 July 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

Practical expedients applied

The consolidated entity used the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of remaining lease term;
- applied the practical expedient to apply a single discount rate to a portfolio of leases with similar characteristics;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease and;
- adjusted the right-of-use assets by the amount of AASB 137 Provisions, Contingent Liabilities and Contingent Assets onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under AASB 117 immediately before the date of initial application.

On transition to AASB 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under AASB 16 was 10.0%.

Hydrix Limited
Notes accompanying the financial statements
For the half-year ended 31 December 2019

1 Significant accounting policies (continued)

The following is a reconciliation of total operating lease commitments at 30 June 2019 to the lease liabilities recognised at 1 July 2019:

	\$
Operating lease commitments as at 30 June 2019	5,986,942
Discounted using incremental borrowing rate	(1,640,980)
Lease liabilities recognised at 1 July 2019	4,345,962
Of which are:	
Current lease liabilities	444,844
Non-current lease liabilities	<u>3,901,118</u>
	<u>4,345,962</u>

The recognised right-of-use assets relate to the following type of assets:

	30 June 2019	1 July 2019
	\$	\$
Properties	-	2,999,477

Impact of adoption

The impact of AASB 16 on adoption resulted in total assets increasing by \$2,999,477, and total liabilities increasing by \$2,999,477.

Leases

As described above, the consolidated entity has applied AASB 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under AASB 117.

Accounting policy applicable from 1 July 2019

For any new contracts entered into on or after 1 July 2019, the consolidated entity considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the consolidated entity assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the consolidated entity;
- the consolidated entity has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract;
- the consolidated entity has the right to direct the use of the identified asset throughout the period of use. The consolidated entity assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

The consolidated entity recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. Right-of-use assets are depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Generally, the consolidated entity uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The consolidated entity has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the consolidated entity is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

1 Significant accounting policies (continued)

AASB Interpretation 23 'Uncertainty over Income Tax Treatments'

Interpretation 23 requires the assessment of whether the effect of uncertainty over income tax treatments should be included in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The Interpretation outlines the requirements to determine whether an entity considers uncertain tax treatments separately, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances.

The consolidated entity has adopted Interpretation 23 from 1 July 2019, based on an assessment of whether it is 'probable' that a taxation authority will accept an uncertain tax treatment. Where it is probable, the company has determined tax balances consistently with the tax treatment used or planned to be used in its income tax filings. Where the company has determined that it is not probable that the taxation authority will accept an uncertain tax treatment, the most likely amount or the expected value has been used in determining taxable balances. There has been no impact from the adoption of Interpretation 23 in this reporting period.

Revenue recognition

The consolidated entity recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

Rendering of services

Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

1 Significant accounting policies (continued)

Contract assets

Contract assets are recognised when the consolidated entity has transferred goods or services to the customer but where the consolidated entity is yet to establish an unconditional right to consideration. Contract assets are treated as financial assets for impairment purposes.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

Contract liabilities

Contract liabilities represent the consolidated entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration before the consolidated entity has transferred the goods or services to the customer.

Financial liabilities

The consolidated entity's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges are included within finance costs or finance income.

Hydrix Limited
Notes accompanying the financial statements
For the half-year ended 31 December 2019

1 Significant accounting policies (continued)

Fair value measurement of financial instruments

The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 2 and level 3 are determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

The following table shows the levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis at 31 December 2019 and 30 June 2019.

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
31 December 2019				
Financial assets				
Listed securities	31,119	-	-	31,119
Investment in Gyder Surgical Pty Ltd	-	-	379,470	379,470
Total financial assets recognised at fair value	31,119	-	379,470	410,589
Financial liabilities				
Embedded derivative liability	-	936,471	-	936,471
Total financial liabilities recognised at fair value	-	936,471	-	936,471
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
30 June 2019				
Financial assets				
Listed securities	19,842	-	-	19,842
Investment in Gyder Surgical Pty Ltd	-	-	379,470	379,470
Total financial assets recognised at fair value	19,842	-	379,470	399,312
Financial liabilities				
Embedded derivative liability	-	-	-	-
Total financial liabilities recognised at fair value	-	-	-	-

There were no transfers between Level 1, Level 2, and Level 3 during the six month period to 31 December 2019.

The valuation techniques used for instruments categorised in Levels 2, and 3 are described below:

Embedded derivative liability (Level 2)

A Black-Scholes model has been used as a valuation technique to value the embedded derivative liability.

Investment in Gyder Surgical Pty Ltd (Level 3)

Management determined the fair value of this investment by reference to the issue price achieved during its last capital raise in September 2018. Gyder Surgical Pty Ltd is a private company and its valuation is less prone to fluctuations in response to economic and business developments or general market sentiment as compared to a public company.

1 Significant accounting policies (continued)

Critical Accounting Estimates, Assumptions and Judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

(i) Fair value measurement of non-cash consideration - revenue recognition

To determine the transaction price for contracts in which a customer promises consideration in a form other than cash, the consolidated entity measures the non-cash consideration (or promise of non-cash consideration) at fair value. The fair value of non-cash consideration may vary because of the form of the consideration (for example, a change in the price of a share to which the consolidated entity is entitled to receive from a customer). If the fair value of the non-cash consideration promised by a customer varies for reasons other than only the form of the consideration (for example, the fair value could vary because of the consolidated entity's performance) the consolidated entity includes in the transaction price some or all of an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the consolidated entity updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. The consolidated entity accounts for changes in the transaction price by recognising as revenue, or as a reduction of revenue, amounts allocated to satisfied performance obligations, in the period in which the transaction price changes.

(ii) Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

(iii) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

(iv) Employee benefits provision

The liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

(v) Lease make good provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

(vi) Derivative liability

Management uses valuation techniques, such as a black-scholes model, when determining the fair value of embedded derivative liabilities. Inputs to the valuation technique include assumptions and estimates on volatility and risk-free interest rates.

Hydrix Limited
Notes accompanying the financial statements
For the half-year ended 31 December 2019

1 Significant accounting policies (continued)

Going concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business.

For the half year period ended 31 December 2019, the consolidated entity incurred a net loss before tax of \$1,635,603 and reported cash used in operations of \$510,499.

The above factors indicate an uncertainty which may cast doubt as to whether the business will continue as a going concern and therefore whether the consolidated entity will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Despite these facts, the Directors are of the opinion that there are reasonable grounds to believe the consolidated entity will be able to continue as a going concern, after consideration of various factors including:

- The consolidated entity had an available cash balance of \$3,136,405 and unused loan facilities of \$1,000,000 at 31 December 2019;
- The consolidated entity had net current assets (current assets less current liabilities) of \$812,166 at 31 December 2019;
- The Directors believe the consolidated entity would be able to access funds from existing shareholders and new investors to support working capital and execute its strategic growth initiatives should additional capital be required; and
- A budget and cash flow forecast for the period 1 January 2020 to 31 December 2020, which supports the Directors' assertion, has been prepared based on assumptions about certain economic, operating and trading performance achievement contingent on future events and actions yet to occur, and which may not necessarily occur. Should the need arise, there are operating costs of the business that will be reduced if required. Whilst the Directors believe the assumptions are best estimate assumptions based upon information available, the occurrence and timing of future events are not certain. The Directors will continually monitor the operating performance against the budget and cash flow forecast.

Accordingly, the Directors believe that the consolidated entity will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The financial statements do not include any adjustments relating to amounts or classification of recorded assets or liabilities that might be necessary should the consolidated entity not be able to continue as a going concern.

Hydrix Limited
Notes accompanying the financial statements
For the half-year ended 31 December 2019

2 Revenue

	Consolidated	
	31 Dec 2019	31 Dec 2018
	\$	\$
Revenue from contracts with customers		
Rendering of services	7,615,532	5,292,224
Project materials and travel recovered	488,032	326,750
Support and maintenance	73,738	70,532
	<u>8,177,302</u>	<u>5,689,506</u>
Other income		
Research and development tax incentive	-	308,814
Rental income	10,500	11,750
	<u>10,500</u>	<u>320,564</u>
Revenue	<u>8,187,802</u>	<u>6,010,070</u>

The Directors of Hydrix, who, collectively as the Board, are the chief operating decision makers, have determined that the consolidated entity has one reportable operating segment, being engineering services within Australia.

3 Expenses

	Consolidated	
	31 Dec 2019	31 Dec 2018
	\$	\$
(Loss) before income tax includes the following specific expenses:		
Finance costs		
Interest expense on lease liabilities	212,975	-
Pure Asset Management facility fees	111,712	-
Interest on loans	315,075	209,469
Total finance costs	<u>639,762</u>	<u>209,469</u>
Other expenses		
Bad debts written off	74,508	-
Consultancy charges	151,036	83,806
Corporate advisory transaction costs	305,055	44,400
Directors' fees	102,000	98,000
Insurance	54,718	43,600
IT related expenses	182,958	178,159
Legal and professional charges	146,211	130,731
Listing fees and share register maintenance	73,822	74,864
Recruitment fees	106,550	244,184
Travelling costs	82,621	136,084
Administration expenses	59,644	81,401
Total other expenses	<u>1,339,123</u>	<u>1,115,229</u>

Hydrix Limited
Notes accompanying the financial statements
For the half-year ended 31 December 2019

4 Trade and other receivables

The value of Trade and other receivables has been restated in the 30 June 2019 comparative after netting off the value of services invoiced but not yet provided against Contract liabilities. The impact of the correction was to decrease the balance of Trade and other receivables by \$2,200,000 with a corresponding decrease in the balance of Contract liabilities.

	Consolidated	
	31 Dec 2019	30 June 2019
Current	\$	\$
Trade receivables	2,309,818	3,645,736
Less: Allowance for expected credit losses	(47,483)	(64,158)
	<u>2,262,335</u>	<u>3,581,578</u>
GST receivable	53,912	16,382
Other receivables	52,200	236
	<u>2,368,447</u>	<u>3,598,196</u>

Allowance for expected credit losses

The consolidated entity has recognised a gain of \$16,675 in profit or loss in respect of the expected credit losses for the half-year ended 31 December 2019.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

	Expected credit loss rate	Carrying amount	Allowance for
			expected credit losses
	31 Dec 2019	31 Dec 2019	31 Dec 2019
Consolidated	%	\$	\$
Not overdue	1%	1,569,238	14,803
0 to 3 months overdue	0%	421,548	-
3 to 6 months overdue	20%	160,226	32,045
Over 6 months overdue	0%	158,806	635
		<u>2,309,818</u>	<u>47,483</u>

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Hydrix Limited
Notes accompanying the financial statements
For the half-year ended 31 December 2019

5 Intangible assets

	Consolidated	
	31 Dec 2019	30 June 2019
	\$	\$
Goodwill	1,269,400	1,269,400
Less: Impairment	-	-
	<u>1,269,400</u>	<u>1,269,400</u>
Software - at cost	111,205	100,455
Less: Accumulated amortisation	(95,394)	(69,199)
	<u>15,811</u>	<u>31,256</u>
Brand Name	525,000	525,000
Less: Impairment	-	-
	<u>525,000</u>	<u>525,000</u>
Customer Contracts & Relationships	536,000	536,000
Less: Accumulated amortisation	(142,536)	(109,036)
	<u>393,464</u>	<u>426,964</u>
Software - CHEF Framework	2,470,934	2,469,322
Less: Accumulated amortisation	(948,819)	(725,819)
	<u>1,522,115</u>	<u>1,743,503</u>
	<u><u>3,725,790</u></u>	<u><u>3,996,123</u></u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Goodwill	Software	Brand Name	Customer Contracts and Relationships	Software - CHEF Framework	Total
	\$	\$	\$	\$	\$	\$
Balance as at 1 Jul 2019	1,269,400	31,256	525,000	426,964	1,743,503	3,996,123
Additions	-	10,750	-	-	1,612	12,362
Amortisation expense	-	(26,195)	-	(33,500)	(223,000)	(282,695)
Balance as at 31 Dec 2019	<u><u>1,269,400</u></u>	<u><u>15,811</u></u>	<u><u>525,000</u></u>	<u><u>393,464</u></u>	<u><u>1,522,115</u></u>	<u><u>3,725,790</u></u>

6 Contract liabilities

The value of Contract liabilities has been restated in the 30 June 2019 comparative after netting off the value of services invoiced but not yet provided against Trade and other receivables. The impact of the correction was to decrease the balance of Contract liabilities by \$2,200,000 with a corresponding decrease in the balance of Trade and other receivables.

	Consolidated	
	31 Dec 2019	30 June 2019
	\$	\$
Contract liabilities	<u>312,861</u>	<u>635,962</u>

Unsatisfied performance obligations

The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was \$312,861 as at 31 December 2019 (\$635,962 as at 30 June 2019) and is expected to be recognised as revenue in future periods as follows:

	Consolidated	
	31 Dec 2019	30 June 2019
	\$	\$
Within 6 months	312,861	635,962
6 to 12 months	-	-
12 to 18 months	-	-
18 to 24 months	-	-
	<u>312,861</u>	<u>635,962</u>

Hydrix Limited
Notes accompanying the financial statements
For the half-year ended 31 December 2019

7 Borrowings

	Consolidated	
	31 Dec 2019	30 June 2019
	\$	\$
Current		
Shareholder loans	1,750,000	4,205,283
BOQ Finance	106,655	25,161
	<u>1,856,655</u>	<u>4,230,445</u>
Non-Current		
Pure Asset Management loan	4,000,000	-
Less: Capitalised Transaction Costs / Warrant Shares	(1,216,847)	-
	<u>2,783,153</u>	<u>-</u>

Total secured liabilities including assets pledged as security

An unsecured loan facility of \$1,750,000 with a 10% p.a. interest rate has been provided by a major shareholder. As at 31 December 2019 this loan was fully drawn. The loan is repayable on 31 December 2020 or such later date as agreed by the parties.

During the financial half-year two separate loan facilities totalling \$5,000,000 have been provided to the company by Pure Asset Management, in order to refinance \$3,000,000 in shareholder loans, and to provide growth and general working capital. As at 31 December 2019 restricted access to \$1,000,000 remained available for working capital under these loan facilities. These loans are secured over the assets of the consolidated entity. The loan facility has an interest rate of 10% p.a. and is repayable on 6 December 2023.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	31 Dec 2019	30 June 2019
	\$	\$
Total facilities		
Pure Asset Management	-	-
Shareholder loans	1,750,000	4,750,000
	<u>1,750,000</u>	<u>4,750,000</u>
Used at the reporting date		
Pure Asset Management	-	-
Shareholder loans	1,750,000	4,205,283
	<u>1,750,000</u>	<u>4,205,283</u>
Unused at the reporting date		
Pure Asset Management	-	-
Shareholder loans	-	544,717
	<u>-</u>	<u>544,717</u>

Restricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	31 Dec 2019	30 June 2019
	\$	\$
Total facilities		
Pure Asset Management	1,000,000	-
	<u>1,000,000</u>	<u>-</u>
Used at the reporting date		
Pure Asset Management	-	-
	<u>-</u>	<u>-</u>
Unused at the reporting date		
Pure Asset Management	1,000,000	-
	<u>1,000,000</u>	<u>-</u>

Hydrix Limited
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For the half-year ended 31 December 2019

8 Derivative liability

In December 2019, 8,000,000 warrant shares were issued to Pure Asset Management as interest consideration on the borrowings for an exercise price of \$0.50 with expiry date on 17 December 2023. Refer to Note 6 for details on the borrowings.

The fair value of the embedded derivative liability was determined using the Black-Scholes model using the following inputs as at 31 December 2019:

	31 Dec 2019
Share price at measurement date	\$0.24
Expected volatility	90.000%
Dividend yield	0.000%
Risk-free interest rate	0.978%
Carrying amount of liability	\$936,471

The Company obtained shareholder approval at its 2019 Annual General Meeting to consolidate its share capital in the ratio of 10:1. The consolidation was effective on 18 December 2019, and the figures above (number of warrant shares and exercise price) are provided on a post consolidation basis.

9 Leasing

The consolidated entity leases an office building. The lease liability is secured by the related underlying right-of-use asset. Future minimum lease payments at 31 December 2019 were as follows:

	Minimum lease payments due			Total
	Within one year	One to five years	After five years	
	\$	\$	\$	\$
31 December 2019				
Lease payments	874,573	4,689,870	-	5,564,443
Finance charges	(391,920)	(1,036,085)	-	(1,428,005)
Net present values	482,653	3,653,785	-	4,136,438

Set out below are the carrying amounts of the consolidated entity's right-of-use assets:

	Property
	\$
Right-of-use assets	2,999,477
Amortisation	(230,729)
	2,768,748

10 Issued capital

	Consolidated			
	31 Dec 2019	30 June 2019	31 Dec 2019	30 June 2019
	Shares	Shares	\$	\$
Ordinary shares - fully paid	76,622,263	66,932,951	82,096,325	79,276,500
<i>Movements in ordinary share capital</i>				
	Date	Shares	Issue price	\$
Balance	1-Jul-19	66,932,951		79,276,500
Issue of shares to KMP under LTIP	8-Nov-19	500,000	\$0.71	355,000
Issue of shares under placement	8-Nov-19	8,255,172	\$0.29	2,394,000
Issue of shares under share purchase plan	27-Nov-19	434,140	\$0.29	125,900
Issue of shares to KMP in lieu of cash payments	17-Dec-19	155,172	\$0.29	45,000
Issue of shares to KMP under placement	17-Dec-19	344,828	\$0.29	100,000
Share issue transaction costs				(200,075)
Balance	31-Dec-19	76,622,263		82,096,325

The Company obtained shareholder approval at its 2019 Annual General Meeting to consolidate its share capital in the ratio of 10:1. The consolidation was effective on 18 December 2019, and the figures above (number of shares and issue price) are provided on a post consolidation basis.

11 Share-based payments

On 8 November 2019 500,000 shares were issued to key management personnel with a total transactional value of \$355,000. A second issue of 155,172 shares with a total transactional value of \$45,000 was made to key management personal on 17 December 2019 as identified in the issued capital disclosure (note 10).

Recognised share-based payment expenses

The expense recognised from employee services received during the year is shown in the table below:

	Consolidated	
	31 Dec 2019	31 Dec 2018
	\$	\$
Expenses arising from equity-settled share-based payment transactions	10,602	496,118

Types of share-based payment plan

Employee Share Option Plan, 'ESOP'

A Long Term Incentive Plan (LTIP) has been established and approved by shareholders where the Company may, at the discretion of the Board, grant options over the ordinary shares of Hydrix Limited to Directors, Executives, contractors and employees of the consolidated entity. The exercise of the options are subject to time-based and performance-based vesting conditions. The options cannot be transferred and will not be quoted on the ASX.

The following options were in existence during the half-year:

Grant date	Expiry date	Exercise price	Balance at the start of the year	Options granted	Options exercised	Options expired/forfeited	Balance at the end of the year
5-Sep-16	5-Sep-19	\$4.00	517,500	-	-	517,500	-
7-Aug-18	31-Jul-20	\$0.80	2,250,000	-	-	-	2,250,000
9-Nov-18	31-Jul-20	\$0.80	875,000	-	-	-	875,000
			<u>3,642,500</u>	<u>-</u>	<u>-</u>	<u>517,500</u>	<u>3,125,000</u>

The Company obtained shareholder approval at its 2019 Annual General Meeting to consolidate its share capital in the ratio of 10:1. The consolidation was effective on 18 December 2019, and the figures above (number of options and exercise price) are provided on a post consolidation basis.

The following performance rights were in existence during the half-year:

Grant date	Vesting date	Exercise price	Balance at the start of the year	Performance rights granted	Performance rights exercised	Performance rights expired/lapsed	Balance at the end of the year
12-Dec-17	30-Jun-19	\$0.00	500,000	-	500,000	-	-
17-Dec-17	30-Jun-20	\$0.00	-	250,000	-	-	250,000
17-Dec-19	30-Jun-20	\$0.00	-	150,000	-	-	150,000
17-Dec-19	30-Jun-21	\$0.00	-	250,000	-	-	250,000
17-Dec-19	30-Jun-21	\$0.00	-	150,000	-	-	150,000
			<u>500,000</u>	<u>800,000</u>	<u>500,000</u>	<u>-</u>	<u>800,000</u>

The Company obtained shareholder approval at its 2019 Annual General Meeting to consolidate its share capital in the ratio of 10:1. The consolidation was effective on 18 December 2019, and the figures above (number of performance rights and exercise price) are provided on a post consolidation basis.

12 Contingent liabilities

The consolidated entity had no contingent liabilities as at 31 December 2019 (2018: nil).

13 Events after the reporting period

No matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Hydrix Limited
Directors' Declaration
31 December 2019

In the Directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date;
- there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the Directors



Mr Gavin Coote
Chairman
27 February 2020
Melbourne

Independent Auditor's Review Report

To the Members of Hydrix Limited

Report on the review of the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Hydrix Limited ("Company") and its subsidiaries ("Group"), which comprises the consolidated statement of financial position as at 31 December 2019, 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, a description of accounting policies, other selected explanatory notes, and the Directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Hydrix Limited does not give a true and fair view of the financial position of the Group as at 31 December 2019, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Directors' responsibility for the half year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, 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 31 December 2019 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Hydrix Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants



A C Pitts
Partner – Audit & Assurance

Melbourne, 27 February 2020