Hydrocarbon Dynamics Limited

(ABN 75 117 387 354)

INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2020

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DIRECTORS' REPORT

In accordance with a resolution of the Directors, the Directors present their Report together with the Financial Report of Hydrocarbon Dynamics Limited ("the Company") and its subsidiaries (together referred to as the "Group") for the half-year ended 30 June 2020 (Period) and the Independent Auditor's Review Report thereon:

Directors

The Directors of the Company at any time during or since the end of the half-year ended 30 June 2020 were:

Executive Directors
Mr Nicholas Castellano

Non-Executive Directors
Mr Stephen Mitchell (Executive Chairman to 31 March 2020, Non-Executive Chairman from 1 April 2020)
Mr Allan Ritchie
Mr Ray Shorrocks
Mr Andrew Seaton

Review of operations

Total comprehensive loss for the Group for the period was $1,115,049 (2019 loss: $1,323,132). Total comprehensive loss includes a loss of $1,583 (2019: gain of $2,384) arising on translation of foreign operations.

For the half-year ended 30 June 2020, the Group has recorded negative cash flows from operations of $995,366 (2019: negative $1,522,563). The Group successfully raised $944,750 through an entitlement offer and shortfall placement on 7 May 2020 at an issue price of 1.5 cents per share.

The functional currency for the Company is US Dollars. The presentation currency for the Group's accounts is Australian Dollars. All figures quoted in this report are Australian Dollars unless otherwise specified.

Chemicals Division

New CEO commenced
The new CEO of the Chemicals Division commenced with the Company on 2 January 2020. Mr Bill Tarantino is a very experienced energy executive with a strong background in oilfield chemical sales, operations and marketing.

Implementation of new strategic plan

During the half year, a detailed strategic review was undertaken by Mr Tarantino and endorsed by the Board. The new strategic plan includes product re-branding, product re-pricing, cost reductions and a sales model based on the appointment of professional agents and distributors rather than salaried sales staff. The new strategy is expected to reduce fixed costs and extend the sales reach for the Group's products.

Implementation of the new distributorship model has progressed well, with five new strategic distributors already confirmed in North America and ongoing discussions with several other companies. These distributors bring considerable production chemical treatment knowledge and experience as well as vital relationships with key oil and gas operators.

A new branding approach has been finalised and the Group continues to advance initiatives to build market communications to ensure that distributors have the tools needed to drive market penetration with consistent and clear messaging.

The new strategy also includes innovation through new product development to expand the Group's product line to enhance its offering and to target specific oilfield market segments.

Successful field trial in Canada leads to repeat order

HCD product is being trialled in Alberta by a mid-sized producer (circa CAD$950m market cap). Positive results to date on the initial 5 wells tested have led to an expansion of the trial to 16 wells. The objectives of the trial are to reduce the volume of chemical required, reduce treatment costs, improve chemical handling, and reduce the need for secondary remediation techniques such as pigging and solvent soaks. Continued success will improve the likelihood of ongoing sales for this application as well as securing trials and sales to this producer in other larger fields.

Multi-Flow® purchase for East European trial

Four drums of HCD product were purchased during the half year for a trial on heavy oil wells in Eastern Europe. The objective of the trial is to clean wellbore and production tubing to restore production and eliminate the need for hot oiling. HCD Multi-Flow® was selected for the trial due to its ability to liquify asphaltene and paraffin deposits and reduce heavy oil viscosity.

DIRECTORS' REPORT (continued)

Exploration Division

The Group has an interest in two projects located in the USA, one in each of Utah and Kentucky.

Utah Project (100% WI; 81.25% NRI)

The Group has signed two Memoranda of Understanding ("MOU") with Valkor Technologies LLC ("Valkor") whereby Valkor can earn an interest in the Group's Utah project by funding the next two phases of exploration, appraisal and development.

In the first MOU Valkor will initially fund the drilling and production testing of three vertical wells or one vertical well and one horizontal well, utilising HCD Multi-Flow® as part of the trial. Should Valkor complete this within twelve months, they will have the right earn up to a 65% interest by funding a continuous drilling programme of an additional two vertical wells or one horizontal well per quarter. The MOU relates to the deeper oil sands within the Group's leases.

In the second MOU Valkor can earn up to an 87.5% interest in the shallow ("mineable") oil sands in the Group's Utah leases by initially completing a preliminary study to determine the feasibility to mine the oil sands within the leases. Valkor will also spend a minimum of US$250,000 assessing the applicability of HCD Multi-Flow® in the mining process. To earn its interest Valkor will then need to engineer, install and operate the oil sands mining and processing facilities.

The MOU's are not binding and require formal agreements to be negotiated and signed.

Kentucky Project (100% WI; 81.25% NRI)

The Group has fully impaired the asset.

The Group has the following tenement interests at the date of this report:

Project	Location	Gross acreage owned by the Group	Net acreage owned by the Group	Working Interest held as at 30 June 2020
Utah	Uintah County	3,458	3,458	100%
Kentucky	Butler and Warren Counties, Kentucky	1,844	1,786	100%

Covid update

The decrease in worldwide consumption and consequent dramatic fall in oil prices triggered by the COVID-19 pandemic was further compounded when Russia and Saudi Arabia cut oil prices and boosted production. This led to the delay in a number of the Group's expected HCD trials. The COVID-19 pandemic is ongoing and creates uncertainty as to the timing of the Group's expected HCD trials, the impact of which cannot be determined at this time.

The Group has observed slightly improved industry conditions as oil demand and prices start to recover from the harsh market conditions triggered by the COVID-19 pandemic. However, we continue to note a significant impact on our oil producing clients and potential customers. Whilst a number of previously anticipated trials have been delayed it is pleasing to note that the Canadian trial referenced above has progressed, and that an expected Gulf of Mexico offshore flowline trial is expected during the next quarter with a potential to trial two additional assets.

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 on page 5.

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

Stephen Mitchell
Director

Melbourne
9 September 2020

Level 38, 345 Queen Street
Brisbane, QLD 4000

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AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF HYDROCARBON DYNAMICS LIMITED

In relation to the independent auditor's review for the half-year ended 30 June 2020, to the best of my knowledge and belief there have been:

(i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and

(ii) no contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

This declaration is in respect of Hydrocarbon Dynamics Limited and the entities it controlled during the period.

PITCHER PARTNERS

J. Evans

JASON EVANS
Partner

Brisbane, Queensland
9 September 2020

HYDRONCARBON DYNAMICS LIMITED
AND CONTROLLED ENTITIES
ABN 75 117 387 354

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 30 JUNE 2020

	Note	Consolidated Entity 30 June 2020 $	30 June 2019 $
REVENUE AND OTHER INCOME			
Revenue from contracts with customers		**7,818**	26,948
Research and development refund		**265,380**	-
Interest income		**4,804**	9,049
		278,002	35,997
EXPENSES			
Director and employee related costs		**(477,262)**	(432,055)
Share-based payment expense		**(225,927)**	-
General and administration costs		**(235,321)**	(161,571)
Royalties		**(146,383)**	(136,320)
Professional consultant and contractor fees		**(114,620)**	(339,285)
Audit and accounting fees		**(72,300)**	(96,089)
Travel and accommodation costs		**(65,848)**	(106,084)
Development and testing fees		**(31,155)**	(54,597)
Production costs		**(20,141)**	(33,626)
Finance expenses		**(1,923)**	(1,016)
Depreciation and impairment costs		**(588)**	(870)
		(1,391,468)	(1,361,513)
LOSS BEFORE INCOME TAX		**(1,113,466)**	(1,325,516)
Income tax benefit/(expense)		**-**	-
LOSS FOR THE PERIOD		**(1,113,466)**	(1,325,516)
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF INCOME TAX			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operation		**(1,583)**	2,384
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF INCOME TAX		**(1,583)**	2,384
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(1,115,049)**	(1,323,132)
Loss attributable to owners of the company		**(1,113,466)**	(1,325,516)
Comprehensive loss attributable to owners of the company		**(1,115,049)**	(1,323,132)
Basic earnings per share		**(0.37) cents**	(0.63) cents
Diluted earnings per share		**(0.37) cents**	(0.63) cents

The accompanying notes form part of the condensed consolidated financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE HALF-YEAR ENDED 30 JUNE 2020

	Note	Consolidated Entity 30 June 2020	31 December 2019
		$	$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**1,469,585**	1,627,595
Trade and other receivables		**63,651**	73,779
Prepayments		**125,859**	61,926
Inventory		**509,159**	414,586
TOTAL CURRENT ASSETS		**2,168,254**	2,177,886
NON-CURRENT ASSETS			
Exploration and evaluation expenditure	4	**274,623**	239,048
Plant and equipment		**3,411**	4,016
Intangible assets	5	**3,969,829**	3,968,484
TOTAL NON-CURRENT ASSETS		**4,247,863**	4,211,548
TOTAL ASSETS		**6,416,117**	6,389,434
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		**64,583**	175,572
Provisions		**36,869**	38,163
Borrowings		**111,526**	6,462
TOTAL CURRENT LIABILITIES		**212,978**	220,197
NON-CURRENT LIABILITIES			
Provisions		**5,330**	3,266
TOTAL NON-CURRENT LIABILITIES		**5,330**	3,266
TOTAL LIABILITIES		**218,308**	223,463
NET ASSETS		**6,197,809**	6,165,971
EQUITY			
Issued capital	6	**63,778,084**	62,857,124
Reserves		**(521,977)**	(670,321)
Accumulated losses		**(57,058,298)**	(56,020,832)
TOTAL EQUITY		**6,197,809**	6,165,971

The accompanying notes form part of the condensed consolidated financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 30 JUNE 2020

	Issued capital	Accumulated losses	Foreign currency translation reserve	Share-based payments reserve	Total
	$	$	$	$	$
Balance at 1 January 2019	60,453,157	(53,146,031)	(765,129)	304,042	6,846,039
Loss for the period	-	(1,325,516)	-	-	(1,325,516)
Other comprehensive loss, net of income tax for the period	-	-	2,384	-	2,384
Total comprehensive loss for the period	-	(1,325,516)	2,384	-	(1,323,132)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	1,424,097	-	-	-	1,424,097
Transfer	-	228,042	-	(228,042)	-
	1,424,097	228,042	-	(228,042)	1,424,097
Balance at 30 June 2019	61,877,254	(54,243,505)	(762,745)	76,000	6,947,004
Balance at 1 January 2020	**62,857,124**	**(56,020,832)**	**(762,354)**	**92,033**	**6,165,971**
Loss for the period	**-**	**(1,113,466)**	**-**	**-**	**(1,113,466)**
Other comprehensive loss, net of income tax for the period	**-**	**-**	**(1,583)**	**-**	**(1,583)**
Total comprehensive loss for the period	**-**	**(1,113,466)**	**(1,583)**	**-**	**(1,115,049)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	**920,960**	**-**	**-**	**-**	**920,960**
Expiry of unlisted options	**-**	**76,000**	**-**	**(76,000)**	**-**
Share-based payments	**-**	**-**	**-**	**225,927**	**225,927**
	920,960	**76,000**	**-**	**149,927**	**1,146,887**
Balance at 30 June 2020	**63,778,084**	**(57,058,298)**	**(763,937)**	**241,960**	**6,197,809**

The accompanying notes form part of the condensed consolidated financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 30 JUNE 2020

	Consolidated Entity	
	30 June 2020	30 June 2019
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	**16,330**	4,705
Payments to suppliers and employees	**(1,282,005)**	(1,538,767)
Interest received	**6,852**	12,515
Interest paid	**(1,923)**	(1,016)
Research and development refund received	**265,380**	-
NET CASH USED IN OPERATING ACTIVITIES(i)	**(995,366)**	(1,522,563)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for intangible assets	**(1,345)**	(7,564)
Payment for exploration and evaluation expenditure	**(31,020)**	(129,409)
NET CASH USED IN INVESTING ACTIVITIES	**(32,365)**	(136,973)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of insurance funding loan	**(51,775)**	(27,991)
Proceeds from issue of shares	**944,749**	1,447,582
Share issue costs	**(23,789)**	(14,459)
NET CASH PROVIDED BY FINANCING ACTIVITIES(i)	**869,185**	1,405,132
Net (decrease) in cash held	**(158,546)**	(254,404)
Cash at beginning of period	**1,627,595**	2,206,515
Effect of exchange rate movement	**536**	(281)
CASH AT THE END OF THE PERIOD	**1,469,585**	1,951,830
Non cash financing and investing activities(ii)(iii)	**156,839**	19,687

Notes:
(i) the 2019 comparative has been restated for a change in the classification of insurance funding finance in the current year.

(ii) the 2019 comparative included $9,000 of non-cash investing activities which related to 100,000 shares issued to John Zetzman on 3 September 2018 and to $10,687 of capital raising costs which remained unpaid at 30 June 2019.

(iii) the period ending 30 June 2020 includes $156,839 of insurance premium funding for which no cash was received by the Group.

The accompanying notes form part of the condensed consolidated financial report.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 30 JUNE 2020

NOTE 1: PRINCIPAL ACTIVITIES

The principal activities of the Group during the half-year under review were evaluating, exploring and developing oil and gas prospects and technologies in North America and internationally and the sale of oil flow assurance technology products. Refer to the Directors' Report for further information on the half-year activities.

There have been no significant changes in the nature of the Group's principal activities during the half-year.

NOTE 2: BASIS OF PREPARATION

The interim consolidated financial report ("the financial report") are for the six months ended 30 June 2020 and are presented in Australian Dollars ($AUD). The functional currency of the company is US Dollars. The financial report has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard *AASB 134: Interim Financial Reporting.*

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial report does not include all of the notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report of the Group together with any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Going concern

The consolidated financial statements have been prepared on a going concern basis which contemplates that the Group will continue to meet its commitments and can therefore continue normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

As at 30 June 2020 the Group has $1,469,585 (31 December 2019: $1,627,595) in cash and cash equivalents and net assets of $6,197,809 (31 December 2019: $6,165,971). During the period ended 30 June 2020 the Group incurred a loss after tax of $1,113,466 (30 June 2019: $1,325,516 loss) and a net cash outflow from operating activities of $995,366 (30 June 2019: $1,522,563 outflow).

The Group's cash reserves are insufficient to meet its planned activities for the next 12 months from the date of this report and therefore the ability of the Group to continue to adopt the going concern assumption is dependent upon a number of matters, including the successful raising in the future of necessary funding through debt, equity or farm-out, the successful exploration and subsequent exploitation of the Group's working interests, or the commercialisation of the Group's HCD product. The Group's ability to enact its strategy to develop its exploration and evaluation assets and commercialise its HCD product is dependent upon the effectiveness of ongoing liquidity management activities.

The Group continually monitors its cash flow requirements to ensure that it has sufficient funds to meet its contractual commitments and adjusts its spending, particularly with respect to discretionary exploration activity and corporate overhead, accordingly.

In the absence of the above matters being successful, there exists a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern with the result that the Group may have to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts different from those stated in the consolidated financial statements. No adjustments for such circumstances have been made in the consolidated financial statements.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of this financial report are consistent with those of the previous financial year and corresponding interim reporting period except for the impact of the Standards and Interpretations described below. Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial half-year.

The Group has adopted all the mandatory new and amended Accounting Standards issued that are relevant to its operations and effective for the reporting period. There was no material impact on the financial report as a result of the adoption of these standards.

The accounting policies have been applied consistently throughout the Group for the purpose of preparation of the financial report.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 30 JUNE 2020**

	30 June 2020	31 December 2019
	$	$
NOTE 4: EXPLORATION AND EVALUATION EXPENDITURE		
Exploration and evaluation expenditure	**820,113**	784,538
Less provision for impairment	**(545,490)**	(545,490)
	274,623	239,048
Movements in exploration and evaluation phase		
Balance at the beginning of the period	**239,048**	578,598
Exploration and evaluation expenditure during the period	**31,020**	209,025
Foreign exchange movements	**4,555**	(3,085)
Impairment expense	**-**	(545,490)
Balance at the end of the period	**274,623**	239,048
NOTE 5: INTANGIBLE ASSETS		
Goodwill	**3,282,899**	3,282,899
Intellectual property	**663,218**	663,218
Patent	**23,712**	22,367
	3,969,829	3,968,484
NOTE 6: EQUITY		
Issued capital	**67,546,693**	66,601,943
Capital raising costs	**(3,768,609)**	(3,744,819)
	63,778,084	62,857,124

Movements in ordinary shares	**# of shares**		**$**	
	30 June 2020	**31 December 2019**	**30 June 2020**	**31 December 2019**
Balance at the beginning of the period	**282,077,778**	211,557,944	**66,601,943**	64,133,749
Movements during the period:				
Entitlement offer(i)	**62,985,808**	70,519,834	**944,750**	2,468,194
	62,985,808	70,519,834	**944,750**	2,468,194
Balance at the end of the period	**345,063,586**	282,077,778	**67,546,693**	66,601,943

(i) Shares under an entitlement offer and shortfall placement on 7 May 2020 at an issue price of 1.5 cents per share. The capital raising in 2019 relates to shares under an entitlement offer and shortfall placement on 28 June 2019 and 30 July 2019 at an issue price of 3.5 cents per share.

NOTE 7: SEGMENT REPORTING

Operating segments

The Group comprises the following two operating segments defined by divisions:

- Exploration division: comprising the exploration, development and production of oil and gas projects in the US; and
- Chemical division: comprising clean oil technology and business (HCD) worldwide.

Unallocated amounts include administrative operations undertaken in Australia to support the exploration, development and production of oil and gas projects worldwide and clean oil technology which includes the recharging of such costs via management fees.

30 June 2020	**Chemical**	**Exploration**	**Total**
Income	**$**	**$**	**$**
Research and development rebate	**265,380**	**-**	**265,380**
Revenue from contracts with customers	**7,818**	**-**	**7,818**
Interest	**32**	**-**	**32**
Expenditure			
Director and employee related expenses	**(363,710)**	**(26,368)**	**(390,078)**
Other expenses	**(490,062)**	**(7,226)**	**(497,288)**
Segment result	**(580,542)**	**(33,594)**	**(614,136)**
Profit/(loss) attributable to discontinued operations	-	-	**-**
Loss for the period	**(580,542)**	**(33,594)**	**(614,136)**
Assets as at 30 June 2020	**4,558,740**	**340,915**	**4,899,655**
Liabilities as at 30 June 2020	**(7,414)**	**(23,335)**	**(30,749)**
30 June 2019[1]			
Income			
Revenue from contracts with customers	22,243	4,705	26,948
Other	-	-	-
Expenditure			
Director and employee related expenses	(249,270)	(9,269)	(258,539)
Other expenses	(628,143)	(8,690)	(636,833)
Segment result	(855,170)	(13,254)	(868,424)
Profit/(loss) attributable to discontinued operations	-	-	-
Loss for the period	(855,170)	(13,254)	(868,424)
Assets as at 31 December 2019[1]	4,469,438	402,428	4,871,866
Liabilities as at 31 December 2019[1]	(86,250)	(28,234)	(114,484)

1. the 2019 comparative has been restated for a change in the representation of the segment disclosure in the current year.

NOTE 7: SEGMENT REPORTING (Continued)

Reconciliation of reportable segment revenue, profit or loss, assets and liabilities and other material items:

	30 June 2020 $	30 June 2019 $
Revenue:		
Total revenue for reportable segments	**273,198**	26,948
Elimination of inter-segment revenue	**-**	-
Consolidated revenue	**273,198**	26,948
Interest income:		
Total interest for reportable segments	**32**	-
Unallocated amounts: interest income	**4,772**	9,049
Consolidated interest income	**4,804**	9,049
Director and employee related expenses:		
Total director and employee related expenses for reportable segments	**(390,078)**	(258,539)
Unallocated amounts: corporate costs	**(87,184)**	(173,516)
Consolidated director and employee related expenses	**(477,262)**	(432,055)
Other expenses:		
Total other expenses for reportable segments	**(497,288)**	(636,833)
Unallocated amounts: corporate costs	**(416,918)**	(292,625)
Consolidated other expenses	**(914,206)**	(929,458)
Loss for the period:		
Total loss for reportable segments	**(614,136)**	(868,424)
Elimination of inter-segment revenue	**-**	-
Unallocated amounts: interest income	**4,772**	9,049
Unallocated amounts: corporate costs	**(504,102)**	(466,141)
Consolidated loss for the period	**(1,113,466)**	(1,325,516)

	30 June 2020 $	31 December 2019 $
Assets:		
Total assets for reportable segments	**4,899,655**	4,871,866
Unallocated amounts: corporate assets	**1,516,462**	1,517,568
Consolidated assets	**6,416,117**	6,389,434
Liabilities:		
Total liabilities for reportable segments	**(30,749)**	(114,484)
Unallocated amounts: corporate liabilities	**(187,559)**	(108,979)
Consolidated liabilities	**(218,308)**	(223,463)

NOTE 8: CONTINGENT LIABILITIES AND ASSETS

The Group is party to a royalty agreement with Director Mr Nicholas Castellano, whereby the Group is obliged to pay a monthly royalty equal to the greater of:

(a) US$20,000; subject to adjustment as described below; or

(b) 5% of net revenue (gross revenue minus taxes and commissions) from the HCD business.

Until the amount of US$19.5 million is paid in full.

The minimum royalty instalment described in point (i) above was adjusted due to a material change in the business, in which a customer ("the Customer") elected to stop using Multi-Flow®, causing a reduction in ongoing revenue. The parties agreed that the minimum royalty instalment be reduced from USD$20,000 per month to USD$16,000 per month, until HCD has entered into a firm contract with either:

(a) the Customer and/or a related party of the Customer for the sale by HCD of at least 140 drums of Multi-Flow® per month for a minimum period of 6 months; or

(b) one or more credible third parties other than the Customer and/or a related party of the Customer for the sale by the Group of at least 35 drums of Multi-Flow® per month for a minimum period of 6 months.

The royalty agreement is non-recourse and may be terminated by the Company at any time or by Mr Castellano in the event that the royalties are not paid. Royalty payments to date have been expensed as incurred.

NOTE 9: COMMITMENTS

There are no commitments as at 30 June 2020 (31 December 2019: Nil).

NOTE 10: SUBSEQUENT EVENTS

The COVID-19 pandemic is ongoing and creates uncertainty as to the timing of the Group's expected HCD trials, the impact of which cannot be determined at this time.

In the opinion of the Directors, there has been no other events in the interval between the end of the financial year and the date of the report any matter or circumstance that has significantly affected, or may significantly affect the Group's operations, results or the state of affairs in future financial years.

HYDRONCARBON DYNAMICS LIMITED
AND CONTROLLED ENTITIES
ABN 75 117 387 354

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) The consolidated financial report and notes set out on pages 6 to 14 are in accordance with the *Corporations Act 2001,* including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

(ii) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the half-year ended on that date, and

(b) there are reasonable grounds to believe that Hydrocarbon Dynamics Limited 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 Directors.

____
Stephen Mitchell
Director

Melbourne
9 September 2020

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INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF HYDROCARBON DYNAMICS LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Hydrocarbon Dynamics Limited ("the Company") and its controlled entities ("the Group"), which comprises the condensed consolidated statement of financial position as at 30 June 2020, the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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 30 June 2020 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 the Group, 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Hydrocarbon Dynamics Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group 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 2020 and of its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Material Uncertainty Related to Going Concern

We draw attention to note 2 in the financial report which states that the ability of the Group to continue as a going concern is dependent on the its ability to successfully raise funds through debt, equity or farm-out, the successful exploration and subsequent exploitation of its working interests, or the commercialisation of the its HCD product.

As stated in note 2, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Pitcher Partners

PITCHER PARTNERS

J. Evans

JASON EVANS
Partner

Brisbane, Queensland
9 September 2020

CORPORATE DIRECTORY

Directors
Mr Stephen Mitchell (Non-Executive Chairman)
Mr Nicholas Castellano (Executive Director)
Mr Allan Ritchie (Non-Executive Director)
Mr Ray Shorrocks (Non-Executive Director)
Mr Andrew Seaton (Non-Executive Director)

Company Secretary
Ms Julie Edwards

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OTC Pink (United States)
Code: POGLY

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117 387 354

Australian Business Number
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