Hydrocarbon Dynamics Limited

(ABN 75 117 387 354)

INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED
30 JUNE 2021

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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 2021 (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 2021 were:

Executive Directors
Mr Nicholas Castellano

Non-Executive Directors
Mr Stephen Mitchell (Chairman)
Mr Allan Ritchie (ceased 26 May 2021)
Mr Ray Shorrocks
Mr Andrew Seaton

Review of operations

Total comprehensive loss for the Group for the period was $3,191,426 (2020 loss: $1,115,049). Total comprehensive loss includes a gain of $10,256 (2020: loss of $1,583) arising on translation of foreign operations.

For the half-year ended 30 June 2021, the Group has recorded negative cash flows from operations of $810,087 (2020: negative $995,366).

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

Cooper Basin Trial

Hydrocarbon Dynamics Limited ("HCD") was awarded a field trial with a large Australian oil & gas producer in the Cooper Basin. The paid trial consists of three separate treatments to remediate and inhibit the debilitating effects of paraffin deposition in oil tanks, wells, and flow-lines using HCD Multi-Flow®.

The objective of the trial is to mitigate the negative impacts that low winter temperatures have on crude oil processing, including paraffin fouling, as well as eliminate the need to switch from a summer blend chemical to a winter blend. HCD Multi-Flow® works well in all environments.

The trial will utilise approximately A$75,000 of HCD Multi-Flow® product . Success will likely lead to expansion of the treatment scope for ongoing operations as well as open up other opportunities in the region.

Treatment commenced on the wells in early June and on tanks in the first week of July. Early indications are promising though we await formal reports form the producer.

Distributor and Agent Progress

HCD continues its efforts to strengthen distributor relationships in addition to developing new ones that will provide the Company with material opportunities aligned with our technology and overall strategy.

HCD distributors are finding new treatment applications for HCD Multi-Flow, including adding it to product blends for demulsification, fracturing fluids and frac flowbacks. Subsequently, one of HCD's newer distributors has recently ordered 8 drums of HCD Multi-Flow to be used for frac flowback opportunities as well as paraffin control.

Testing

Laboratory testing remains a continuing and important part of HCD's product development and marketing. During the half year HCD and its partners conducted numerous tests on oils from the North Sea, North America, India and Colombia.

Testing performed on Colombian crude confirmed earlier results and in this recent case showed a reduction in Crude Viscosity of 75% and an increase in API gravity of 1.3 degrees. Current estimates are that these results would equate to an in-field feed rate of approximately 1250 PPM HCD Multi-Flow®. This result represents a significant reduction in viscosity and would likely result in a much-reduced diluent feed required for this opportunity.

Results of tests on oils for a large oil producer in India will be available soon and, if positive, would result in a formal proposal for field trials. Initial tests on these oils were promising based on preliminary work undertaken by Saybolt Laboratories in Texas.

Separate independent laboratory tests performed on crude oil from a large North Sea producer demonstrated that HCD Multi-Flow® is significantly more effective in dissolving existing paraffin deposits, as well as inhibiting paraffin deposition, than the two products currently employed by the incumbent provider. Tests were performed on a Dynamic Wax Flow Loop.

Our new distributors are running numerous tests in many different applications and finding ways to apply HCD Multi-Flow® to enhance their existing chemistries.

Exploration Division

The Group has an interest in one project located in Utah, USA.

The Group entered into an agreement on 29 June 2021 to sell its interests in the Utah oil sands project for cash consideration of US$500,000 and an ongoing 2% revenue-based royalty. HCD has received a deposit of US$100,000 associated with the sale after balance date.

The sale is to a private US based energy company and is scheduled to be concluded at the earlier of the 29th September, 2021 or when assignment documentation has been approved by the regulator (if required).

The purchaser has also committed to test HCD's technology in three wells in the project area within six months of the completion of the sale.

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 2021
Utah	Uintah County	3,458	3,458	100%

Covid Update

HCD's marketing efforts have started to regain some momentum, especially in North America, after the adverse impact on the oil and gas industry associated with the COVID-19 pandemic. The operating environment in many other places remains a challenge but improvements are emerging.

As COVID-19 restrictions ease, our Canadian distributors are once again able to access offices and field operations which should lead to increased sales activity and momentum with existing and new prospects. Furthermore, treatment opportunities in the USA have progressed and we expect to pilot our technology in more than one field during the third quarter.

HCD continues to review upstream and other energy innovation investment opportunities.

Rounding Off

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the financial report and directors' report have been rounded off to the nearest dollar, unless otherwise stated.

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
8 September 2021

Level 38, 345 Queen Street
Brisbane, QLD 4000

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The Directors
Hydrocarbon Dynamics Limited
Level 6, 412 Collins Street
Melbourne VIC 3000

Auditor's Independence Declaration

In relation to the independent auditor's review for the half-year ended 30 June 2021, 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

JASON EVANS
Partner

Brisbane, Queensland
8 September 2021

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 30 JUNE 2021

	Note	Consolidated Entity 30 June 2021 $	30 June 2020 ** $
REVENUE AND OTHER INCOME			
Revenue from contracts with customers		**159,589**	7,818
Research and development refund		**-**	265,380
Interest income		**1,942**	4,804
		161,531	278,002
EXPENSES			
Impairment costs	5	**(2,156,902)**	-
Director and employee related costs		**(308,678)**	(477,262)
General and administration costs		**(218,860)**	(235,321)
Share-based payment expense		**(199,478)**	(225,927)
Production costs		**(143,326)**	(20,141)
Royalties		**(125,162)**	(146,383)
Audit and accounting fees		**(105,881)**	(72,300)
Doubtful debts		**(42,027)**	-
Professional consultant and contractor fees		**(39,834)**	(107,394)
Travel and accommodation costs		**(11,924)**	(65,848)
Development and testing fees		**(7,379)**	(31,155)
Finance expenses		**(1,969)**	(1,923)
Depreciation costs		**(387)**	(588)
		(3,361,807)	(1,384,242)
LOSS BEFORE INCOME TAX FROM CONTINUING OPERATIONS		**(3,200,276)**	(1,106,240)
Income tax benefit/(expense)		**-**	-
LOSS FROM CONTINUING OPERATIONS		**(3,200,276)**	(1,106,240)
Loss from discontinued operations	11	**(1,406)**	(7,226)
LOSS FOR THE PERIOD		**(3,201,682)**	(1,113,466)
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF INCOME TAX			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operation		**10,256**	(1,583)
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF INCOME TAX		**10,256**	(1,583)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(3,191,426)**	(1,115,049)
Loss attributable to owners of the company		**(3,201,682)**	(1,113,466)
Comprehensive loss attributable to owners of the company		**(3,191,426)**	(1,115,049)
Earnings per share for loss from continuing operations and for the period attributable to the ordinary equity holds of the company:			
Basic earnings per share		**(0.73) cents**	(0.37) cents
Diluted earnings per share		**(0.73) cents**	(0.37) cents

** the prior period comparative has been restated for a change in the presentation of the discontinued operation in the current period.

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE HALF-YEAR ENDED 30 JUNE 2021

	Note	Consolidated Entity 30 June 2021	Consolidated Entity 31 December 2020
		$	$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**1,551,045**	2,442,306
Trade and other receivables		**267,812**	163,951
Other current assets		**152,478**	126,890
Inventory		**516,492**	556,481
Assets classified as held for sale	11	**274,274**	-
TOTAL CURRENT ASSETS		**2,762,101**	3,289,628
NON-CURRENT ASSETS			
Exploration and evaluation expenditure	4	**-**	244,868
Plant and equipment		**2,549**	2,907
Intangible assets	5	**1,816,858**	3,969,829
TOTAL NON-CURRENT ASSETS		**1,819,407**	4,217,604
TOTAL ASSETS		**4,581,508**	7,507,232
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		**174,440**	175,451
Provisions		**58,766**	47,812
Borrowings		**68,607**	10,404
TOTAL CURRENT LIABILITIES		**301,813**	233,667
NON-CURRENT LIABILITIES			
Provisions		**5,330**	5,330
TOTAL NON-CURRENT LIABILITIES		**5,330**	5,330
TOTAL LIABILITIES		**307,143**	238,997
NET ASSETS		**4,274,365**	7,268,235
EQUITY			
Issued capital	6	**65,663,764**	65,637,936
Reserves		**(190,620)**	(372,604)
Accumulated losses		**(61,198,779)**	(57,997,097)
TOTAL EQUITY		**4,274,365**	7,268,235

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 2021

	Issued capital	Accumulated losses	Foreign currency translation reserve	Share-based payments reserve	Total
	$	$	$	$	$
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
Balance at 1 January 2021	**65,637,936**	**(57,997,097)**	**(817,348)**	**444,744**	**7,268,235**
Loss for the period	**-**	**(3,201,682)**	**-**	**-**	**(3,201,682)**
Other comprehensive income, net of income tax for the period	**-**	**-**	**10,256**	**-**	**10,256**
Total comprehensive income for the period	**-**	**(3,201,682)**	**10,256**	**-**	**(3,191,426)**
Transactions with owners in their capacity as owners					
Share issued in lieu of cash	**27,750**	**-**	**-**	**(27,750)**	**-**
Share-based payments	**-**	**-**	**-**	**199,478**	**199,478**
Share issue costs	**(1,922)**	**-**	**-**	**-**	**(1,922)**
	25,828	**-**	**-**	**171,728**	**197,556**
Balance at 30 June 2021	**65,663,764**	**(61,198,779)**	**(807,092)**	**616,472**	**4,274,365**

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 30 JUNE 2021

	Consolidated Entity	
	30 June 2021	30 June 2020
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	**13,804**	16,330
Payments to suppliers and employees	**(823,761)**	(1,282,005)
Interest received	**1,839**	6,852
Interest paid	**(1,969)**	(1,923)
Research and development refund received	**-**	265,380
NET CASH USED IN OPERATING ACTIVITIES(i)	**(810,087)**	(995,366)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for intangible assets	**(3,931)**	(1,345)
Payment for exploration and evaluation expenditure	**(23,829)**	(31,020)
NET CASH USED IN INVESTING ACTIVITIES	**(27,760)**	(32,365)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of insurance funding loan	**(56,142)**	(51,775)
Proceeds from issue of shares	**-**	944,749
Share issue costs	**(1,922)**	(23,789)
NET CASH (USED IN) / PROVIDED BY FINANCING ACTIVITIES(i)(ii)	**(58,064)**	869,185
Net (decrease) in cash held	**(895,911)**	(158,546)
Cash at beginning of period	**2,442,306**	1,627,595
Effect of exchange rate movement	**4,650**	536
CASH AT THE END OF THE PERIOD	**1,551,045**	1,469,585
Non cash financing and investing activities(i)(ii)	**142,095**	156,839

Notes:

(i) the period ending 30 June 2021 includes $114,345 (2020: $156,839) of insurance premium funding for which no cash was received by the Group.

(ii) the Group issued $27,750 (2020: $nil) of shares to consultants and directors during the period in lieu of cash. No cash was received for the issue of these shares.

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 2021

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") is for the six months ended 30 June 2021 and is 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 also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 requirements of the *Corporations Act 2001*.

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191 and in accordance with that instrument, amounts in the financial report and directors' report have been rounded off to the nearest dollar, unless otherwise stated.

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 2021 the Group has $1,551,045 (31 December 2020: $2,442,306) in cash and cash equivalents and net assets of $4,274,365 (31 December 2020: $7,268,235). During the period ended 30 June 2021 the Group incurred a loss after tax, excluding impairment losses, of $1,044,780 (30 June 2020: $1,113,466 loss) and a net cash outflow from operating activities of $810,087 (30 June 2020: $995,366 outflow).

Subsequent to year-end the Group announced it has entered into an agreement dated 29 June 2021 to sell its interests in the Utah oil sands project for cash consideration of US$500,000 (AU$663,967). The Group has received a deposit of US$100,000 with the remaining US$400,000 due at the earlier of the 29th September, 2021 or when assignment documentation has been approved by the regulator.

The ability of the Group to continue to adopt the going concern assumption will depend upon a number of matters including the successful raising in the future of necessary funding through debt, equity or the commercialisation of the Group's HCD product. The Group's ability to enact its strategy to 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.

A number of new Australian Accounting Standards have been issued but are not yet effective and have not been adopted for the reporting period ended 30 June 2021. These standards are not expected to have a material impact on the financial report.

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

	30 June 2021	31 December 2020
	$	$
NOTE 4: EXPLORATION AND EVALUATION EXPENDITURE		
Exploration and evaluation expenditure	-	244,868
Movements in exploration and evaluation phase		
Balance at the beginning of the period	**244,868**	239,048
Exploration and evaluation expenditure during the period	**23,829**	27,421
Foreign exchange movements	**5,577**	(21,601)
Transfer of assets to assets held for sale	**(274,274)**	-
Balance at the end of the period	-	244,868
NOTE 5: INTANGIBLE ASSETS		
Goodwill	**1,125,997**	3,282,899
Intellectual property	**663,218**	663,218
Patent	**27,643**	23,712
	1,816,858	3,969,829
Movements in intangible assets		
Balance at the beginning of the period	**3,969,829**	3,968,484
Additions	**3,931**	1,345
Impairment of goodwill	**(2,156,902)**	-
Balance at the end of the period	**1,816,858**	3,969,829

Recoverability of goodwill and other intangible assets

The Group acquired 100% of the issued shares in Hydrocarbon Dynamics ("HCD") in April 2017, upon which the goodwill, intellectual property and patents were acquired. The intangible assets are indefinite useful life assets and are not amortised. The Board views the Group as two cash generating units ("CGUs"), being Exploration and HCD. Goodwill of $1,125,997 (2020: $3,282,899) and identifiable intangible assets of $690,861 (2020: $686,930) have been allocated to the HCD CGU.

The goodwill and identifiable intangible assets are required to be assessed for impairment annually (or earlier if impairment indicators exist) by comparing the carrying value of the CGU to which they have been allocated to its recoverable amount. The Board has determined the recoverable amount of the HCD CGU by assessing the fair value less costs of disposal (FVLCOD) of the underlying CGU. The fair value has been determined for each of the Group's CGUs as follows:

- **Exploration CGU** – based on the cash consideration receivable by the Group for the sale of its interests in the Utah oil sands project after balance date. The agreement stipulates a cash consideration of US$500,000 (AU$663,967). The sale was announced to the ASX on 12 July 2021.
- **HCD CGU** - based on the market capitalisation of the Group on the Australian Securities Exchange (ASX) at balance date as a proxy for enterprise value. The market capitalisation was determined by multiplying the number of shares outstanding at balance date by the quoted market price per share at balance date.

The recoverable amount uses both Level 1 and Level 3 inputs.

The Group's market capitalisation of $6,164,061 (being the 440,290,097 shares outstanding at balance date multiplied by the quoted market price of $0.014/share) has been allocated to each of the Group's CGUs based on the relative fair value of the CGU, adjusted for unallocated financial assets and liabilities.

As at 30 June 2021, the recoverable amount of the HCD CGU was less than the carrying value of the non-financial assets of the CGU, resulting in an impairment of $2,156,902 (2020: $nil) being recognised.

A reasonable change in any of the assumptions applied, other than the share price of the Group, would not result in the carrying value of goodwill and identifiable intangible assets being impaired. The share price of the Group would need to reduce to approximately $0.009/share for the HCD CGU to be fully impaired.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 30 JUNE 2021

NOTE 6: EQUITY

	30 June 2021 $	31 December 2020 $
Issued capital	**69,480,713**	69,452,963
Capital raising costs	**(3,816,949)**	(3,815,027)
	65,663,764	65,637,936

	30 June 2021		31 December 2020	
	No.	$	No.	$
Balance at the beginning of the period	**439,422,918**	**69,452,963**	282,077,778	66,601,943
Movements during the period:				
Consulting services (i)	**867,188**	**27,750**	-	-
Entitlement offer (ii)	**-**	**-**	56,415,808	846,199
Private placement (iii)	**-**	**-**	6,570,000	98,550
Entitlement offer (iv)	**-**	**-**	69,379,171	1,387,571
Private placement (v)	**-**	**-**	23,160,000	463,200
Consulting services (vi)	**-**	**-**	1,820,161	55,500
	867,188	**27,750**	157,345,140	2,851,020
Balance at the end of the period	**440,290,106**	**69,480,713**	439,422,918	69,452,963

(i) Shares issued for services provided on 8th January 2021. The number of shares issued is determined based on the Volume Weighted Average Price over the 3 months that relate to the payment.

(ii) Shares issued under an entitlement offer on 4 May 2020 at an issue price of 1.5 cents per share.

(iii) Shares issued under a placement on 7 May 2020 at an issue price of 1.5 cents per share.

(iv) Shares issued under an entitlement offer on 23 November 2020 at an issue price of 2 cents per share.

(v) Shares issued under a placement on 27 November 2020 at an issue price of 2 cents per share.

(vi) Shares issued for services provided on 7th July, 7th October and 13th October 2020. The number of shares issued is determined based on the Volume Weighted Average Price over the 3 months that relate to the payment.

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 2021	**Chemical**	**Exploration**	**Total**
Income	**$****	**$****	**$****
Research and development rebate		**-**	
Revenue from contracts with customers	**159,589**	**-**	**159,589**
Interest	**1**	**-**	**1**
Expenditure			
Director and employee related expenses	**(256,685)**	**-**	**(256,685)**
Other expenses	**(2,603,249)**	**-**	**(2,603,249)**
Segment result	**(2,700,344)**	**-**	**(2,700,344)**
Profit/(loss) attributable to discontinued operations	-	**(1,406)**	**(1,406)**
Loss for the period	**(2,700,344)**	**(1,406)**	**(2,701,750)**
Assets as at 30 June 2021	**2,697,569**	**274,274**	**2,971,843**
Liabilities as at 30 June 2021	**(78,653)**	**-**	**(78,653)**
30 June 2020[1]			
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	(390,078)	-	(390,078)
Other expenses	(490,062)	-	(490,062)
Segment result	(606,910)	-	(606,910)
Profit/(loss) attributable to discontinued operations	-	(7,226)	(7,226)
Loss for the period	(606,910)	(7,226)	(614,136)
Assets as at 31 December 2020	4,780,483	447,785	5,228,268
Liabilities as at 31 December 2020	(108,671)	(24,760)	(133,431)

** the prior period comparative has been restated for a change in the presentation of the discontinued operation in the current period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 30 JUNE 2021

NOTE 7: SEGMENT REPORTING (Continued)

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

	30 June 2021 $	30 June 2020 $
Revenue:		
Total revenue for reportable segments	**159,589**	273,198
Elimination of inter-segment revenue	**-**	-
Consolidated revenue	**159,589**	273,198
Interest income:		
Total interest for reportable segments	**1**	32
Unallocated amounts: interest income	**1,941**	4,772
Consolidated interest income	**1,942**	4,804
Director and employee related expenses:		
Total director and employee related expenses for reportable segments	**(256,685)**	(390,078)
Unallocated amounts: corporate costs	**(51,993)**	(87,184)
Consolidated director and employee related expenses	**(308,678)**	(477,262)
Other expenses:		
Total other expenses for reportable segments	**(2,604,655)**	(497,288)
Unallocated amounts: corporate costs	**(449,880)**	(416,918)
Consolidated other expenses	**(3,054,535)**	(914,206)
Loss for the period:		
Total loss for reportable segments	**(2,701,750)**	(614,136)
Elimination of inter-segment revenue	**-**	-
Unallocated amounts: interest income	**1,941**	4,772
Unallocated amounts: corporate costs	**(501,873)**	(504,102)
Consolidated loss for the period	**(3,201,682)**	(1,113,466)

	30 June 2021 $	31 December 2020 $
Assets:		
Total assets for reportable segments	**2,971,843**	5,228,268
Unallocated amounts: corporate assets	**1,609,665**	2,278,964
Consolidated assets	**4,581,508**	7,507,232
Liabilities:		
Total liabilities for reportable segments	**(78,653)**	(133,431)
Unallocated amounts: corporate liabilities	**(228,490)**	(105,566)
Consolidated liabilities	**(307,143)**	(238,997)

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 2021 (31 December 2020: Nil).

NOTE 10: SUBSEQUENT EVENTS

The Group has received a deposit of US$100,000 in July 2021 associated with the sale of its interests in the Utah oil sands project. The remaining US$400,000 is expected to be received at the earlier of the 29th September, 2021 or when assignment documentation has been approved by the regulator (if required).

In the opinion of the directors, there has been no other events that have arisen in the interval between the end of the financial year and the date of the report any other 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.

NOTE 11: DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

(a) Description

On 12 July 2021 the Group announced it had entered into an agreement dated 29 June 2021 to sell its interests in the Utah oil sands project for cash consideration of US$500,000 (AU$663,967) and an ongoing 2% revenue-based royalty. The purchaser has also committed to test HCD's technology in three wells in the project area within six months of the completion of the sale.

The sale, to a private US based energy company, is scheduled to be concluded at the earlier of the 29th September, 2021 or when assignment documentation has been approved by the regulator (if required).

The disposal of these assets is considered to be the discontinuance of a major line of business, being the exploration and exploitation of tenement interests.

(b) Financial performance and cash flow information

The financial performance and cash flow information for the period ended 30 June 2021 is:

	30 June 2021 $	30 June 2020 $
Expenses		
Professional consultant and contractor fees	**(1,406)**	(7,226)
Loss from discontinued operations, net of income tax	**(1,406)**	(7,226)
Cash flows:		
Net cash outflow from operating activities	**(1,406)**	(7,226)

(c) Assets and liabilities classified as held for sale

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation at 30 June 2021:

	30 June 2021 $	31 December 2020 $
Exploration and evaluation expenditure	**274,274**	-

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) The consolidated financial report and notes set out on pages 6 to 16 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 2021 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

8 September 2021

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Independent Auditor's Review Report to the Members of Hydrocarbon Dynamics Limited

Report on the Half-Year Financial Report

Conclusion

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 2021, 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.

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the half-year ended on that date; and

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

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

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 the commercialisation of 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

Responsibility of the Directors for the 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 for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2021 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*.

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.

Pitcher Partners

PITCHER PARTNERS

J. Evans

JASON EVANS
Partner

Brisbane, Queensland
8 September 2021

CORPORATE DIRECTORY

Directors
Mr Stephen Mitchell (Non-Executive Chairman)
Mr Nicholas Castellano (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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Australian Business Number
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