

Hydrocarbon Dynamics Limited 

(ABN 75 117 387 354)

**INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED
30 JUNE 2023**

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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 Group" or "HCD") and its subsidiaries (together referred to as the "Group") for the half-year ended 30 June 2023 ("Period") and the Independent Auditor's Review Report thereon:

Directors

The Directors of the Group at any time during or since the end of the half-year ended 30 June 2023 were:

Executive Directors

Mr Nicholas Castellano

Non-Executive Directors

Mr Stephen Mitchell (Chairman)

Mr Ray Shorrocks

Mr Andrew Seaton

Review of Operations

Total comprehensive loss for the Group for the period was \$2,658,867 (2022 loss: \$806,991). Total comprehensive loss includes a loss of \$1,417 (2022: gain of \$16,431) arising on translation of foreign operations and a write down of goodwill and intangibles of \$1,789,215 (2022: nil). The Board has determined that the recoverable amount of goodwill and identifiable intangibles should be fully impaired based on a discounted cashflow model. However, it is the board's and management's view that the inherent value of the business remains unchanged with the impairment of the goodwill and identifiable intangibles being determined based on the requirements of accounting standards.

For the half-year ended 30 June 2023, the Group has recorded net cash outflows from operation activities of \$732,036 (2022: outflow \$767,921).

The functional currency for the Group 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.

In May 2023, the Group completed a Board supported 1 for 4 rights issue at \$0.012 per share and raised \$751,265 via the issue of 62,605,411 fully paid ordinary shares and 62,605,411 free attaching options.

Chemicals Division

HCD received a repeat purchase order from a large Australian producer for approximately A\$100,000 of HCD Multi-Flow for the producers' 2023 seasonal paraffin control treatment that takes place during the winter months. The programme performed very well through June 2023 with a 50% reduction in production loss reported versus the same period in 2022. The producer is now considering HCD Multi-Flow for other projects interstate and overseas.

HCD received feedback from one of its Canadian distributors on a paraffin control field trial with a large independent Canadian oil & gas producer. Positive outcomes led to an expansion of the trial from 1 well to 9 wells and they placed an additional order for approximately A\$37,000 of product to continue the trial. HCD's Alberta, Canada distributor has further reported that continuous, positive results have led to an additional expansion from 9 active wells to 14 wells. It was also reported that these wells are now off trial mode and are considered to be ongoing business. The distributor is blending HCD Multi-Flow as the key component in their wax inhibitor product and plan to formulate another product with a higher percentage of HCD Multi-Flow in an attempt to reduce or eliminate the need for an emulsion breaker at both wells and infield facilities. The distributor has reported that the product is performing well as they have seen more consistent times on the plungers and cleaner pigs. The distributor is focused on securing a contract for the chemical treatment for the entire field of approximately 100 wells.

After the success of HCD Multi-Flow treatment, the Canadian distributor is in the process of incorporating HCD Multi-Flow into several of their other existing products. The distributor kicked off a trial of straight HCD Multi-Flow on a 3-well pad in the Cardium formation to test its effectiveness as a straight product versus blended with other inhibitors. The distributor also sent waxy condensate from a large producer in Alberta's Montney Formation for wax flow loop testing with HCD Multi-Flow.

A new distributor, based in Minot, North Dakota informed HCD that they started injecting HCD Multi-Flow on 1 well in the Bakken formation for a midsized independent oil & gas producer. No issues have been reported after 3 months of HCD Multi-Flow chemical injection. Pump cards and the lack of need to do mechanical cleaning indicate that HCD Multi-Flow is working well. The producer has approximately 100 similar waxy wells in the region that can be addressed with HCD technology upon successful trials.

HCD received an initial Purchase Order from a new Texas based distributor. The distributor's client will use HCD Multi-Flow in more than one application in the highly paraffinic Uinta Basin of Utah to test its efficacy controlling production and operating problems associated with the 'green wax' of the Uinta Basin. Wax issues are so severe that crude oil must be transported to refineries via heated trucks and production fields suffer from wax deposition and high crude oil viscosity related issues. This represents a prime opportunity for HCD to showcase its exclusive chemistry. Trials will start after kick-off meetings with HCD's distributor and the end user which are anticipated to occur in the September quarter. This basin has been specifically targeted by HCD as part of its ongoing strategy to focus on regions and basins that utilise high volumes of paraffin inhibitor and remediation chemical usage and where HCD's unique technology can demonstrate its efficacy. The initial PO was for ~\$11,000 of product.

HCD received feedback from a mid-sized producer in the Gulf of Mexico, on two separate field trials to control paraffin deposition related issues. The purpose of the first trial was to reduce the paraffin build up in the production tubing between wax cuttings on this 500 bopd well. The trial was scheduled to run for 90 days. After injecting HCD Multi-Flow, the producer reported that the system was very clean and showed little to no paraffin. The customer decided to continue the treatment for the remainder of the 90-day period to see if the system remained clean.

The first trial well was cut for paraffin 90 days after the prior cutting and HCD Multi-Flow was found to have completely inhibited the formation of wax. The product did however appear to interfere with the gas-lift operation. Assumptions are that HCD Multi-Flow's antifoam properties affected the gas-lift operation or that the chemical's demulsification properties caused oil/water separation downhole, which in turn affected gas-lift operations on this well. As a result, HCD Multi-Flow injection was stopped on this well. Although it wasn't apparent that this phenomenon is occurring on the second trial well, the customer plans to test this well to ensure that HCD Multi-Flow is not adversely affecting gas-lift operation and therefore production. The test will show HCD Multi-Flow's affect on this well's gas-lift operation, if any, to determine if the issue observed on the first well was an isolated case. The operator is very impressed with the chemical's ability to reduce and eliminate the formation of paraffin wax and is now working toward trialling HCD in a spur pipeline.

40 drums of HCD Multi-Flow arrived in Aberdeen in April 2023 and following the end of the period has received Cefas registration to apply the chemical in the North Sea for a large national European energy company. This producer's platform is suffering from an acute paraffin deposition problem resulting in significant lost production. HCD has applied for a temporary trial approval, as well as full product registration from Cefas in an effort to expedite the North Sea chemical approval process.

A paid tank cleaning job with a large national oil company operating in the United Arab Emirates was delayed due to organisational changes. The tank cleaning, which will employ approximately A\$135,000 of Kleen-Flow chemistry, is back on track and is expected to be undertaken in the fourth quarter, after the end of the hot season. The chemical for this cleaning has been purchased and delivered to the UAE. There is a potential for 5 additional tanks to be cleaned with HCD's Kleen-Flow chemistry to start upon a successful cleaning job.

HCD received a Purchase Order from India for Tri-Phase Squeeze on 4 wells from an independent oil and gas producer and a Letter of Award (LOA) from a second independent producer for a Tri-Phase Squeeze on 1 well. All wells are in Gujarat and payment is based on success criteria being met. The trials will employ HCD's Tri-Phase Squeeze technology to restore production and enhance oil recovery on a declining well. HCD is still working with the producers to agree import details before shipping of HCD products commence.

Sales & Marketing Progress

HCD and its distributors have made good progress with sales and marketing activity. The following potential sales opportunities are at various stages and include:

A new Oklahoma based distributor is close to starting a paraffin control trial with an independent producer in Bakersfield, California. The trial was delayed by personnel changes. The distributor now expects a purchase order for the one well paraffin remediation/inhibition trial in the September quarter. If the trial meets expectations, up to an additional 70 waxy wells could be suitable for treatment. The distributor continues to work toward Tri-Phase Squeeze production enhancement trials on 3 to 4 wells.

HCD is progressing with a small start-up producer in Australia to trial HCD Multi-Flow for pour point reduction of their high pour point crude. The producer must first secure an offtake agreement and government approvals before production and the HCD pour point reduction trial commences.

HCD continues to make progress toward working together with a US supermajor oil & gas company. The Permian Basin team of a US supermajor oil & gas company plans to trial HCD Multi-Flow chemistry on several wells experiencing paraffin related issues including increased pressure in flowlines and the need for hot oiling. One well has been identified as a trial candidate in the Carlsbad, New Mexico area of the Delaware Basin with others being investigated. The supermajor O&G company has also committed to in-house testing of HCD Multi-Flow for asphaltene remediation and inhibition.

Activity has picked up with HCD's new, Dubai based distributor who markets chemicals to oilfield chemical companies in the Middle East and Egypt. Prospects for sales in the region with this distributor before the end of the year are increasing.

Exploration Division

The Group has no tenement interests at the date of this report.

The Group continues to review upstream and other energy innovation investment opportunities.

Events subsequent to the end of the half year

Following the end of the half year HCD received an order and full payment of A\$185,000 for its new product, Bit-Flow D75 from a large operator in South Sudan that is majority owned by Malaysia's state-owned energy company. The operator has evaluated HCD chemistry for viscosity reduction on several of their crude oils, with inhouse laboratory tests demonstrating that HCD technology is very effective at reducing the viscosity on two of their crude oil grades. The reduction in viscosity of the heavy crude oil is required to meet specifications for pipeline transportation during the winter months.

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 6.

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



Stephen Mitchell
Director

Melbourne
12 September 2023

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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 2023, 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
12 September 2023

Brisbane Sydney Newcastle Melbourne Adelaide Perth

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KAREN LEVINE

EDWARD FLETCHER
ROBERT HUGHES

**HYDROCARBON 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 2023**

	Note	Consolidated Entity	
		30 June 2023	30 June 2022
		\$	\$
REVENUE AND OTHER INCOME			
Revenue from contracts with customers		193,614	73,326
Other income		8,492	801
		<u>202,106</u>	<u>74,127</u>
EXPENSES			
Impairment costs	4	(1,789,215)	-
Director and employee related costs		(361,016)	(357,839)
Production costs		(215,444)	(64,511)
Royalties		(143,041)	(133,161)
Audit and accounting fees		(85,878)	(79,650)
General and administration costs		(75,553)	(63,306)
Professional consultant and contractor fees		(59,375)	(51,798)
Insurance costs		(56,740)	(65,206)
Property expense		(48,666)	(47,200)
Travel and accommodation costs		(19,449)	(19,680)
Development and testing fees		(4,211)	(19,294)
Doubtful debts		-	5,839
Finance expenses		-	(1,057)
Amortisation and depreciation costs		(986)	(686)
		<u>(2,859,556)</u>	<u>(897,549)</u>
LOSS BEFORE INCOME TAX		(2,657,450)	(823,422)
Income tax benefit/(expense)		-	-
LOSS FOR THE PERIOD		(2,657,450)	(823,422)
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF INCOME TAX			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operation		(1,417)	16,431
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF INCOME TAX		(1,417)	16,431
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(2,658,867)	(806,991)
Loss attributable to owners of the company		(2,657,450)	(823,422)
Comprehensive loss attributable to owners of the company		(2,658,867)	(806,991)
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		(0.44) cents	(0.16) cents
Diluted earnings per share		(0.44) cents	(0.16) cents

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

**HYDROCARBON DYNAMICS LIMITED
AND CONTROLLED ENTITIES
ABN 75 117 387 354**

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE HALF-YEAR ENDED 30 JUNE 2023**

	Note	Consolidated Entity	
		30 June 2023	31 December 2022
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		1,373,962	1,380,882
Trade and other receivables		31,786	59,896
Other current assets		95,796	49,971
Inventory		280,212	446,285
TOTAL CURRENT ASSETS		1,781,756	1,937,034
NON-CURRENT ASSETS			
Plant and equipment		8,545	9,507
Intangible assets	4	-	1,789,215
TOTAL NON-CURRENT ASSETS		8,545	1,798,722
TOTAL ASSETS		1,790,301	3,735,756
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		99,967	124,408
Provisions		61,115	49,801
TOTAL CURRENT LIABILITIES		161,082	174,209
TOTAL LIABILITIES		161,082	174,209
NET ASSETS		1,629,219	3,561,547
EQUITY			
Issued capital	5	67,950,068	67,223,529
Reserves		(772,730)	(771,313)
Accumulated losses		(65,548,119)	(62,890,669)
TOTAL EQUITY		1,629,219	3,561,547

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

**HYDROCARBON DYNAMICS LIMITED
AND CONTROLLED ENTITIES
ABN 75 117 387 354**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 30 JUNE 2023**

	Issued capital	Accumulated losses	Foreign currency translation reserve	Total
	\$	\$	\$	\$
Balance at 1 January 2022	65,663,764	(61,202,506)	(789,046)	3,672,212
Loss for the period	-	(823,422)	-	(823,422)
Other comprehensive income, net of income tax for the period	-	-	16,431	16,431
Total comprehensive income/(loss) for the period	-	(823,422)	16,431	(806,991)
Transactions with owners in their capacity as owners				
Shares issued	1,614,617	-	-	1,614,617
Share issue costs	(54,853)	-	-	(54,853)
	1,559,764	-	-	1,559,764
Balance at 30 June 2022	67,223,528	(62,025,928)	(772,615)	4,424,985
Balance at 1 January 2023	67,223,528	(62,890,669)	(771,313)	3,561,547
Loss for the period	-	(2,657,450)	-	(2,657,450)
Other comprehensive loss, net of income tax for the period	-	-	(1,417)	(1,417)
Total comprehensive loss for the period	-	(2,657,450)	(1,417)	(2,658,867)
Transactions with owners in their capacity as owners				
Shares issued	751,265	-	-	751,265
Share issue costs	(24,725)	-	-	(24,726)
	726,530	-	-	726,539
Balance at 30 June 2023	67,950,068	(65,548,119)	(772,730)	1,629,219

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

**HYDROCARBON DYNAMICS LIMITED
AND CONTROLLED ENTITIES
ABN 75 117 387 354**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 30 JUNE 2023**

	Consolidated Entity	
	30 June 2023	30 June 2022
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	230,248	9,208
Payments to suppliers and employees	(971,371)	(776,623)
Interest received	9,087	551
Interest paid	-	(1,057)
NET CASH USED IN OPERATING ACTIVITIES	(732,036)	(767,921)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for intangible assets	-	(9,861)
Payment for exploration and evaluation expenditure	-	-
NET CASH USED IN INVESTING ACTIVITIES	-	(9,861)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of insurance funding loan	-	(40,008)
Proceeds from issue of shares	751,265	1,614,617
Share issue costs	(24,726)	(54,853)
NET CASH PROVIDED BY FINANCING ACTIVITIES	726,539	1,519,756
Net increase / (decrease) in cash held	(5,497)	741,974
Cash at beginning of period	1,380,882	1,393,960
Effect of exchange rate movement	(1,423)	16,431
CASH AT THE END OF THE PERIOD	1,373,962	2,152,365

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

**HYDROCARBON DYNAMICS LIMITED
AND CONTROLLED ENTITIES
ABN 75 117 387 354**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 30 JUNE 2023**

NOTE 1: PRINCIPAL ACTIVITIES

The principal activities of the Group during the half-year under review were sales and marketing of HCD's proprietary products as well as the evaluation of oil projects and energy technologies in North America and internationally. 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 2023 and is presented in Australian Dollars (\$AUD). The functional currency of the Group 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 2023 the Group has \$1,373,962 (31 December 2022: \$1,380,882) in cash and cash equivalents and net assets of \$1,629,219 (31 December 2022: \$3,561,547). During the period ended 30 June 2023 the Group incurred a loss after tax, excluding impairment losses, of \$868,235 (30 June 2022: \$823,422 loss) and a net cash outflow from operating activities of \$732,036 (30 June 2022: \$767,921 outflow).

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 continually monitors its cash flow requirements to ensure that it has sufficient funds to meet its contractual commitments and adjusts its spending with respect to discretionary corporate overhead accordingly. The Group's ability to enact its strategy to commercialise its HCD product is dependent upon the effectiveness of ongoing liquidity management activities.

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 2023. 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.

**HYDROCARBON DYNAMICS LIMITED
AND CONTROLLED ENTITIES
ABN 75 117 387 354**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 30 JUNE 2023**

	30 June 2023	31 December 2022
	\$	\$
NOTE 4: INTANGIBLE ASSETS		
Goodwill	-	1,125,997
Intellectual property	-	663,218
	-	1,789,215

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 Board views the Group as one cash generating unit ("CGUs"), being HCD. Goodwill and identifiable intangible assets were 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 that the recoverable amount of goodwill and identifiable assets should be fully impaired based on accounting standards and the inability to continue to use the 'market value' valuation method as applied in previous accounting periods and has therefore recognised an impairment loss of \$1,789,215 (30 June 2022: \$nil).

NOTE 5: EQUITY

Issued capital	71,846,595	71,095,330
Capital raising costs	(3,896,527)	(3,871,801)
	67,950,068	67,223,529

	30 June 2023		30 June 2022	
	No.	\$	No.	\$
Balance at the beginning of the period	587,060,500	71,095,330	440,290,106	69,480,713
<i>Movements during the period:</i>				
Entitlement offer ⁽ⁱ⁾	62,605,411	751,265	73,780,620	811,587
Private placement ⁽ⁱⁱ⁾	-	-	72,982,274	802,805
Options exercised ⁽ⁱⁱⁱ⁾	-	-	7,500	225
	62,605,411	751,265	146,770,394	1,614,617
Balance at the end of the period	649,665,911	71,846,595	587,060,500	71,095,330

- (i) 30 June 2023: Shares issued under an entitlement offer on 18 May 2023 at an issue price of 1.2 cent per share.
30 June 2022: Shares issued under an entitlement offer on 18 March 2022 at an issue price of 1.1 cent per share.
- (ii) Shares issued under an entitlement offer shortfall placement on 11 April 2022 at an issue price of 1.1 cent per share.
- (iii) Shares issued on the exercise of options on 16 May 2022 at 3 cents per share.

At the end of the half year there were 62,605,411 unlisted options on issue exercisable at 2 cents and expiring on 12 May 2025 (2022: nil).

**HYDROCARBON DYNAMICS LIMITED
AND CONTROLLED ENTITIES
ABN 75 117 387 354**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 30 JUNE 2023**

NOTE 6: SEGMENT REPORTING

The Chief Operating Decision Makers (CODM) do not receive information which is disaggregated by geographic area, by product or service or by customer group and therefore only one reportable segment exists at balance date.

The Group's revenue, results and assets for this reportable segment can be determined by reference to the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income and the Condensed Consolidated Statement of Financial Position.

NOTE 7: 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 Group at any time or by Mr Castellano in the event that the royalties are not paid. The royalty payments have been expensed as incurred.

NOTE 8: COMMITMENTS

There are no commitments as at 30 June 2023 (31 December 2022: Nil).

NOTE 9: SUBSEQUENT EVENTS

In the opinion of the Directors, there has been no other events that have arisen in the interval between the end of the financial period 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.

**HYDROCARBON 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 7 to 13 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 2023 and of its performance for the half-year ended on that date, and
- (b) there are reasonable grounds to believe that Group 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
12 September 2023

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 2023, 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 2023 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 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 conclusion is not modified in respect of this matter.

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 2023 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
12 September 2023

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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Stock Exchanges

Australian Securities Exchange Limited (ASX)
Code: HCD

OTC Pink (United States)

Code: POGLY

Australian Company Number

117 387 354

Australian Business Number

75 117 387 354