

31 December 2020 Second Quarter Activity Report & Appendix 4C and First Half Group Update and Outlook ⁽¹⁾

2Q FY21 FINANCIAL HIGHLIGHTS:

- Group revenues of \$2.2 million & cash operating loss of \$0.56 million on core business ⁽²⁾;
- Completed \$10 million over-subscribed capital raise in October 2020;
- Paid down \$3.25 million of secured debt in November 2020;
- Finished quarter in a strong balance sheet position with \$9.2 million cash on hand;
- Signed exclusive agreement to distribute Phyzhon Health's new cardiovascular guidewire product and announced Melbourne-based program for First-in-Human trials.

Hydrix Limited ('Hydrix' or 'the Company') (ASX: HYD) today released its Appendix 4C for the three months ended 31 December 2020 (2Q21) and a first half business update and FY21 outlook.

Hydrix Executive Chairman, Gavin Coote, commented on the quarter:

"We achieved a number of significant milestones during the quarter. We were very pleased to complete a A\$10 million oversubscribed private placement to leading institutional investors priced at \$0.28c, largely in response to the success of five initial implants of the Guardian device in Singapore.

"We used funds to extinguish the \$3.25 million debt remaining under the Pure Asset Management finance facility, significantly deleveraging the business, and increasing operating flexibility.

"Services revenues remained subdued in the quarter due to COVID disruptions, client deferrals and international and domestic sales travel restrictions. To respond to international sales process disruptions, we made our first appointment of a highly experienced USA-based senior business development executive at the end of the quarter to drive lead generation and pipeline conversions. The Services pipeline remains very healthy at \$50+ million.

"We remain confident that second half revenues will grow and exceed the first half tracking closer to last year's second half, keeping the core business within range of a full year cash operating breakeven result.

"Hydrix Medical expanded its cardiac product portfolio, announcing an exclusive right to distribute a novel cardiac guidewire from Phyzhon Health Inc., and completing the fifth sale (for implant) in Singapore.

"The Hydrix Medical growth outlook has the potential to transform prospective shareholder returns from a pure play Services business to a valuation profile similar to high growth medtech product companies.

"Our strong cash position supports working capital requirements, growth in the Services business and Hydrix Medical product commercialisation plans for the foreseeable future."

DECEMBER QUARTER (2Q FY21) FINANCIAL COMMENTARY

The primary ongoing business activities in the December quarter were design, engineering and regulatory services provided to clients in the medical technology, mining, industrial and defence industry sectors by Hydrix Services.

Group revenues were \$2.2 million including \$1.7 million from Services and \$0.5 million in other income primarily from government support in relation to COVID-19 business disruptions.

The core business cash operating loss² was \$0.56 million for 2QFY21. This quarter's loss is primarily attributable to the short term impact on client revenues from COVID disruptions which we anticipate will begin to turnaround to positive revenue growth in 2H FY21. The larger loss compared to the prior quarter is primarily due to lower revenues and all employees returning to full pay after taking a 20% reduction in pay for the six months period ending 30 September 2020.

While various discretionary expenditures were paused beginning March 2020, we have continued with ongoing employee training and development, and with internal developments which advance proprietary engineering systems and increase the value of our client project management systems and product innovation capability. The Services business is developing cardiac platform technologies which are being very well received by existing and prospective clients, and which are advancing our competitive advantage in cardiac device development.

Hydrix Services' highly skilled and talented engineering and regulatory team helps clients achieve breakthrough new product development. It is important we retain and incentivise a highly specialised talent mix to deliver on the Group's powerful product innovation strategy.

Certain engineering labour costs were incurred by Services on Hydrix Ventures investee company projects, for which no revenue was recorded but which engineering costs have the potential to be recovered via future equity capital gains. No cash was deployed by Hydrix Ventures in the quarter.

Hydrix Medical earned \$10,000 in Guardian revenues from one sale and implant in the quarter, and incurred costs of approximately \$210,000 relating to its 'Buy, Build, Invest' growth strategy. These costs relate to cost of goods sold, regulatory and reimbursement approval application processes, general management and field clinical engineering personnel, sales and marketing initiatives to build market awareness and drive future demand, and planning and preparation of the first-in-human trials of the Phyzhon guidewire expected to commence in the March quarter.

Interest paid was \$0.24 million, including early prepayment and penalty interest fees to Pure Asset Management after prepaying the remaining \$3.25 million of debt under that finance facility, three-years ahead of maturity dates.

The aggregate number of payments made during the quarter to related parties and their associates (referred to in item 6.1 of the accompanying Appendix 4C (quarterly cash flow report)) comprise full-time salary payments to the Executive Chairman, and payments of directors' fees to all Directors.

HYDRIX CORE BUSINESS - 1H FY21 HIGHLIGHTS & OUTLOOK

- We raised \$13.0 million and paid down \$3.5 million in remaining secured debt, materially deleveraging the business, and increasing operating flexibility. These activities built a strong balance sheet to finish 31 December 2020 with \$9.2 million cash on hand, a sufficient amount to support our existing growth initiatives for the foreseeable future;
- 1H FY21 revenues were \$5.0 million and cash operating loss² of \$0.80 million primarily due to COVID disruptions to revenues from existing and prospective client projects. Variable and discretionary operating costs and wages were managed accordingly;
- Hydrix Services won two new cardiac device development projects, was recognized with two International Good Design Awards for development of the **Memphasys (ASX: MEM)** Felix bio-separation device, finished the quarter with a healthy revenue pipeline of \$50+ million, appointed a senior business development manager in the USA, and anticipates growth in 2H FY21 & beyond; and

- A full year FY21 cash operating breakeven² of the core business remains within reach based on client services revenues firming up for 2H FY21. We anticipate revenues will track closer to the prior year second half. To support anticipated second half and FY22 growth, we will add moderately to our engineering capacity beginning the March quarter.

Looking to our future Group growth prospects, we remain confident that the company's complementary business segments will drive shareholder value. These growth platforms include:

- high potential Hydrix Medical cardiac product revenue and margin growth beginning FY22;
- profitable growth in the core design and engineering Services business beginning 2H FY21; and
- capital returns from the high potential Ventures investee companies, all of which have significant product advancement and capital raising milestones in the year ahead.

HYDRIX MEDICAL – 1H FY21 HIGHLIGHTS & OUTLOOK

Hydrix Medical sold five AngelMed Guardian devices in the 1H FY21 for patient implants in Singapore despite delays due to COVID hospital lockdowns and restrictions which precluded these initial implants from being performed in March 2020 as previously scheduled. Hydrix Medical and Angel Medical Systems Key Opinion Leaders presented a Scientific Webinar to Asia-based interventional cardiologists and medical professionals to raise awareness of the heart attack alert benefits of the Guardian device.

The Company completed the first female implant of an AngelMed Guardian device in Singapore during the quarter, under an approved early access scheme, and anticipates more implants in the second half, in Singapore.

Hydrix Medical continues to progress planning and consult with key stakeholders for early access scheme approvals and implants of the AngelMed Guardian in Australia. Subject to reaching commercial and regulatory arrangements, and COVID-19 disruptions, there is potential for initial implants of the AngelMed Guardian in Australia in the March 2021 quarter.

Hydrix Medical is responsible for gaining all regulatory approvals for commercial sales in jurisdictions under the AngelMed Guardian distribution agreement. Submission to the various regulatory authorities can begin once AngelMed is granted FDA approval for the upgraded battery device. The twelve months of testing on the next generation battery has to date met FDA testing protocols and will be completed and submitted to the FDA by the end of February; with the FDA approval due thereafter.

Further and as previously announced, Hydrix Medical anticipates the first-in-human trials of the Phyzhon guidewire to commence at a Melbourne-based hospital in the March 2021 quarter.

Phyzhon Health advise they anticipate obtaining CE Mark and FDA approval in the first half of calendar year 2021, subject to supply chain and public health body COVID interruptions. Once CE Mark is obtained, Hydrix Medical will lodge its application to the TGA for regulatory approval. No private or public health insurance reimbursement is required in Australia or New Zealand for this device, which will be sold direct to hospitals.

Future product revenues from distributing these two cardiac products are expected to be significant once full regulatory approvals have been obtained and the sales and distribution plans are fully implemented. If we capture 1.0% to 3.0% of the market with AngelMed Guardian it could yield \$35 million to \$100 million p.a. revenues to Hydrix, and if we capture 15% of the Australian market with the Phyzhon guidewire it could yield \$10+ million p.a. revenues.

In summary, potential significant milestone news flow for the 2H FY21 and 1H FY22 includes the following:

Q3 FY21	Q4 FY21	1H FY22
<ul style="list-style-type: none"> • AngelMed USA submission of battery testing results to FDA • Potential first implants of AngelMed Guardian in Australia under Authorised Prescriber Scheme ("APS") • Commencement of First in Human (FIH) Trials for Phyzhon in Melbourne, Australia 	<ul style="list-style-type: none"> • Potential FDA approval of AngelMed Guardian new battery • Potential to submit TGA (AUS & NZ) & HSA (SNG) regulatory approval for AngelMed Guardian – immediately once FDA approved • Potential CE Mark approval of Phyzhon • Potential sales of Phyzhon under Authorised Prescriber Scheme in Melbourne, Australia 	<ul style="list-style-type: none"> • Potential AngelMed Guardian TGA regulatory approval in AUS • Potential AngelMed Guardian health reimbursement approval in AUS • Potential to begin appointments by Hydrix Medical of APAC sub-distributors for AngelMed Guardian • Potential TGA regulatory approval for Phyzhon
<p>Potential Hydrix Ventures portfolio updates & revaluation events</p> <p>Ongoing evaluation of several high-growth potential 'Buy, Build, Invest' initiatives</p>		

(1) All numbers are unaudited

(2) Cash operating profit (or loss) is Earnings before Interest, Tax, Depreciation, Amortisation (EBITDA) and Share-based payments for a full year, before costs associated with the Company's Buy, Build, Invest strategy and other non-recurring costs. Rent occupancy costs have been included in EBITDA on a cash operating basis.

-ENDS-

Authorisation: This announcement is authorised for release by the Board of Directors of Hydrix Limited.

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About Hydrix Limited

Hydrix Limited (ASX: HYD) is a powerful product innovation company. Hydrix purpose is to enhance the health, safety, and wellbeing of 1 billion lives. The company leverages its powerful product innovation capability across multiple growth platforms. These platforms include **Hydrix Services** design and engineering to create products which transform markets; **Hydrix Ventures** to pick winning investments in high potential innovative products; and **Hydrix Medical** to create new product revenue streams bringing cardiovascular technologies to market which improve patient mobility and quality of life.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Hydrix Limited

ABN

84 060 369 048

Quarter ended ("current quarter")

31 December 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,801	5,086
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(367)	(844)
(c) advertising and marketing	(22)	(55)
(d) leased assets	-	-
(e) staff costs	(2,544)	(5,030)
(f) administration and corporate costs	(688)	(1,484)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	5
1.5 Interest and other costs of finance paid	(245)	(433)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	495	1,330
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(569)	(1,425)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	(20)
(d) investments	-	(100)
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	(120)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	10,000	12,943
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	64	698
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(844)	(1,070)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(3,250)	(3,500)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	5,970	9,071

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,815	1,690
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(569)	(1,425)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(120)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	5,970	9,071
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	9,216	9,216

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	9,216	3,815
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	9,216	3,815

6. Payments to related parties of the entity and their associates

6.1 Aggregate amount of payments to related parties and their associates included in item 1

6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

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Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

The amount at 6.1 includes full-time salary payments to the Executive Chairman and payments of directors' fees. No payments of interest on funds borrowed from E.L.G Nominees Pty Ltd and John W King Nominees Pty Ltd were made during the quarter.

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	2,750	2,750
7.2 Credit standby arrangements	-	-
7.3 Other (please specify)	-	-
7.4 Total financing facilities	2,750	2,750

7.5 Unused financing facilities available at quarter end

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7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Lender	Loan Amount	Interest rate (p.a)	Maturity date	Security
E.L.G. Nominees Pty Ltd*	\$ 1,000,000	6%	17/03/2022	Unsecured
John W King Nominees Pty Ltd**	\$ 1,750,000	6%	31/12/2022	Unsecured

*E.L.G. Nominees Pty Ltd is a company associated with Joanne Bryant, a Non-Executive Director of the Company.

**John W King Nominees Pty Ltd is a company associated with John King, a related party of the Company.

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(569)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	9,216
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	9,216
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	16

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 29 January 2021

This report has been authorised for release to the market by the Board of Hydrix Limited

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.