

**SHAREHOLDER UPDATE****APRIL 2022**

This Shareholder Update provides Hydra Light International Limited's ("HLI") shareholders with a high level update on progress over the last few months.

**▪ OVERVIEW:**

- HLI continues to deliver major steps forward in commercialisation in core markets, R&D development and global supply chain set up focused on the delivery of HLI's long-term strategy.
  - HLI has further strengthened its Executive Team, which is now resourced to deliver the long-term strategy.
  - Product has now been delivered to our third-party distribution centres in Australia and the USA.
  - HLI's Head of Sales completed a trip to the USA in March 2022 and has commenced a roadshow in Australia.
  - Our retail launch partners in Australia continue to support and define the exact timeframe for launch.
  - Unfortunately HLI's HydraCell battery fuel cell contract manufacturing factory (Taizhou) had a significant fire ten days ago. The implications of the fire and impact on HLI's operations are detailed in this Shareholder Update.
  - HLI continues to deliver its strategy with limited capital.
- HLI remains bullish, but cautious, as we navigate from once off small scale production runs to rolling production and closely support our retail partners through the early growth phase.
- The need for capital to fund ongoing operations and fund the steep growth curve is material and critical to HLI's success.

**▪ TAIZHOU FIRE:**

- The fire at the Taizhou factory was significant – it destroyed two of the five floors – and the factory remains closed and under the control of the fire authorities until early May 2022. Thereafter the factory estimates that it will take a minimum of four weeks to return to production.
- HLI has over 40,000 finished HydraCell battery fuel cells at the factory. Fortunately, it would appear that the majority (estimate of over 90%) escaped any damage. Unfortunately HLI cannot access these cells until early May 2022, which has delayed our second production run being assembled (our torch factory has the torch units complete) and therefore our full commercialisation launch has been delayed for approximately 2 months.
- As a result, HLI's Management Team has moved quickly to refine its launch program to focus on an exclusive launch with Total Tools in Australia and likewise with Non-Foods Marketing in the USA (a network of ~2,000 customers & ~14,000 outlet/stores) to ensure we do not delay the commercialisation of product in these markets beyond the dates we had previously communicated to the trade.
- The requirement to move to a more focused launch program will result in reduced forecast revenue from the June 2022 quarter to the September 2022 quarter.
- HLI is working closely with Taizhou to facilitate alternative production alternatives in the very near term and

reducing its reliance on one factory in the medium term, which is in line with the objectives of the Global Manufacturing and Supply Chain project.

- The situation remains fluid and subject to change.

▪ **EXECUTIVE TEAM:**

- HLI has now assembled a world-class Executive Team with proven experience and success in delivering business strategy and launching new consumer brands.
- Key additions to the Executive Team over the last year include:
  - Tim Szonyi (Chief Strategic Officer): is a global strategy expert with four years at McKinsey & Co. Tim has held C-Suite executive positions in consumer leading companies and launched multiple innovations to markets globally.
  - Chris O'Neill (Head of Sales): is a career sales professional with over twenty years' experience. Chris was most recently Sales Director for Stanley Black & Decker Australia and National Sales Manager at Mattel.
  - Tom Roberts (Head of Global Supply Chain): is a global operations executive with extensive experience leading global manufacturing and supply chains. Tom is the former Director of Global Operations for Xtralis (Honeywell).
  - Stuart Horsburgh (Chief Financial Officer): has extensive experience at leading accounting firms. Stuart is focussed on the delivery of strategic objectives through his financial, commercial and corporate governance acumen.

▪ **COMMERCIALIZATION:**

- Prior to the Taizhou fire, HLI's main focus in Australia and the USA continued to be on the five large retail partners, which were outlined in the February 2022 Shareholder Update,.
- HLI will now launch exclusively with Total Tools in Australia and with Non-Foods Marketing in the USA. Based on new plans formulated HLI is confident that this targeted launch will generate material initial distribution and consumer awareness and conversion to prove out the proposition.
- A return to the planned broader market launch in July 2022 will produce material volumes in the first quarter of FY23 through the other key retailers already engaged, once our next run of production is delivered to market and all factories are back to full capacity.
- HLI's technology and product range was very well received at the recent Ace Hardware trade show in Las Vegas.
- HLI continues to refine the USA strategy and focus with its master agents, execute small sales orders, and add strategic sales resources to its team.

▪ **TECHNOLOGY DEVELOPMENT – PROPRIETARY HYDRACELL:**

- HLI will introduce further innovation (undergone final testing but subject to a limited production run) to its proprietary HydraCell technology which will improve power output, reduce cost, and increase the ease of automation and final assembly.
- As reported previously HLI continues to progress the transition of its R&D capability to Australia.

▪ **TECHNOLOGY DEVELOPMENT – BATTERY SUBSTITUTES:**

- HLI is awaiting feedback from consumer focus groups on the First Phase HydraCell Battery Substitutes (i.e. 6-Volt, C-cell, and D-cell batteries).
- Further R&D has identified an exciting variation to our clean technology focus which, if successful through the development phase, allows HLI to deliver the Second Phase Battery Substitutes (AA and AAA cells, 60% of the consumer battery market), fast track its strategy and potentially open up new market segments.

▪ **MANUFACTURING:**

- While the Taizhou fire will have an adverse impact on the initial commercialisation launch it has allowed HLI to quickly advance a global production proposal with Taizhou, with the objective of providing a robust mass scale-up manufacturing solution and strengthen our collective intellectual property positions.

▪ **CONCLUSION:**

- It is an exciting time for all HLI stakeholders, tempered by the Taizhou fire, as the Management Team progresses a multi-faceted, detailed global strategy to scale up the business.
- Outside of the delay and risks associated with the return to full production, HLI, like all companies manufacturing out of China have had to navigate the Chinese Government's COVID policy of large scale lock downs which remains a risk in terms of timely product delivery through the current period.
- In the coming weeks and months HLI will have a much clearer understanding of the market (consumer) acceptance and experience which will influence our short term growth strategy and focus on the geographies, channels and customers that will accelerate our growth trajectory.
- HLI continues to progress potentially material opportunities with OEM partners and the greater emergency preparedness sectors.
- HLI has reacted quickly to the Taizhou fire and has begun to position itself to further strengthen its intellectual property protection and position with its key manufacturing partner.
- HLI continues to operate with limited capital resources and a material capital injection would allow HLI to accelerate its growth profile.

Please feel free to give me a call to discuss anything that you wish.

Kind Regards



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