



incorporation or organization)

**10 E. Yanonali, Suite 36, Santa Barbara, CA 93101**

(Address of principal executive offices) (Zip Code)

Issuer's telephone Number: **(805) 966-6566**

Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer  
Non-accelerated filer Smaller reporting company  
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of registrant's common stock outstanding, as of February 11, 2019 was 941,209,787.



**HYPERSOLAR, INC.**

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**PART I – FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

HYPERMOLAR, INC.

CONDENSED BALANCE SHEETS

|   | December 31,<br>2018<br>(Unaudited) | June 30,<br>2018  |
|---|-------------------------------------|-------------------|
| <b>ASSETS</b>   |                                     |                   |
| <b>CURRENT ASSETS</b>   |                                     |                   |
| Cash  | \$ 50,914                           | \$ 97,326         |
| Prepaid expense   | 3,195                               | 3,942             |
| <b>TOTAL CURRENT ASSETS</b>                                       | <b>54,109</b>                       | <b>101,268</b>    |
| <b>PROPERTY &amp; EQUIPMENT</b>                                   |                                     |                   |
| Computers and peripherals   | 1,883                               | 8,100             |
| Less: accumulated depreciation                                    | (523                                | ) (6,427          |
| <b>NET PROPERTY AND EQUIPMENT</b>                                 | <b>1,360</b>                        | <b>1,673</b>      |
| <b>OTHER ASSETS</b>   |                                     |                   |
| Deposits  | -                                   | 900               |
| Domain, net of amortization of \$3,691 and \$3,514, respectively  | 1,624                               | 1,801             |
| Patents, net of amortization of \$7,215 and \$4,642, respectively | 101,419                             | 90,930            |
| <b>TOTAL OTHER ASSETS</b>   | <b>103,043</b>                      | <b>93,631</b>     |
| <b>TOTAL ASSETS</b>   | <b>\$ 158,512</b>                   | <b>\$ 196,572</b> |
| <b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>                      |                                     |                   |
| <b>CURRENT LIABILITIES</b>  |                                     |                   |
| Accounts payable  | \$ 92,854                           | \$ 111,088        |
| Accrued expenses  | 553,258                             | 467,822           |
| Derivative liability  | 11,676,948                          | 10,857,698        |
|   | 163,216                             | 405,714           |

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Convertible promissory notes, net of debt discount of \$302,284 and \$66,335, respectively

|   |               |              |
|---|---------------|--------------|
| TOTAL CURRENT LIABILITIES   | 12,486,276    | 11,842,322   |
| LONG TERM LIABILITIES   |               |              |
| Convertible promissory notes, net of debt discount of \$45,142 and \$38,514, respectively   | 1,785,158     | 1,369,686    |
| TOTAL LONG TERM LIABILITIES   | 1,785,158     | 1,369,686    |
| TOTAL LIABILITIES   | 14,271,434    | 13,212,008   |
| SHAREHOLDERS' DEFICIT   |               |              |
| Preferred Stock, \$0.001 par value; 5,000,000 authorized preferred shares, no shares issued or outstanding                                      | -             | -            |
| Common Stock, \$0.001 par value; 3,000,000,000 authorized common shares 894,676,787 and 852,458,018 shares issued and outstanding, respectively | 894,677       | 852,458      |
| Additional Paid in Capital  | 8,512,489     | 8,131,620    |
| Accumulated deficit   | (23,520,088 ) | (21,999,514) |
| TOTAL SHAREHOLDERS' DEFICIT   | (14,112,922 ) | (13,015,436) |
| TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT   | \$ 158,512    | \$ 196,572   |

The accompanying notes are an integral part of these unaudited condensed financial statements

HYPER SOLAR, INC.

## CONDENSED STATEMENTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2018 AND 2017

|  | Three Months Ended   |                      | Six Months Ended     |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | December 31,<br>2018 | December 31,<br>2017 | December 31,<br>2018 | December 31,<br>2017 |
| REVENUE  | \$-                  | \$-                  | \$-                  | \$-                  |
| OPERATING EXPENSES                                     |                      |                      |                      |                      |
| General and administrative expenses                    | 276,042              | 153,615              | 412,731              | 271,863              |
| Research and development cost                          | 67,982               | 53,611               | 142,570              | 120,163              |
| Depreciation and amortization                          | 1,839                | 1,014                | 3,064                | 2,927                |
| TOTAL OPERATING EXPENSES                               | 345,863              | 208,240              | 558,365              | 394,953              |
| LOSS FROM OPERATIONS BEFORE OTHER<br>INCOME (EXPENSES) | (345,863 )           | (208,240 )           | (558,365 )           | (394,953 )           |
| OTHER INCOME/(EXPENSES)                                |                      |                      |                      |                      |
| (Loss) on conversion of debt                           | -                    | (227,764 )           | (234,834 )           | (227,764 )           |
| Gain on change in derivative liability                 | (3,505,767 )         | (1,105,933 )         | (434,373 )           | (1,054,161 )         |
| Interest expense                                       | (167,175 )           | (83,145 )            | (293,002 )           | (176,344 )           |
| TOTAL OTHER (EXPENSES) INCOME                          | (3,672,942 )         | (1,416,842 )         | (962,209 )           | (1,458,269 )         |
| NET LOSS   | \$(4,018,805 )       | \$(1,625,082 )       | \$(1,520,574 )       | \$(1,853,222 )       |
| BASIC AND DILUTED LOSS PER SHARE                       | \$(0.00 )            | \$(0.00 )            | \$(0.00 )            | \$(0.00 )            |
| WEIGHTED-AVERAGE COMMON SHARES<br>OUTSTANDING          |                      |                      |                      |                      |
| BASIC AND DILUTED                                      | 886,221,972          | 699,483,259          | 873,771,485          | 699,483,259          |

The accompanying notes are an integral part of these unaudited condensed financial statements

HYPERMOLAR, INC.

## CONDENSED STATEMENT OF SHAREHOLDERS' DEFICIT

FOR THE SIX MONTHS ENDED DECEMBER 31, 2018 AND 2017

(Unaudited)

|  | Preferred stock |        | Common stock |           | Additional      | Accumulated Deficit | Total          |
|--|-----------------|--------|--------------|-----------|-----------------|---------------------|----------------|
|  | Shares          | Amount | Shares       | Amount    | Paid-in Capital |                     |                |
| Balance at June 30, 2017   | -               | \$ -   | 699,483,259  | \$699,483 | \$6,850,736     | \$(11,800,117)      | \$(4,249,898 ) |
| Issuance of common stock for conversion of debt and accrued interest | -               | -      | 60,426,825   | 60,427    | 331,878         | -                   | 392,305        |
| Stock based compensation expense                                     | -               | -      | -            | -         | 28,713          | -                   | 28,713         |
| Net loss   | -               | -      | -            | -         | -               | (1,853,222 )        | (1,853,222 )   |
| Balance at December 31, 2017 (unaudited)                             | -               | \$ -   | 759,910,084  | \$759,910 | \$7,211,327     | \$(13,653,339)      | \$(5,682,102 ) |
|  |                 |        |              |           |                 |                     |                |
|  | Preferred Stock |        | Common Stock |           | Additional      | Accumulated Deficit | Total          |
|  | Shares          | Amount | Shares       | Amount    | Paid-in Capital |                     |                |
| Balance at June 30, 2018   | -               | \$ -   | 852,458,018  | \$852,458 | \$8,131,620     | \$(21,999,514)      | \$(13,015,436) |
| Issuance of common stock for conversion of debt and accrued interest | -               | -      | 32,615,769   | 32,616    | 260,926         | -                   | 293,542        |
| Issuance of common stock for services                                | -               | -      | 9,603,000    | 9,603     | 91,229          | -                   | 100,832        |
| Stock based compensation expense                                     | -               | -      | -            | -         | 28,714          | -                   | 28,714         |
| Net Loss   | -               | -      | -            | -         | -               | (1,520,574 )        | (1,520,574 )   |
|  | -               | \$ -   | 894,676,787  | \$894,677 | \$8,512,489     | \$(23,520,088)      | \$(14,112,922) |



Balance at December 31, 2018  
(unaudited)

The accompanying notes are an integral part of these unaudited condensed financial statements

## HYPERMOLAR, INC.

## CONDENSED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED DECEMBER 31, 2018 AND 2017

(Unaudited)

|   | Six Months Ended  |                   |
|---|-------------------|-------------------|
|   | December 31, 2018 | December 31, 2017 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                              |                   |                   |
| Net loss  | \$(1,520,574)     | \$(1,853,222 )    |
| Adjustment to reconcile net loss to net cash used in operating activities |                   |                   |
| Depreciation & amortization expense                                       | 3,064             | 2,927             |
| Stock based compensation expense  | 28,714            | 28,713            |
| Stock issued for services   | 100,832           | -                 |
| (Gain) on change in derivative liability                                  | 434,373           | 1,054,161         |
| Loss on conversion of debt  | 234,834           | 227,764           |
| Amortization of debt discount recorded as interest expense                | 186,851           | 94,029            |
| (Increase) Decrease in change in assets:                                  |                   |                   |
| Prepaid expense   | 746               | 4,167             |
| Increase (Decrease) in change in liabilities:                             |                   |                   |
| Accounts payable  | (23,335 )         | 36,244            |
| Accrued expenses  | 105,645           | 82,314            |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>                              | <b>(448,850 )</b> | <b>(322,903 )</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                               |                   |                   |
| Purchase of intangible assets   | (13,062 )         | (3,766 )          |
| <b>NET CASH USED IN INVESTING ACTIVITIES:</b>                             | <b>(13,062 )</b>  | <b>(3,766 )</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                              |                   |                   |
| Proceeds from convertible notes payable                                   | 415,500           | 300,000           |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>                          | <b>415,500</b>    | <b>300,000</b>    |
| <b>NET DECREASE IN CASH</b>   | <b>(46,412 )</b>  | <b>(26,669 )</b>  |
| <b>CASH, BEGINNING OF PERIOD</b>  | <b>97,326</b>     | <b>80,133</b>     |
| <b>CASH, END OF PERIOD</b>  | <b>\$50,914</b>   | <b>\$53,464</b>   |

## SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

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|               |       |      |
|---------------|-------|------|
| Interest paid | \$507 | \$ - |
| Taxes paid    | \$-   | \$ - |

SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS

|  |           |            |
|--|-----------|------------|
| Fair value of common stock upon conversion of convertible notes and accrued interest | \$293,542 | \$ 392,305 |
| Fair value of common stock issued for services                                       | \$100,832 | \$ -       |

The accompanying notes are an integral part of these unaudited condensed financial statements

HYPER SOLAR, INC.

CONDENSED NOTES TO FINANCIAL STATEMENTS - UNAUDITED

DECEMBER 31, 2018

## 1. BASIS PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. Operating results for the six months ended December 31, 2018 are not necessarily indicative of the results that may be expected for the year ending June 30, 2019. For further information refer to the financial statements and footnotes thereto included in the Company's Form 10-K for the year ended June 30, 2018.

### Going Concern

The accompanying unaudited condensed financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and liabilities and commitments in the normal course of business. The accompanying financial statements do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company does not generate revenue, and has negative cash flows from operations, which raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern and appropriateness of using the going concern basis is dependent upon, among other things, additional cash infusion. The Company has historically obtained funds through private placement offerings of equity and debt. Management believes that it will be able to continue to raise funds by sale of its securities to its existing shareholders and prospective new investors to provide the additional cash needed to meet the Company's obligations as they become due and will allow the development of its core business. There is no assurance that the Company will be able to continue raising the required capital.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of HyperSolar, Inc. is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

### Cash and Cash Equivalent

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

### Use of Estimates

In accordance with accounting principles generally accepted in the United States, management utilizes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates and assumptions relate to useful lives and impairment of tangible and intangible assets, accruals, income taxes, stock-based compensation expense, Binomial lattice valuation model inputs, derivative liabilities and other factors. Management believes it has exercised reasonable judgment in deriving these estimates. Consequently, a change in conditions could affect these estimates.

### Intangible Assets

The Company has patent applications to protect the inventions and processes behind its proprietary bio-based back-sheet, a protective covering for the back of photovoltaic solar modules traditionally made from petroleum-based film. Intangible assets that have finite useful lives continue to be amortized over their useful lives.

The Company recognized amortization expense of \$2,794 and \$1,914 for the six months ended December 31, 2018 and 2017, respectively.

### Net Earnings (Loss) per Share Calculations

Net earnings (Loss) per share dictates the calculation of basic earnings (loss) per share and diluted earnings per share. Basic earnings (loss) per share are computed by dividing by the weighted average number of common shares outstanding during the year. Diluted net earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include the effect of stock options and stock based awards (Note 4), plus the assumed conversion of convertible debt (Note 5).

For the six months ended December 31, 2018, the Company calculated the dilutive impact of the outstanding stock options of 10,250,000, and the convertible debt of \$2,295,800, which is convertible into shares of common stock. The stock options and convertible debt were not included in the calculation of net earnings per share, because their impact was antidilutive.

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For the six months ended December 31, 2017, the Company calculated the dilutive impact of the outstanding stock options of 10,250,000, and the convertible debt of \$1,706,100, which is convertible into shares of common stock. The stock options and convertible debt were not included in the calculation of net earnings per share, because their impact was antidilutive.

HYPER SOLAR, INC.

CONDENSED NOTES TO FINANCIAL STATEMENTS - UNAUDITED

DECEMBER 31, 2018

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Equity Incentive Plan and Stock Options

#### Equity Incentive Plan

On December 17, 2018, the Board of Directors approved and adopted the 2019 Equity Incentive Plan (“the Plan”), with 300,000,000 shares set aside and reserved for issuance pursuant to the Plan. The purpose of the Plan is to promote the success of the Corporation and to increase stockholder value by providing an additional means through the grant of awards to attract, motivate, retain and reward selected employees and other eligible persons. The awards are performance-based compensation that are granted under the Plan as incentive stock options (ISO) or nonqualified stock options. The maximum term of each option (ISO or NQSO) shall be ten (10) years. The per share exercise price for each option shall not be less than 100% of the fair market value of a share of common stock on the date of grant of the option. The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing cost. The Company accounts for stock option grants issued and vesting to employees and non-employees in accordance with the authoritative guidance of the Financial Accounting Standards Board whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

#### Stock based Compensation

The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board whereas the value of the award is measured on the date of grant and recognized over the vesting period. The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the Financial Accounting Standards Board whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances

where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

### Fair Value of Financial Instruments

Fair value of financial instruments, requires disclosure of the fair value information, whether or not recognized in the balance sheet, where it is practicable to estimate that value. As of December 31, 2018, the amounts reported for cash, accrued interest and other expenses, notes payables, and derivative liability approximate the fair value because of their short maturities.

We adopted ASC Topic 820 for financial instruments measured as fair value on a recurring basis. ASC Topic 820 defines fair value, established a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosures about fair value measurements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 established a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;

Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and

Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.



HYPERMOLAR, INC.

CONDENSED NOTES TO FINANCIAL STATEMENTS - UNAUDITED

DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued)

We measure certain financial instruments at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis are as follows at December 31, 2018 (See Note 6):

|   | Total         | (Level<br>1) | (Level<br>2) | (Level 3)     |
|---|---------------|--------------|--------------|---------------|
| Liabilities   |               |              |              |               |
| Derivative liability                                | 11,676,948    | -            | -            | 11,676,948    |
| Total derivative liabilities measured at fair value | \$ 11,676,948 | \$ -         | \$ -         | \$ 11,676,948 |

The following is a reconciliation of the derivative liability for which Level 3 inputs were used in determining the approximate fair value:

|   |              |
|---|--------------|
| Balance as of June 30, 2018                 | \$10,857,698 |
| Fair value of derivative liabilities issued | 384,877      |
| Loss on change in derivative liability      | 434,373      |
| Balance as of December 31, 2018             | \$11,676,948 |

Accounting for Derivatives

The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. For stock-based derivative financial instruments, the Company uses a probability weighted average series Binomial lattice formula pricing models to value the derivative instruments at inception and on subsequent valuation dates.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

#### Recently Issued Accounting Pronouncements

In August 2017, FASB issued accounting standards update ASU-2017-12, (Topic 815) – “Targeted Improvements to Accounting for Hedging Activities”, to require an entity to present the earnings effect of the hedging instrument in the same statement line item in which the earnings effect of the hedged item is reported. The amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods with the fiscal years beginning after December 15, 2020. Early adoption is permitted in any interim period after issuance of the update. The Company is currently evaluating the impact of the adoption of ASU-2017 on the Company’s financial statements.

In June 2018, FASB issued accounting standards update ASU 2018-07, (Topic 505) – “Shared-Based Payment Arrangements with Nonemployees”, which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the ASU, most of the guidance on such payments to nonemployees will be aligned with the requirements for share-based payments granted to employees. Under the ASU 2018-07, the measurement of equity-classified nonemployee share-based payments will be fixed on the grant date, as defined in ASC 718, and will use the term nonemployee vesting period, rather than requisite service period. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted if financial statements have not yet been issued. The Company is currently evaluating the impact of the adoption of ASU 2018-07 on the Company’s financial statements.

In August 2018, the FASB issued to accounting standards update ASU 2018-13, (Topic 820) - "Fair Value Measurement", which changes the unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted upon issuance. The Company is currently evaluation the impact of the adoption of ASU 2018-13, on the Company’s financial statements.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying condensed financial statements.



HYPERSOLAR, INC.

CONDENSED NOTES TO FINANCIAL STATEMENTS - UNAUDITED

DECEMBER 31, 2018

### 3. CAPITAL STOCK

During the six months ended December 31, 2018, the Company issued 32,615,769 shares of common stock upon conversion of convertible notes in the amount of \$44,500 in principal, plus accrued interest of \$14,208, with an aggregate fair value loss on settlement of \$234,834, based upon a conversion price of \$0.009.

During the six months ended December 31, 2018, the Company issued 9,603,000 shares of common stock under the 2019 Equity Incentive Plan for services rendered at a fair value price of \$0.0105 per share in the amount of \$100,832.

### 4. STOCK OPTIONS

#### Options

As of December 31, 2018, 10,250,000 non-qualified common stock options were outstanding. Each option expires on the date specified in the option agreement, which date is not later than the fifth (5<sup>th</sup>) anniversary from the grant date of the options. As of March 31, 2018, 250,000 options are fully vested with an expiration date of March 31, 2020, and are exercisable at an exercise price of \$0.02245 per share, and 10,000,000 non-qualified common stock options, which vested one-third on the grant date, and one-third on each of the second and third anniversary, with an expiration date of October 2, 2022, and are exercisable at an exercise price of \$0.01 per share.

A summary of the Company's stock option activity and related information follows:

|                                  | 12/31/2018              |  | 12/31/2017              |  |
|----------------------------------|-------------------------|--|-------------------------|--|
|                                  | Number<br>of<br>Options | Weighted<br>average<br>exercise<br>price | Number<br>of<br>Options | Weighted<br>average<br>exercise<br>price |
| Outstanding, beginning of period | 10,250,000              | \$ 0.0103                                | 250,000                 | 0.0225                                   |
| Granted                          | -                       | -  | 10,000,000              | 0.0100                                   |

|                                  |            |           |            |           |
|----------------------------------|------------|-----------|------------|-----------|
| Exercised                        | -          | -         | -          | -         |
| Forfeited/Expired                | -          | -         | -          | -         |
| Outstanding, end of period       | 10,250,000 | \$ 0.0103 | 10,250,000 | \$ 0.0103 |
| Exercisable at the end of period | 6,916,667  | \$ 0.0105 | 3,583,333  | \$ 0.0109 |

The stock-based compensation expense recognized in the statement of operations during the six months ended December 31, 2018 and 2017, related to the granting of these options was \$28,714 and \$28,713, respectively.

The intrinsic value as of December 31, 2018 was \$10,000.

## 5. CONVERTIBLE PROMISSORY NOTES

As of December 31, 2018, the outstanding convertible promissory notes are summarized as follows:

|  |              |
|--|--------------|
| Convertible Promissory Notes, net of debt discount | \$ 1,948,374 |
| Less current portion                               | 163,216      |
| Total long term liabilities                        | \$ 1,785,158 |

Maturities of long-term debt for the next four years are as follows:

| Year Ended 6/30/2018 | Amount       |
|----------------------|--------------|
| 2020                 | -            |
| 2021                 | 560,300      |
| 2022                 | 575,000      |
| 2023                 | 649,858      |
|                      | \$ 1,785,158 |

At December 31, 2018, the \$2,295,800 in convertible promissory notes had a remaining debt discount of \$347,426, leaving a net balance of \$1,948,374.

HYPERSOLAR, INC.

CONDENSED NOTES TO FINANCIAL STATEMENTS - UNAUDITED

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#### 5. CONVERTIBLE PROMISSORY NOTES (Continued)

On April 9, 2015, the Company issued a 10% convertible promissory note (the "April 2015 Note") in the aggregate principal amount of up to \$500,000. Upon execution of the convertible promissory note, the Company received a tranche of \$50,000. The Company received additional tranches in the amount of \$450,000 for an aggregate sum of \$500,000. The April 2015 Note matured nine (9) months from the effective dates of each respective tranche. A second extension was granted to October 9, 2016. On January 19, 2017, the investor extended the April 2015 Note for an additional (60) months from the effective date of each tranche, which matures on April 9, 2020. The April 2015 Note is convertible into shares of common stock of the Company at a price equal to a variable conversion price of the lesser of \$0.01 per share or fifty percent (50%) of the lowest trading price since the original effective date of each respective advance or the lowest effective price per share granted to any person or entity after the effective date to acquire common stock. If the Company fails to deliver shares in accordance with the timeframe of three (3) business days of the receipt of a notice of conversion, the lender, at any time prior to selling all of those shares, may rescind any portion, in whole or in part of that particular conversion attributable to the unsold shares and have the rescinded conversion amount returned to the principal sum with the rescinded conversion shares returned to the Company. In no event shall the lender be entitled to convert any portion of the April 2015 Note such that would result in beneficial ownership by the lender and its affiliates of more than 4.99% of the outstanding shares of common stock of the Company. In addition, for each conversion, in the event, that shares are not delivered by the fourth business day (inclusive of the day of conversion), a penalty of \$1,500 per day shall be assessed for each day after the third business day (inclusive of the day of the conversion) until the shares are delivered. During the six months ended December 31, 2018, the Company issued 32,615,769, upon conversion of 44,500, plus accrued interest of \$14,208, with a fair value loss of \$234,834. The balance of the April 2015 Note as of December 31, 2018 was \$330,300.

On January 28, 2016, the Company issued a 10% convertible promissory note (the "Jan 2016 Note") in the aggregate principal amount of up to \$500,000. Upon execution of the convertible promissory note, the Company received a tranche of \$10,000. The Company received additional tranches in the amount of \$490,000 for an aggregate sum of \$500,000. The Jan 2016 Note matures twelve (12) months from the effective dates of each respective tranche. On January 19, 2017, the investor extended the Jan 2016 Note for an additional sixty (60) months from the effective date of each tranche, which matures on January 27, 2022. The Jan 2016 Note is convertible into shares of common stock of the Company at a price equal to a variable conversion price of the lesser of \$0.01 per share or fifty percent (50%) of the lowest trading price since the original effective date of each respective tranche or the lowest effective price per share granted to any person or entity after the effective date to acquire common stock. If the Company fails to deliver shares in accordance with the timeframe of three (3) business days of the receipt of a notice of conversion, the lender, at any time prior to selling all of those shares, may rescind any portion, in whole or in part of that particular conversion attributable to the unsold shares and have the rescinded conversion amount returned to the principal sum with the rescinded conversion shares returned to the Company. In no event shall the lender be entitled to convert any

portion of the Jan 2016 Note such that would result in beneficial ownership by the lender and its affiliates of more than 4.99% of the outstanding shares of common stock of the Company. In addition, for each conversion, in the event that shares are not delivered by the fourth business day (inclusive of the day of conversion), a penalty of \$1,500 per day shall be assessed for each day after the third business day (inclusive of the day of the conversion) until the shares are delivered. The balance of the Jan 2016 Note as of December 31, 2018 was \$500,000.

On February 3, 2017, the Company issued a 10% convertible promissory note (the "Feb 2017 Note") in the aggregate principal amount of up to \$500,000. Upon execution of the convertible promissory note, the Company received a tranche of \$60,000. The Company received additional tranches in the amount of \$440,000 for an aggregate sum of \$500,000. The Feb 2017 Note matures twelve (12) months from the effective dates of each respective tranche. The Feb 2017 Note matures on February 3, 2018, with the Lender having the option to allow of an extension of sixty (60) months from the effective date of each tranche. The Feb 2017 Note is convertible into shares of common stock of the Company at a price equal to a variable conversion price of the lesser of \$0.01 per share or fifty percent (50%) of the lowest trading price since the original effective date of each respective tranche or the lowest effective price per share granted to any person or entity after the effective date to acquire common stock. If the Company fails to deliver shares in accordance with the timeframe of three (3) business days of the receipt of a notice of conversion, the lender, at any time prior to selling all of those shares, may rescind any portion, in whole or in part of that particular conversion attributable to the unsold shares and have the rescinded conversion amount returned to the principal sum with the rescinded conversion shares returned to the Company. In no event shall the lender be entitled to convert any portion of the Feb 2017 Note such that would result in beneficial ownership by the lender and its affiliates of more than 4.99% of the outstanding shares of common stock of the Company. In addition, for each conversion, in the event, that shares are not delivered by the fourth business day (inclusive of the day of conversion), a penalty of \$1,500 per day shall be assessed for each day after the third business day (inclusive of the day of the conversion) until the shares are delivered. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of \$4,947 during the six months ended December 31, 2018. The balance of the Feb 2017 Note as of December 31, 2018 was \$500,000.

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#### 5. CONVERTIBLE PROMISSORY NOTES (Continued)

On November 9, 2017, the Company issued a 10% convertible promissory note (the "Nov 2017 Note") in the aggregate principal amount of up to \$500,000. Upon execution of the convertible promissory note, the Company received a tranche of \$45,000. The Company received additional tranches in the amount of \$455,000 for an aggregate sum of \$500,000. The Nov 2017 Note matures twelve (12) months from the effective dates of each respective tranche. The Nov 2017 Note matures on November 9, 2018, with the Lender having the option to allow for an extension of sixty (60) months from the effective date of each tranche. The Nov 2017 Note is convertible into shares of common stock of the Company at a price equal to a variable conversion price of the lesser of \$0.01 per share or fifty percent (50%) of the lowest trading price since the original effective date of each respective tranche or the lowest effective price per share granted to any person or entity after the effective date to acquire common stock. If the Company fails to deliver shares in accordance with the timeframe of three (3) business days of the receipt of a notice of conversion, the lender, at any time prior to selling all of those shares, may rescind any portion, in whole or in part of that particular conversion attributable to the unsold shares and have the rescinded conversion amount returned to the principal sum with the rescinded conversion shares returned to the Company. In no event shall the lender be entitled to convert any portion of the Nov 2017 Note such that would result in beneficial ownership by the lender and its affiliates of more than 4.99% of the outstanding shares of common stock of the Company. In addition, for each conversion, in the event that shares are not delivered by the fourth business day (inclusive of the day of conversion), a penalty of \$1,500 per day shall be assessed for each day after the third business day (inclusive of the day of the conversion) until the shares are delivered. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of \$76,400 during the six months ended December 31, 2018. The balance of the Nov 2017 Note as of December 31, 2018 was \$500,000.

On June 27, 2018, the Company issued a 10% convertible promissory note (the "Jun 2018 Note") in the aggregate principal amount of up to \$500,000. Upon execution of the convertible promissory note, the Company received a tranche of \$50,000. On October 9, 2018, the Company received another tranche of \$40,000, for a total aggregate of \$90,000 as of December 31, 2018. The Jun 2018 Note matures twelve (12) months from the effective dates of each respective tranche. The Jun 2018 Note matures on June 27, 2019, with the Lender having the option to allow for an extension of sixty (60) months from the effective date of each tranche. The Jun 2018 Note is convertible into shares of common stock of the Company at a price equal to a variable conversion price of the lesser of \$0.01 per share or fifty percent (50%) of the lowest trading price since the original effective date of each respective tranche or the lowest effective price per share granted to any person or entity after the effective date to acquire common stock. If the Company fails to deliver shares in accordance with the timeframe of three (3) business days of the receipt of a notice of conversion, the lender, at any time prior to selling all of those shares, may rescind any portion, in whole or in part of that particular conversion attributable to the unsold shares and have the rescinded conversion amount returned to the principal sum with the rescinded conversion shares returned to the Company. In no event shall the lender be



entitled to convert any portion of the Jun 2018 Note such that would result in beneficial ownership by the lender and its affiliates of more than 4.99% of the outstanding shares of common stock of the Company. In addition, for each conversion, in the event, that shares are not delivered by the fourth business day (inclusive of the day of conversion), a penalty of \$1,500 per day shall be assessed for each day after the third business day (inclusive of the day of the conversion) until the shares are delivered. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of \$13,880 during the six months ended December 31, 2018. The balance of the Jun 2018 Note as of December 31, 2018 was \$90,000.

On July 23, 2018, the Company issued a 10% unsecured convertible note (the “Jul 2018 Note”) in the aggregate principal amount of up to \$63,000. The Jul 2018 Note matures on July 23, 2019. The Jul 2018 Note may be converted into shares of the Company’s common stock at a conversion price of sixty-one (61%) percent of the lowest average two (2) trading prices per common stock during the fifteen (15) trading day prior to the conversion date. The conversion feature of the Jul 2018 Note was considered a derivative in accordance with current accounting guidelines because of the reset conversion features of the Note. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of \$27,425 during the six months ended December 31, 2018.

On August 10, 2018, the Company issued a 10% unsecured convertible note (the “Aug 2018 Note”) in the aggregate principal amount of up to \$100,000. The Aug 2018 Note matures on August 10, 2019, with the Lender having the option to allow for an extension of sixty (60) months from the date of the note. The Aug 2018 Note may be converted into shares of the Company’s common stock at a conversion price of the lesser of a) \$0.005 per share or b) sixty-one (61%) percent of the lowest trading price per common stock recorded on any trade day after the effective date. The conversion feature of the Aug 2018 Note was considered a derivative in accordance with current accounting guidelines because of the reset conversion features of the Note. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of \$39,178 during the six months ended December 31, 2018.

On October 3, 2018, the Company issued a 10% unsecured convertible note (the “Oct 2018 Note”) in the aggregate principal amount of up to \$53,000, which was funded on October 12, 2018. The Oct 2018 Note matures on October 12, 2019. The Oct 2018 Note may be converted into shares of the Company’s common stock at a conversion price of sixty-one (61%) percent of the lowest average two (2) trading prices per common stock during the fifteen (15) trading day prior to the conversion date. The conversion feature of the Oct 2018 Note was considered a derivative in accordance with current accounting guidelines because of the reset conversion features of the Note. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of \$12,923 during the six months ended December 31, 2018.

HYPERSOLAR, INC.

CONDENSED NOTES TO FINANCIAL STATEMENTS - UNAUDITED

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#### 5. CONVERTIBLE PROMISSORY NOTES (Continued)

On November 16, 2018, the Company issued a 10% unsecured convertible note (the "Nov 2018 Note") in the aggregate principal amount of up to \$53,000. The Nov 2018 Note matures on November 16, 2019. The Nov 2018 Note may be converted into shares of the Company's common stock at a conversion price of sixty-one (61%) percent of the lowest average two (2) trading prices per common stock during the fifteen (15) trading day prior to the conversion date. The conversion feature of the Nov 2018 Note was considered a derivative in accordance with current accounting guidelines because of the reset conversion features of the Note. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of \$6,534 during the six months ended December 31, 2018.

On December 11, 2018, the Company issued a 10% unsecured convertible note (the "Dec 2018 Note") in the aggregate principal amount of up to \$53,000. The Dec 2018 Note matures on December 11, 2019. The Dec 2018 Note may be converted into shares of the Company's common stock at a conversion price of sixty-one (61%) percent of the lowest average two (2) trading prices per common stock during the fifteen (15) trading day prior to the conversion date. The conversion feature of the Dec 2018 Note was considered a derivative in accordance with current accounting guidelines because of the reset conversion features of the Note. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of \$2,904 during the six months ended December 31, 2018.

On December 14, 2018, the Company issued a 10% unsecured convertible note (the "Dec 14, 2018 Note") in the aggregate principal amount of up to \$53,500. The Dec 14, 2018 Note matures on December 14, 2019. The Dec 14 Note may be converted into shares of the Company's common stock at a conversion price of sixty-one (61%) percent of the lowest trading prices per common stock during the fifteen (25) trading day prior to the conversion date. The conversion feature of the Dec 14, 2018 Note was considered a derivative in accordance with current accounting guidelines because of the reset conversion features of the Note. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of \$2,492 during the six months ended December 31, 2018.

Each of the Notes issued by the Company restricts the holder from effecting a conversion, if such conversion, along with the other shares of the Company's common stock beneficially owned by the holder and its affiliates, exceeds 4.99% of the outstanding shares of the Company's common stock.

## 6. DERIVATIVE LIABILITIES

ASC Topic 815 provides guidance applicable to convertible debt issued by the Company in instances where the number into which the debt can be converted is not fixed. For example, when a convertible debt converts at a discount to market based on the stock price on the date of conversion, ASC Topic 815 requires that the embedded conversion option of the convertible debt be bifurcated from the host contract and recorded at their fair value. In accounting for derivatives under accounting standards, the Company recorded a liability representing the estimated present value of the conversion feature considering the historic volatility of the Company's stock, and a discount representing the imputed interest associated with the embedded derivative. The discount is amortized over the life of the convertible debt, and the derivative liability is adjusted periodically according to stock price fluctuations.

The convertible notes (the "Notes") issued do not have fixed settlement provisions because their conversion prices are not fixed. The conversion features have been characterized as derivative liabilities to be re-measured at the end of every reporting period with the change in value reported in the statement of operations.

During the six months ended December 31, 2018, as a result of the Notes issued that were accounted for as derivative liabilities, we determined that the fair value of the conversion feature of the convertible notes at issuance was \$384,877, based upon the Binomial lattice formula. We recorded the full value of the derivative as a liability at issuance with an offset to valuation discount, which will be amortized over the life of the Notes.

During the six months ended December 31, 2018, the Company recorded a net loss in change in derivative of \$434,373 in the statement of operations due to the change in fair value of the remaining notes, for the six months ended December 31, 2018. The Company also recognized a loss on conversion of debt in the amount of \$234,834 in the statement of operations at December 31, 2018. At December 31, 2018, the fair value of the derivative liability was \$11,676,948.

For purpose of determining the fair market value of the derivative liability for the embedded conversion, the Company used the Binomial lattice formula. The significant assumptions used in the Binomial lattice formula of the derivatives are as follows:

|                                       |                      |
|---------------------------------------|----------------------|
| Risk free interest rate               | 2.46% -<br>2.63%     |
| Stock volatility factor               | 69.0% -<br>129.0%    |
| Weighted average expected option life | 6 months<br>- 5 year |
| Expected dividend yield               | None                 |

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## 7. SUBSEQUENT EVENTS

Management evaluated subsequent events as of the date of the financial statements pursuant to ASC TOPIC 855, and reported the following events:

On January 18, 2019, the Company issued a 10% unsecured convertible note in the principal amount of \$33,000, at a purchase price of \$31,750, plus an original issue discount of \$1,250. The Note matures on January 18, 2020. The Note is convertible into shares of common stock of the Company at conversion price per shares equal to 61% multiplied by the lowest trading price during the twenty-five (25) trading day period prior to the conversion date.

On January 23, 2019, the Company issued 33,489,863 shares upon conversion of principal in the amount of \$44,700, plus accrued interest of \$15,582.

On January 23, 2019, the Company granted 170,000,000 stock options under the Company's 2019 Equity Incentive Plan which options are exercisable at a price of \$0.0099. One-third (1/3) of the Options vested immediately on the grant date, and the remainder of the Options shall vest one-twenty fourth (1/24) per month from months one through twenty-four after the date of grant.

On January 31, 2019, the Company issued a 10% convertible promissory note in the principal amount of \$80,000, which included fees of \$2,000. The Note is convertible into shares of common stock of the Company at a conversion price which shall equal to 39% multiplied by the average of the two (2) lowest trading prices of the Company's common stock during the fifteen (15) trading day period ending on the latest complete trading day prior to the date of conversion. The Note matures on January 31, 2020.

On January 31, 2019, the Company granted 6,000,000 stock options under the Company's 2019 Equity Incentive Plan which options are exercisable at a price of \$0.0097. Two-third (2/3) of the Options vested immediately on the grant date, and the remainder of the Options shall vest one-twelfth (1/12) per month from months one through twelve after the date of grant.

During the month of February 2019, the Company issued 13,042,837 shares upon conversion of principal in the amount of \$63,000, plus accrued interest of \$3,150.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### *Cautionary Statement Regarding Forward-Looking Statements*

*The information in this discussion may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements involve risks and uncertainties, including statements regarding our capital needs, business strategy and expectations. Any statements that are not of historical fact may be deemed to be forward-looking statements. These forward-looking statements involve substantial risks and uncertainties. In some cases you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential," or "continue", the negative of the terms or other comparable terminology. Actual events or results may differ materially from the anticipated results or other expectations expressed in the forward-looking statements. In evaluating these statements, you should consider various factors, including the risks included from time to time in other reports or registration statements filed with the United States Securities and Exchange Commission. These factors may cause our actual results to differ materially from any forward-looking statements. We disclaim any obligation to publicly update these statements, or disclose any difference between actual results and those reflected in these statements.*

*Unless the context otherwise requires, references in this Form 10-Q to "we," "us," "our," or the "Company" refer to Hypersolar, Inc.*

### **Overview**

At HyperSolar, Inc., our goal is to replace all forms of energy on earth with renewable energy.

We refer to our technology as the HyperSolar H2Generator which is comprised of the following components:

The Generator Housing - Novel (patent pending) is the first of its type to safely separate oxygen and hydrogen in the water splitting process without sacrificing efficiency. This device houses the water, the solar particles/cells and is designed with inlets and outlets for water and gasses. Utilizing a special membrane for separating the oxygen side from the hydrogen side, proton transport is increased which is the key to safely increasing solar-to-hydrogen efficiency. Our design can be scaled up and manufactured for commercial use.

The NanoParticle or Solar Cell - Our patented nanoparticle consists of thousands of tiny solar cells that are electrodeposited into one tiny structure to provide the charge that splits the water molecule when the sun excites the electron. In the process of optimizing our nanoparticles to be efficient and only use earth abundant materials, (an ongoing process), we experimented with commercially available triple junction silicon solar cells to perform tests with our generator housing and other components. Through this experimentation, our discovery makes us believe we can bring a system to market utilizing these readily available cells while our nanoparticles are still being optimized. These solar cells also absorb the sunlight and produce the necessary charge for splitting the water molecule to produce the hydrogen and oxygen.

Oxygen Evolution Catalyst - This proprietary catalyst developed at the University of Iowa lab is uniformly applied onto the solar cell or nanoparticle and efficiently collects holes to oxidize water molecule to generate oxygen gas. The oxygen evolution catalyst must be transparent to absorb the sun's energy or light. It must be stable in alkaline, neutral and acidic environments.

Hydrogen Evolution Catalyst - Necessary for collecting electrons to reduce protons for generating hydrogen gas, we recently announced the successful integration of a low-cost hydrogen catalyst into our generator system successfully coating a triple junction solar cell with a catalyst comprised primarily of ruthenium, carbon and nitrogen that can function as well as platinum, the current catalyst used for hydrogen production, but at a 20x reduced cost.

Transparent Conductive Coating - A patent pending coating to protect our nanoparticles and solar cells from photo corrosion and efficiently transfer charges to catalysts for oxygen and hydrogen evolution reactions.

A concentrator equal to two suns - This inexpensive Fresnel lens concentrator to increase sunlight to equal two suns reduces our necessary footprint for a 1000 KG per day system by 40%.

Our business and commercialization plan calls for two generations of our panels or generators. The **first generation** utilizes readily available commercial solar cells, coated with a stability polymer and catalysts, and inserted into our proprietary panels to efficiently and safely split water into hydrogen and oxygen to produce very pure and green hydrogen that can be piped off the panel, pressurized, and stored for use in a fuel cell to power anything electric.

The **second generation** of our panels will feature a nanoparticle based technology where billions of autonomous solar cells are electrodeposited onto porous alumina sheets and manufactured in a roll to roll process and inserted into our proprietary panels. For this generation, we have received multiple patents and it is estimated that it will produce hydrogen for less than \$4 per kilogram before pressurization.

Our team at the University of Iowa led by our CTO Dr. Joun Lee, has reach a milestone of 365 consecutive hours of continuous hydrogen production utilizing completely immersed solar cells with no external biases achieving simulated production equal to one year. We believe this to be a record for completely immersed cells. Now ready to take our technology out of the lab, we are working with several vendors to commercialize and manufacturer our first generation of renewable hydrogen panels that use sunlight and water to generate hydrogen. We are currently working towards building a pilot plant in 2019 adjacent to a large company distribution or fulfillment center so they can power their fuel cell forklifts and materials handling equipment with completely renewable hydrogen vs. having to transport steam reformed hydrogen where the production process emits tons of harmful emissions and must be transported.

We anticipate that the HyperSolar H2Generator will be a self-contained renewable hydrogen production system that requires only sunlight and any source of water. As a result, it can be installed almost anywhere to produce hydrogen fuel at or near the point of distribution, for local use. We believe this model of hydrogen production addresses one of the biggest challenges of using clean hydrogen fuel on a large scale which is the transportation of hydrogen.

Each stage of the HyperSolar H2Generator can be scaled independently according to the hydrogen demands and length of storage required for a specific application. A small-scale system can be used to produce continuous renewable electricity for a small house, or a large scale system can be used to produce hydrogen to power a community.

### **Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets



and liabilities. On an ongoing basis, we evaluate our estimates, including those related to impairment of property, plant and equipment, intangible assets, deferred tax assets and fair value computation using the Black Scholes option pricing model. We base our estimates on historical experience and on various other assumptions, such as the trading value of our common stock and estimated future undiscounted cash flows, that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the above-described items, are reasonable.

### **Use of Estimates**

In accordance with accounting principles generally accepted in the United States, management utilizes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates and assumptions relate to useful lives and impairment of tangible and intangible assets, accruals, income taxes, stock-based compensation expense, Binomial lattice valuation model inputs, derivative liabilities and other factors. Management believes it has exercised reasonable judgment in deriving these estimates. Consequently, a change in conditions could affect these estimates.

### **Fair Value of Financial Instruments**

Fair value of financial instruments, requires disclosure of the fair value information, whether or not recognized in the balance sheet, where it is practicable to estimate that value. As of December 31, 2018, the amounts reported for cash, accrued interest and other expenses, notes payables, and derivative liability approximate the fair value because of their short maturities.

We adopted ASC Topic 820 for financial instruments measured as fair value on a recurring basis. ASC Topic 820 defines fair value, established a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosures about fair value measurements.

### **Recently Issued Accounting Pronouncements**

Management reviewed currently issued pronouncements during the six months ended December 31, 2018, and does not believe that any recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the accompanying condensed financial statements. Pronouncements are disclosed in notes to the financials.

### **Results of Operations for the Three Months Ended December 31, 2018 compared to Three Months Ended December 31, 2017.**

#### **Operating Expenses**

Operating expenses for the three months ended December 31, 2018 were \$345,863 and \$208,240 for the prior period ended December 31, 2017. The net increase of \$137,623 in operating expenses consisted primarily of an increase in general and administrative expenses of \$122,427 due to non-cash transactions issued for services and stock compensation, with an increase in research and development cost in the amount of \$14,371 due to project development, and an increase in depreciation and amortization of \$825.

#### **Other Income/(Expenses)**

Other income and (expenses) for the three months ended December 31, 2018 were \$(3,672,942) and \$(1,416,842) for the prior period ended December 31, 2017. The increase in other expenses of \$2,256,100 in other income and (expenses) was the result of an increase in net loss on change in fair value of the derivative instruments of \$2,399,834, and an increase in interest expense of \$84,030, which includes a net change of \$92,822 of amortization of debt discount, with a decrease in loss on conversion of debt of \$227,764.

### **Net Loss**

For the three months ended December 31, 2018, our net loss was \$(4,018,805) as compared to a net loss of \$(1,625,082) for the prior period December 31, 2017. The majority of the increase in net loss was due primarily to a decrease in other expenses associated with the net change in derivative instruments estimated each period. These estimates are based on multiple inputs, including the market price of our stock, interest rates, our stock price, volatility, variable conversion prices based on market prices defined in the respective agreements and probabilities of certain outcomes based on managements' estimates. These inputs are subject to significant changes from period to period, therefore, the estimated fair value of the derivative liabilities will fluctuate from period to period, and the fluctuation may be material.

**Results of Operations for the Six Months Ended December 31, 2018 compared to Six Months Ended December 31, 2017.**

**Operating Expenses**

Operating expenses for the six months ended December 31, 2018 were \$558,365 and \$394,953 for the prior period ended December 31, 2017. The net increase of \$163,412 in operating expenses consisted primarily of an increase in general and administrative expenses of \$140,868 due to an increase in non-cash transactions issued for services and stock compensation, with an increase in research and development cost in the amount of \$22,407 due to an increase in project development cost, and an increase in depreciation and amortization of \$137.

**Other Income/(Expenses)**

Other income and (expenses) for the six months ended December 31, 2018 were \$(962,209) and \$(1,458,269) for the prior period ended December 31, 2017. The decrease in other expenses of \$496,060 in other income and (expenses) was the result of a decrease in net loss on change in fair value of the derivative instruments of \$619,788, with an increase in interest expense of \$116,658, which includes a net change of \$92,821 of amortization of debt discount, with a decrease in loss on conversion of debt of \$7,070.

**Net Loss**

For the six months ended December 31, 2018, our net loss was \$(1,520,574) as compared to a net loss of \$(1,853,222) for the prior period December 31, 2017. The majority of the decrease in net loss was due primarily to a decrease in other expenses associated with the net change in derivative instruments estimated each period. These estimates are based on multiple inputs, including the market price of our stock, interest rates, our stock price, volatility, variable conversion prices based on market prices defined in the respective agreements and probabilities of certain outcomes based on managements' estimates. These inputs are subject to significant changes from period to period, therefore, the estimated fair value of the derivative liabilities will fluctuate from period to period, and the fluctuation may be material.

**LIQUIDITY AND CAPITAL RESOURCES**

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. Significant factors in the management of liquidity are funds generated by operations, levels of accounts receivable and accounts payable and capital expenditures.

As of December 31, 2018, we had a working capital deficit of \$12,432,167 as compared to \$11,741,054 as of June 30, 2018. This increase in working capital deficit of \$691,113 was due primarily to a decrease in cash, prepaid expenses, accounts payable, and current portion of convertible notes, offset by an increase in accrued expenses, and non-cash derivative liability.

Cash used in operating activities was \$448,850 for the six months ended December 31, 2018 and \$322,903 for the prior period ended December 31, 2017. The increase in cash used in operating activities was due to an increase in research and development cost, insurance and professional fees. The Company has had no revenues.

Cash used in investing activities during the six months ended December 31, 2018 and 2017 was \$13,062 and \$3,766, respectively. The increase in investing activities was due to an increase in the purchase of intangible assets in the current period.

Cash provided by financing activities during the six months ended December 31, 2018 and 2017 was \$415,500 and \$300,000, respectively. The increase is a result of an increased in borrowing to cover our general expenses, research and related expenses and protection of our intellectual property. Our ability to continue as a going concern is dependent upon raising capital through financing transactions and future revenue. Our capital needs have primarily been met from the proceeds of private placements \, as we have not generated any revenues since inception.

The condensed unaudited financial statements have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and liabilities and commitments in the normal course of business. The accompanying condensed unaudited financial statements do not reflect any adjustments that might result if we are unable to continue as a going concern. During the six months ended December 31, 2018, we did not generate any revenues, incurred net loss of \$1,520,574, which was primarily associated with the net change in derivative instruments, and cash used in operations of \$448,850. As of December 31, 2018, we had a working capital deficiency of \$12,432,167 and a shareholders' deficit of \$14,112,922. These factors, among others raise substantial doubt about our ability to continue as a going concern. Our independent auditors, in their report on our audited financial statements for the year ended June 30, 2018, expressed substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern ultimately is dependent on our ability to generate revenue, which is dependent upon our ability to obtain additional equity or debt financing, attain further operating efficiencies and, ultimately, achieve profitable operations. We have historically obtained funds from our shareholders through the sale of our securities. Management believes that we will be able to continue to raise funds through the sale of our securities to existing and new investors. Management believes that funding from existing and prospective new investors and future revenue will provide the additional cash needed to meet our obligations as they become due, and will allow the development of our core business operations.

## **PLAN OF OPERATION AND FINANCING NEEDS**

Our plan of operation within the next twelve months is to further research, develop, and protect our technology.

We believe that our current cash balances will be sufficient to support development activity, intellectual property protection, and all general and administrative expenses for the next 30 days. Management estimates that we will require additional cash resources during 2019, based upon its current operating plan and condition. We have entered into convertible promissory notes which provides us access to additional capital in the aggregate remaining balance of up to \$400,000. However, the convertible promissory notes contain beneficial ownership blockers which limit conversions which would result in the holders owning more than 4.99% of our outstanding common shares. We are pursuing additional financing alternatives, including continued equity and/or debt financing. There can be no assurance that capital in any form would be available to us, and if available, on terms and conditions that are acceptable. If we are unable to obtain sufficient funds, we may be forced to reduce the size of our operations, which could have a material adverse impact on, or cause us to curtail and/or cease the development of our products.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, result of operations, liquidity or capital expenditures.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not required for Smaller Reporting Companies.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (i) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and (ii) accumulated and communicated to our management, including our chief executive officer and chief financial officer, or person performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

#### **Changes in Internal Control Over Financial Reporting**

There was no change to our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

We are not currently a party to, nor is any of our property currently the subject of, any pending legal proceeding that will have a material adverse effect on our business.

### **ITEM 1A. RISK FACTORS**

There are no material changes from the risk factors previously disclosed in our annual report on Form 10-K filed with the SEC on September 25, 2018.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the three months ended December 31, 2018, the Company issued 9,603,000 shares of common stock under the 2019 Equity Incentive Plan for services performed by a non-employee at fair value of \$0.0109 per share.

The Company relied on an exemption pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, in connection with the foregoing issuance.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

No disclosure required.

**ITEM 5. OTHER INFORMATION**

None

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**ITEM 6. EXHIBITS**

**[NTD – Include notes that were recently issued and not disclosed in 8-K]**

| Exhibit No.  | Description   |
|--------------|---|
| 31.1*        | <u>Certification by Chief Executive Officer and Acting Chief Financial Officer pursuant to Sarbanes-Oxley Section 302 (filed herewith).</u> |
| 32.1*        | <u>Certification by Chief Executive Officer and Acting Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (filed herewith).</u>     |
| EX-101.INS** | XBRL Instance Document  |
| EX-101.SCH** | XBRL Taxonomy Extension Schema Document   |
| EX-101.CAL** | XBRL Taxonomy Extension Calculation Linkbase  |
| EX-101.DEF** | XBRL Taxonomy Extension Definition Linkbase   |
| EX-101.LAB** | XBRL Taxonomy Extension Labels Linkbase   |
| EX-101.PRE** | XBRL Taxonomy Extension Presentation Linkbase   |

\* Filed herewith

\*\*Furnished herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 12, 2019 **HYPERMOLAR,  
INC.**

By: /s/ Timothy Young  
Timothy Young  
Chief Executive  
Officer and

Acting Chief Financial  
Officer  
(Principal Executive  
Officer and  
Acting Principal  
Financial Officer and

Accounting Officer)