



**510 Castillo St., Suite 320, 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Smaller reporting company

Non-accelerated filer (Do not check if 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 9, 2018 was 759,910,084.



**HYPERSOLAR, INC.**

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

HYPER SOLAR, INC.

CONDENSED BALANCE SHEETS

|  | December 31,<br>2017<br>(Unaudited) | June 30,<br>2017 |
|--|-------------------------------------|------------------|
| <b>ASSETS</b>  |                                     |                  |
| <b>CURRENT ASSETS</b>  |                                     |                  |
| Cash   | \$53,464                            | \$80,133         |
| Prepaid expense  | -                                   | 4,167            |
| <b>TOTAL CURRENT ASSETS</b>                                      | <b>53,464</b>                       | <b>84,300</b>    |
| <b>PROPERTY &amp; EQUIPMENT</b>                                  |                                     |                  |
| Computers and peripherals  | 6,218                               | 6,218            |
| Less: accumulated depreciation                                   | (6,218)                             | (6,218)          |
| <b>NET PROPERTY AND EQUIPMENT</b>                                | <b>-</b>                            | <b>-</b>         |
| <b>OTHER ASSETS</b>  |                                     |                  |
| Deposits   | 900                                 | 900              |
| Domain, net of amortization of \$3,337 and \$3,160, respectively | 1,978                               | 2,155            |
| Patents, net of amortization of \$2,750 and \$0, respectively    | 79,494                              | 78,478           |
| <b>TOTAL OTHER ASSETS</b>  | <b>82,372</b>                       | <b>81,533</b>    |
| <b>TOTAL ASSETS</b>  | <b>\$135,836</b>                    | <b>\$165,833</b> |
| <b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>                     |                                     |                  |
| <b>CURRENT LIABILITIES</b>                                       |                                     |                  |
| Accounts payable   | \$139,356                           | \$103,112        |
| Accrued expenses   | 446,298                             | 401,626          |
| Derivative liability   | 3,571,895                           | 2,482,842        |
|  | 559,289                             | 238,665          |

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Convertible promissory notes, net of debt discount of \$45,711 and \$66,335, respectively

|   |              |              |
|---|--------------|--------------|
| TOTAL CURRENT LIABILITIES   | 4,716,838    | 3,226,245    |
| LONG TERM LIABILITIES   |              |              |
| Convertible promissory notes, net of debt discount of \$0 and \$38,514, respectively  | 1,101,100    | 1,189,486    |
| TOTAL LONG TERM LIABILITIES   | 1,101,100    | 1,189,486    |
| TOTAL LIABILITIES   | 5,817,938    | 4,415,731    |
| 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; 1,000,000,000 authorized common shares 759,910,084 and 699,483,259 shares issued and outstanding, respectively | 759,910      | 699,483      |
| Additional Paid in Capital  | 7,211,327    | 6,850,736    |
| Accumulated deficit   | (13,653,339) | (11,800,117) |
| TOTAL SHAREHOLDERS' DEFICIT   | (5,682,102 ) | (4,249,898 ) |
| TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT   | \$ 135,836   | \$ 165,833   |

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

## HYPERMOLAR, INC.

## CONDENSED STATEMENTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2017 AND 2016

(Unaudited)

|   | Three Months Ended   |                      | Six Months Ended     |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | December 31,<br>2017 | December 31,<br>2016 | December 31,<br>2017 | December 31,<br>2016 |
| REVENUE   | \$-                  | \$-                  | \$-                  | \$-                  |
| OPERATING EXPENSES  |                      |                      |                      |                      |
| General and administrative expenses                               | 153,615              | 128,083              | 271,863              | 250,884              |
| Research and development cost                                     | 53,611               | 37,736               | 120,163              | 76,972               |
| Depreciation and amortization                                     | 1,014                | 88                   | 2,927                | 336                  |
| TOTAL OPERATING EXPENSES  | 208,240              | 165,907              | 394,953              | 328,192              |
| LOSS FROM OPERATIONS BEFORE OTHER INCOME (EXPENSES)               | (208,240 )           | (165,907 )           | (394,953 )           | (328,192 )           |
| OTHER INCOME/(EXPENSES)   |                      |                      |                      |                      |
| Gain (Loss) on debt conversion and change in derivative liability | (1,105,933 )         | 1,423,588            | (1,054,161 )         | 1,123,381            |
| Loss on settlement of debt  | (227,764 )           | -                    | (227,764 )           | -                    |
| Interest expense  | (83,145 )            | (76,487 )            | (176,344 )           | (174,410 )           |
| TOTAL OTHER INCOME/(EXPENSES)                                     | (1,416,842 )         | 1,347,101            | (1,458,269 )         | 948,971              |
| NET (LOSS) INCOME   | \$(1,625,082 )       | \$1,181,194          | \$(1,853,222 )       | \$620,779            |
| BASIC (LOSS) EARNINGS PER SHARE                                   | \$(0.002 )           | \$0.002              | \$(0.003 )           | \$0.001              |
| DILUTED (LOSS) EARNINGS PER SHARE                                 | \$(0.002 )           | \$0.002              | \$(0.003 )           | \$0.001              |
| WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING                        |                      |                      |                      |                      |
| BASIC   | 699,483,259          | 621,326,594          | 699,483,259          | 605,439,777          |
| DILUTED   | 699,483,259          | 504,309,524          | 699,483,259          | 504,309,524          |

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, 2017

|  | Preferred<br>stock<br>Shares | Amount | Common stock<br>Shares | Amount        | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Total         |
|--|------------------------------|--------|------------------------|---------------|----------------------------------|------------------------|---------------|
| Balance at June 30, 2017   | -                            | \$ -   | 699,483                | \$259,699,483 | \$6,850,736                      | \$(11,800,117)         | \$(4,249,898) |
| Issuance of common stock for<br>conversion of debt and accrued<br>interest | -                            | -      | 60,426                 | \$825,60,427  | 331,878                          | -                      | 392,305       |
| Stock compensation   | -                            | -      | -                      | -             | 28,713                           | -                      | 28,713        |
| Net (loss) for the six months<br>ended December 31, 2017                   | -                            | -      | -                      | -             | -                                | (1,853,222)            | (1,853,222)   |
| Balance at December 31, 2017<br>(unaudited)                                | -                            | \$ -   | 759,910                | \$84,759,910  | \$7,211,327                      | \$(13,653,339)         | \$(5,682,102) |

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, 2017 AND 2016

(Unaudited)

|  | Six Months Ended<br>December 31, December 31,<br>2017                      2016 |                   |
|--|---|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                       |   |                   |
| Net (loss) income  | \$(1,853,222)   | \$ 620,779        |
| Adjustment to reconcile net (loss) income to net cash used in operating activities |   |                   |
| Stock compensation   | \$28,713  | \$-               |
| Depreciation & amortization expense  | 2,927   | 336               |
| (Gain) Loss on debt conversion and change in derivative liability                  | 1,054,161   | (1,123,381 )      |
| Loss on settlement of debt   | 227,764   | -                 |
| Amortization of debt discount recorded as interest expense                         | 94,029  | 99,433            |
| (Increase) Decrease in change in assets:   |   |                   |
| Prepaid expense  | 4,167   | (9,167 )          |
| Increase (Decrease) in change in liabilities :                                     |   |                   |
| Accounts payable   | 36,244  | 19,437            |
| Accrued expenses   | 82,314  | 74,977            |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>                                       | <b>(322,903 )</b>   | <b>(317,586 )</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |   |                   |
| Purchase of intangible assets  | (3,766 )  | -                 |
| <b>NET CASH FLOWS USED IN INVESTING ACTIVITIES:</b>                                | <b>(3,766 )</b>   | <b>-</b>          |
| <b>NET CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                   |   |                   |
| Proceeds from convertible notes payable  | 300,000   | 270,000           |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>                                   | <b>300,000</b>  | <b>270,000</b>    |
| <b>NET DECREASE IN CASH</b>  | <b>(26,669 )</b>  | <b>(47,586 )</b>  |
| <b>CASH, BEGINNING OF PERIOD</b>   | <b>80,133</b>   | <b>119,887</b>    |
| <b>CASH, END OF PERIOD</b>   | <b>\$53,464</b>   | <b>\$ 72,301</b>  |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>                           |   |                   |
| Interest paid  | \$-   | \$-               |

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|            |     |     |
|------------|-----|-----|
| Taxes paid | \$- | \$- |
|------------|-----|-----|

SUPPLEMENTAL DISCLOSURES OF NON CASH TRANSACTIONS

|  |           |            |
|--|-----------|------------|
| Issuance of common stock upon conversion of convertible notes and accrued interest | \$392,305 | \$ 242,277 |
|--|-----------|------------|

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

HYPERSOLAR, INC.

CONDENSED NOTES TO FINANCIAL STATEMENTS - UNAUDITED

DECEMBER 31, 2017

## 1. BASIS OF 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 S-X Regulation. 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, 2017 are not necessarily indicative of the results that may be expected for the year ending June 30, 2018. 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, 2017.

### Going Concern

The accompanying 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 unaudited 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 unaudited 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

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the accompanying unaudited financial statements. Significant estimates made in preparing these unaudited financial statements include the estimate of useful lives of intangible assets, and the deferred tax valuation allowance. Actual results could differ from those estimates.

### Intangible Assets

Intangible assets consist of patents that are initially measured at the lower of cost or fair value. The patents are assessed annually for impairment, or whenever conditions indicate the asset may be impaired, and any such impairment will be recognized in the period identified. Patents are amortized straight-line over 15 years.

### Net Earnings (Loss) per Share Calculations

Net earnings (Loss) per share dictates the calculation of basic earnings (loss) per share and diluted earnings (loss) 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, 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 the convertible debt were not included in the calculation of net loss per share, because their impact was antidilutive.

For the six months ended December 31, 2016, the dilutive impact of the outstanding stock options of 500,000, and the convertible debt of \$1,465,000, which is convertible into shares of common stock. The stock options and the convertible debt were included in the calculation of net earnings per share, because their impact on the loss per share was dilutive.

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

HYPERMOLAR, INC.

CONDENSED NOTES TO FINANCIAL STATEMENTS - UNAUDITED

DECEMBER 31, 2017

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

### Stock based Compensation (Continued)

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, 2017, 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;

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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.

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, 2017 (See Note 6):

|   | Total       | (Level<br>1) | (Level<br>2) | (Level 3)   |
|---|-------------|--------------|--------------|-------------|
| Liabilities   |             |              |              |             |
| Derivative liability                                | 3,571,895   | -            | -            | 3,571,895   |
| Total derivative liabilities measured at fair value | \$3,571,895 | \$ -         | \$ -         | \$3,571,895 |

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 July 1, 2017                  | \$2,482,842 |
| Fair value of derivative liabilities issued | 34,892      |
| Loss on change in derivative liability      | 1,054,161   |
| Balance as of December 31, 2017             | \$3,571,895 |

### 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.

### Reclassification of Expenses



Certain expenses for the period ended December 31, 2016, were reclassified to conform with the expenses for the period ended December 31, 2017.

HYPERSOLAR, INC.

CONDENSED NOTES TO FINANCIAL STATEMENTS - UNAUDITED

DECEMBER 31, 2017

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

### Recently Issued Accounting Pronouncements

In May 2017, FASB issued accounting standards update ASU-2017-09, “Compensation-Stock Compensation” (Topic 718) –Modification Accounting”, to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation-Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in this ASU are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period for public entities for reporting periods for which financial statements have not yet been issued, and all other entities for reporting periods for which financial statements have not yet been made available for issuance. The Company is currently evaluating the impact of the adoption of ASU 2017-09 on the Company’s financial statements.

In August 2017, FASB issued accounting standards update ASU-2017-12, “D” (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. 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.

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 unaudited financial statements.

## 3. CAPITAL STOCK

During the six months ended December 31, 2017, the Company issued 60,426,825 shares of common stock upon conversion of convertible notes in the amount of \$126,900 in principal, plus accrued interest of \$37,642, with an aggregate fair value loss on settlement of \$227,764, based upon conversion prices of \$0.0070 and \$0.0058.

## 4. STOCK OPTIONS

Options

As of December 31, 2017, 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 December 31, 2017, 250,000 options are fully vested with a maturity date of March 31, 2020, and are exercisable at an exercise price of \$0.02245 per share. On October 2, 2017, the Company issued 10,000,000 shares of non-qualified common stock options, which vest one-third immediately, and one-third the second and third year, whereby, the options are fully vested with a maturity 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:

|                                  | 12/31/2017              |  | 12/31/2016              |  |
|----------------------------------|-------------------------|--|-------------------------|--|
|                                  | 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 | 250,000                 | \$ 0.02                                  | 500,000                 | \$ 0.03                                  |
| Granted                          | 10,000,000              | \$ 0.01                                  | -                       | -  |
| Exercised                        | -                       | -  | -                       | -  |
| Forfeited/Expired                | -                       | -  | -                       | -  |
| Outstanding, end of period       | 10,250,000              | \$ 0.01                                  | 500,000                 | \$ 0.03                                  |
| Exercisable at the end of period | 3,583,333               | \$ 0.01                                  | 375,000                 | \$ 0.02                                  |

The stock based compensation expense recognized in the statement of operations during the six months ended December 31, 2017 and 2016, related to the granting of these options was \$28,713 and \$0, respectively.

For purpose of determining the fair market value of the stock options, the Company used the Binomial lattice formula. The significant assumptions used in the Binomial lattice formula of the stock options are as follows:

|                                       |            |
|---------------------------------------|------------|
| Risk free interest rate               | 1.94%      |
| Stock volatility factor               | 208%       |
| Weighted average expected option life | 5<br>years |
| Expected dividend yield               | None       |

At December 31, 2017, the aggregate intrinsic value of the stock options was 0.



HYPERSOLAR, INC.

CONDENSED NOTES TO FINANCIAL STATEMENTS - UNAUDITED

DECEMBER 31, 2017

5. CONVERTIBLE PROMISSORY NOTES

As of December 31, 2017, the outstanding convertible promissory notes are summarized as follows:

|  |              |
|--|--------------|
| Convertible Promissory Notes, net of debt discount | \$ 1,660,389 |
| Less current portion                               | 559,289      |
| Total long term liabilities                        | \$ 1,101,100 |

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

| Year Ending        | Amount       |
|--------------------|--------------|
| September 30, 2019 | \$-          |
| 2020               | 561,100      |
| 2021               | 540,000      |
|                    | \$ 1,101,100 |

At December 31, 2017, the \$1,706,100 in convertible promissory notes had a remaining debt discount of \$45,711, leaving a net balance of \$1,660,389.

The Company entered into a securities purchase agreement on May 23, 2014, for the sale of a 10% convertible promissory note (the "May Note") in the aggregate principal amount of up to \$500,000. The May Note is convertible into shares of common stock of the Company at a price equal to a variable conversion price of the lesser of \$0.0048 per share or fifty percent (50%) of the lowest trading price after the effective date to acquire common stock. Upon execution of the securities purchase agreement, the Company received a tranche of \$50,000. The Company received additional tranches in the amount of \$415,000 for an aggregate sum of \$465,000. The May Note matured on May 23, 2015 and was extended to February 23, 2016. A second extension was granted to November 23, 2016. On January 19, 2017, the investor extended the May Note for an additional sixty (60) months from the effective date of each tranche. The May Note matures on November 23, 2021. The Company issued 60,426,825 shares of common stock upon conversion of \$126,900 in principal, plus accrued interest of \$37,642, with an aggregate fair value loss of \$227,764.

The remaining balance of the May Note as of December 31, 2017 was \$101,100.

The Company entered into a securities purchase agreement on April 9, 2015, for the sale of a 10% convertible promissory note (the "April Note") in the aggregate principal amount of up to \$500,000. The April 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. Upon execution of the securities purchase agreement, 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 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 Note for an additional (60) months from the effective date of each tranche. The April Note matures on October 31, 2021. The balance of the April Note as of December 31, 2017 was \$500,000.

The Company entered into a securities purchase agreement January 28, 2016, for the sale of a 10% convertible promissory note (the "January Note") in the aggregate principal amount of up to \$500,000. The January 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. Upon execution of the securities purchase agreement, 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 January Note matures twelve (12) months from the effective dates of each respective tranche. On January 19, 2017, the investor extended the January Note for an additional sixty (60) months from the effective date of each tranche. The January Note matures on January 27, 2022. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of \$38,514 during the six months ended December 31, 2017. The balance of the January Note as of December 31, 2017 was \$500,000.

The Company entered into a securities purchase agreement February 3, 2017, for the sale of a 10% convertible promissory note (the "February Note") in the aggregate principal amount of up to \$500,000. The February 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. Upon execution of the securities purchase agreement, the Company received a tranche of \$60,000. The Company received an additional tranches in the amount of \$440,000 for an aggregate sum of \$500,000. The February Note matures twelve (12) months from the effective dates of each respective tranche. The February Note matures on February 3, 2018, with an automatic extension of sixty (60) months from the effective date of each tranche. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of \$55,183 during the six months ended December 31, 2017. The balance of the February Note as of December 31, 2017 was \$500,000.

HYPERSOLAR, INC.

CONDENSED NOTES TO FINANCIAL STATEMENTS - UNAUDITED

DECEMBER 31, 2017

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

The Company entered into a securities purchase agreement November 9, 2017, for the sale of a 10% convertible promissory note (the "November Note") in the aggregate principal amount of up to \$500,000. The November 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. Upon execution of the securities purchase agreement, the Company received a tranche of \$45,000. The Company received an additional tranches in the amount of \$60,000 for an aggregate sum of \$105,000. The November Note matures twelve (12) months from the effective dates of each respective tranche. The November Note matures on November 9, 2018, with an automatic extension of sixty (60) months from the effective date of each tranche. The Company recorded amortization of debt discount, which was recognized as interest expense in the amount of \$332 during the six months ended December 31, 2017. The balance of the November Note as of December 31, 2017 was \$105,000.

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.

#### 6. DERIVATIVE LIABILITIES

The convertible notes (the "Notes") issued and described in Note 5 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.

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During the six months ended December 31, 2017, 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 Notes at issuance was \$34,892, 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, 2017, the Company recorded a net loss in change in derivative of \$1,054,161 in the statement of operations due to the change in fair value of the remaining Notes. At December 31, 2017, the fair value of the derivative liability was \$3,571,895.

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               | 1.76% - 2.20%   |
| Stock volatility factor               | 49.0% - 128.0%  |
| Weighted average expected option life | 1 year - 5 year |
| Expected dividend yield               | None            |

### 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 17, 2018, the Company received an additional tranche in the amount of \$60,000 under the November 2017 Note.



## 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 Hyper Solar, we are developing an innovative NanoParticle technology to produce low cost renewable hydrogen using solar. For over a century, splitting water molecules into hydrogen and oxygen using electrolysis has been well known. This technology can be used to produce an unlimited amount of clean and renewable hydrogen fuel to power a carbon-free world. However, in practice, current commercial electrolysis technologies require (a) expensive electricity and (b) highly purified water to prevent fouling of system components. These are the major barriers to affordable production of renewable hydrogen. We believe our process, using earth abundant elements, in a nanoscale structure can overcome these barriers.

On November 15, 2011, we filed a provisional patent application with the U.S. Patent and Trademark Office to protect the intellectual property rights for "Photoelectrochemically Active Heterostructures, Methods for Their Manufacture, And Methods And Systems For Producing Desired Products." On March 14, 2017, this patent was granted as United

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States Patent No. 9,593,053. The patent protects the Company's proprietary design of a self-contained solar-to-hydrogen device made up of millions of solar powered water-splitting nanoparticles, per square centimeter. We have multiple other patents pending for the methods of manufacturing these particles and a system to house them.

Our strategy has been to partner with major universities for the research and development of our technology. Currently we have agreements with the University of California, Santa Barbara and the University of Iowa.

## **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 Binomial lattice 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 recording net revenue, collectability of accounts receivable, useful lives and impairment of tangible and intangible assets, accruals, income taxes, inventory realization, 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, 2017, 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, 2017, 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 disclosed in notes to the financials.

### **Results of Operations for the Three Months Ended December 31, 2017 compared to Three Months Ended December 31, 2016.**

#### **Operating Expenses**

Operating expenses for the three months ended December 31, 2017 were \$208,240 as compared to \$165,907 for the prior period ended December 31, 2016. The net increase of \$42,333 in operating expenses consisted primarily of an increase in research and development cost in the amount of \$15,875, and an increase in non-cash stock compensation of \$28,713, with an overall decrease in other general and administrative expenses of \$2,255.

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

Other income and (expenses) for the three months ended December 31, 2017 were \$(1,416,842) as compared to \$1,347,101 for the prior period ended December 31, 2016. The increase in other expenses of \$(2,763,943) in other income and (expenses) was the result of an increase in net loss on debt conversion and change in fair value of the derivative instruments of \$2,529,521, increase in loss on settlement of debt of \$227,764, with an increase in interest expense of \$6,658, which includes a net change of \$2,764 of amortization of debt discount.

#### **Net Income/(Loss)**

For the three months ended December 31, 2017, our net loss was \$(1,625,082) as compared to net income of \$1,181,194 for the prior period December 31, 2016. The increase in net loss of \$2,806,276 was related primarily to the increase in other income and (expenses) associated with non-cash cost of the fair value of the convertible notes, with an overall increase in operating expenses. The Company has not generated any revenues.

**Results of Operations for the Six Months Ended December 31, 2017 compared to Six Months Ended December 31, 2016.**

**Operating Expenses**

Operating expenses for the six months ended December 31, 2017 were \$394,953 as compared to \$328,192 for the prior period ended December 31, 2016. The net increase of \$66,761 in operating expenses consisted primarily of an increase in research and development cost in the amount of \$43,191, and an increase in non-cash stock compensation expense of \$28,713, with an overall decrease in other general and administrative expenses of \$5,143.

**Other Income/(Expenses)**

Other income and (expenses) for the six months ended December 31, 2017 were \$(1,458,269) as compared to \$948,971 for the prior period ended December 31, 2016. The increase in other expenses of \$(2,407,240) in other income and (expenses) was the result of an increase in net loss on debt conversion and change in fair value of the derivative instruments of \$2,177,542, increase in loss on settlement of debt of \$227,764, with an increase in interest expense of \$1,934, which includes a net change of \$5,403 of amortization of debt discount.

### **Net Income/(Loss)**

For the six months ended December 31, 2017, our net loss was \$(1,853,222) as compared to net income of \$620,779 for the prior period December 31, 2016. The increase in net loss of \$2,474,001 was related primarily to the increase in other income and (expenses) associated with non-cash cost of the fair value of the convertible notes, with an overall increase in operating expenses. The Company has not generated any revenues.

### **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, 2017, we had a working capital deficit of \$4,663,374 as compared to \$3,141,945 as of June 30, 2017. This increase in working capital deficit of \$1,521,429 was due primarily to a decrease in cash, and prepaid expense, offset by an increase in other assets, accounts payable, accrued expenses, non-cash derivative liability, and current portion of convertible notes.

Cash flow used in operating activities was \$322,903 for the six months ended December 31, 2017 as compared to \$317,586 for the prior period ended December 31, 2016. The increase in cash used in operating activities was due to an increase in research and development cost. The Company has had no revenues.

Cash provided by financing activities during the six months ended December 31, 2017 and 2016 was \$300,000 and \$270,000, respectively. There was no change in financing activities.

The 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 condensed 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, 2017, we did not generate any revenues, incurred net loss of \$1,853,222, which was primarily associated with the net change in derivative instruments, and cash used in operations of \$322,903. As of December 31, 2017, we had a working capital deficiency of \$4,663,374 and a shareholders' deficit of \$5,682,102. 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, 2017, 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 four months. Management estimate that we will require additional cash resources during 2018, based upon its current operating plan and condition. We are investigating 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 21, 2017.

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

None.

### **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**

| 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> |
| 32.2*        | <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, 2018 **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)