

1. Company details

Name of entity: CFOAM Limited
ABN: 46 611 576 777
Reporting period: For the year ended 30 June 2019

2. Results for announcement to the market

	30 June 2019 US\$	30 June 2018 US\$	Movement
Revenues from operations	996,807	1,010,812	1% ↓
Loss from continuing activities after income tax	(5,932,385)	(3,511,954)	69% ↑ loss
Total Comprehensive Loss for the period	(5,948,859)	(3,551,994)	67% ↑ loss

Dividends

There were no dividends declared or paid in the period.

Comments

The results include one-off items including Phase II planning costs and capital repairs and maintenance.

During the year, the Company completed the start-up of our new Phase 1 kiln in July, while the Company is continuing the planning of a Phase 2 expansion. The Company noted some production issues during the year which has reduced output and increased costs of operations.

3. Net tangible assets

30 June 2019

Net tangible assets per ordinary security

(\$0.02)

4. Control or Loss gained over entities

The Group did not gain control or lose control over any entities in the period.

5. Joint ventures

The Group is not involved in any joint ventures.

6. Audit status

The preliminary final report is based on accounts which have been not yet been audited and are in the process of being audited. It is not yet known if the audited accounts will contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph. It is noted that in 2018 an emphasis of matter relating to going concern was noted – it is expected that this will be the same for 2019.

7. Attachments

Details of attachments (if any):

The Preliminary Final Report of CFOAM Limited for the year ended 30 June 2019 is attached.

8. Signed

Lodged electronically

Gary Steinepreis
Director
Perth

Date: 30 August 2019

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ACN 611 576 777

UNAUDITED
Preliminary Final Report
CFOAM Limited and its controlled entity
For the year ended 30 June 2019

CFOAM LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

	30-June-19	30-June-18
	US \$	US \$
Revenue		
Revenue from operations	996,807	1,010,812
Other income	22,664	6,484
	1,019,471	1,017,296
Expenses		
Raw materials and consumables used	(881,422)	(1,017,000)
Inventory writedown	(452,100)	(402,802)
Legal fees	(8,802)	(16,675)
Accounting and audit fees	(33,750)	(43,669)
Australian securities exchange fees	(37,064)	(48,013)
Travel and associated costs	(169,431)	(183,533)
Other expenses	(930,798)	(264,387)
Phase II planning expenditure	(409,993)	-
Repairs and maintenance	(262,757)	-
Professional services	(463,406)	(587,196)
Employee salaries, consulting and benefits expense	(2,142,355)	(807,896)
Share based payments	(81,751)	(123,780)
Depreciation and amortisation expense	(829,505)	(937,594)
Finance costs	(248,722)	(96,705)
	(6,951,856)	(4,529,250)
Loss from continuing operations before income tax	(5,932,385)	(3,511,954)
Income tax expense	-	-
Loss from continuing operations after income tax	(5,932,385)	(3,511,954)
Other comprehensive loss, net of tax		
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	(16,474)	(40,040)
Total comprehensive loss for the year	(5,948,859)	(3,551,994)
Loss per share		
Basic loss per share	(\$0.05)	(\$0.03)
Diluted loss per share	(\$0.05)	(\$0.03)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

CFOAM LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Notes	30-June-19 US \$	30-June-18 US \$
ASSETS			
Current assets			
Cash and cash equivalents		240,775	1,879,092
Trade and other receivables	2	259,024	182,146
Inventories	3	1,031,707	1,198,592
Total current assets		1,531,506	3,259,830
Non-current assets			
Property, plant and equipment	4	5,888,029	5,569,874
Intangibles	5	4,282,913	4,631,773
Total non-current assets		10,170,942	10,201,647
TOTAL ASSETS		11,702,448	13,461,477
LIABILITIES			
Current Liabilities			
Trade and other payables	6	1,163,055	886,980
Borrowings	7	1,337,805	2,535,838
Total current liabilities		2,500,860	3,422,818
Non-current liabilities			
Borrowings	8	7,270,580	2,384,756
Total non-current liabilities		7,270,580	2,384,756
TOTAL LIABILITIES		9,771,440	5,807,574
NET ASSETS		1,931,008	7,653,903
EQUITY			
Issued capital	9	13,229,322	13,078,310
Reserves	10	72,437	13,959
Accumulated losses		(11,370,751)	(5,438,366)
TOTAL EQUITY		1,931,008	7,653,903

The Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes.

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CFOAM LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

Consolidated	Issued capital US\$	Reserves US\$	Accumulated losses US\$	Total equity US\$
Balance at 1 July 2018	13,078,310	13,959	(5,438,366)	7,653,903
Loss after income tax expense for the year	-	-	(5,932,385)	(5,932,385)
Other comprehensive income for the year, net of tax	-	(16,474)	-	(16,474)
Total comprehensive loss for the year	-	(16,474)	(5,932,385)	(5,948,859)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity	168,452	-	-	168,452
Costs of contributions of equity	(17,440)	-	-	(17,440)
Share based payments	-	74,952	-	74,952
Balance at 30 June 2019	13,229,322	72,437	(11,370,751)	1,931,008

Consolidated	Issued capital US\$	Reserves US\$	Accumulated losses US\$	Total equity US\$
Balance at 1 July 2017	8,453,426	(49,004)	(1,926,412)	6,478,010
Loss after income tax expense for the year	-	-	(3,511,954)	(3,511,954)
Other comprehensive income for the year, net of tax	-	(40,040)	-	(40,040)
Total comprehensive loss for the year	-	(40,040)	(3,511,954)	(3,551,994)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity	4,836,546	-	-	4,836,546
Costs of contributions of equity	(211,662)	-	-	(211,662)
Share based payments	-	103,003	-	103,003
Balance at 30 June 2018	13,078,310	13,959	(5,438,366)	7,653,903

The Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

CFOAM LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	30-June-19 US \$	30-June-18 US \$
Cash flows from operating activities		
Receipts from customers	1,298,437	988,850
Payments to suppliers and employees	(5,593,856)	(3,474,113)
Interest received	2,064	6,484
Interest and other finance costs paid	(248,722)	(98,610)
	<u>(4,542,077)</u>	<u>(2,577,389)</u>
Cash flows from investing activities		
Payments for property, plant and equipment	(798,802)	(2,701,479)
	<u>(798,802)</u>	<u>(2,701,479)</u>
Cash flows from financing activities		
Proceeds from the issue of shares	106,342	4,821,190
Costs of the offer	(17,440)	(211,662)
Proceeds from issue of convertible notes	5,414,000	-
Repayment of borrowings	(3,243,580)	(1,560,237)
Proceeds from borrowings	1,443,240	1,927,430
	<u>3,702,562</u>	<u>4,976,721</u>
Net cash provided by financing activities	<u>3,702,562</u>	<u>4,976,721</u>
Net decrease in cash and cash equivalents	(1,638,317)	(302,147)
Cash and cash equivalents at the beginning of the financial year	1,879,092	2,181,239
Effects of exchange rate changes on cash and cash equivalents	-	-
	<u>240,775</u>	<u>1,879,092</u>
Cash and cash equivalents at the end of the financial year	<u>240,775</u>	<u>1,879,092</u>

The Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes.

CFOAM LIMITED
NOTES TO THE FINANCIAL REPORT
NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements and notes represent those of CFOAM Limited and its wholly owned subsidiary, CFOAM, LLC (**Group**) for the year ended 30 June 2019.

Basis of Preparation

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Comparative information

This report presents the financial information for the year ended 30 June 2019 and comparative information for the year ended 30 June 2018.

Functional and presentation currency

The functional currency of each entity within the Group is measured using the currency of the primary economic environment in which the entity operates. The financial statements are presented in United States dollars, which is the functional currency of CFOAM, LLC, from 1 July 2016.

a) Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (CFOAM Limited) and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has one wholly owned subsidiary being CFOAM, LLC.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

b) Going concern

For the year ended 30 June 2019 the Group recorded a loss from continuing operations after income tax of US\$5,932,385 (2018: US\$3,511,954) and had net cash outflows from operating activities of US\$4,542,077 (2018: US\$2,577,389) and net current liabilities of US\$969,353.

The ability of the entity to continue as a going concern is dependent on securing additional funding through raising of debt or equity to continue to fund the development activities and expansion of its business platform. The Group has one major customer that contributed the majority of sales revenue.

These conditions indicate a material uncertainty that may cast a significant doubt about the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The directors have reviewed the Group's financial position and are of the opinion that there are sufficient funds to meet the entity's working capital requirements and as at the date of this report.

The financial statements have been prepared on the basis that the entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

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- The Group currently has sufficient cash resources to fund its requirements currently;
- The directors expect the Group to be successful in securing additional funds through debt or equity issues, when and if required.

Should the entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements and that the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

c) *New, revised or amending Accounting Standards and Interpretations adopted*

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are mandatory for the current reporting period.

Any significant impact on the accounting policies of the Group from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

d) *Cash and cash equivalents*

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

e) *Trade and other payables*

Trade and other payables represent the liabilities at the end of the reporting period for goods and services received by the Group that remain unpaid.

Trade payables are recognised at their transaction price. Trade payables are obligations on the basis of normal credit terms.

f) *Share based payments*

The Group measures the cost of equity settled transactions with employees by reference to the fair value of equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. A probability of the achievement of performance conditions is assigned and the share based payment expense is recognised over the estimated vesting period. The accounting estimates and assumptions relating to equity-settled share based payments may impact profit or loss and equity.

g) *Inventories*

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate proportion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of actual costs.

h) *Intangible assets*

Intangible assets acquired, other than goodwill, are initially measured at their relative fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference

CFOAM LIMITED

NOTES TO THE FINANCIAL REPORT

between net disposal proceeds and the carrying amount of the intangible asset. The amortisation method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period. The development asset is amortised over a useful life of 15 years and customer contract over a 12 month period.

i) Revenue and Other Income

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of control of the goods passing to the customer and the cessation of all involvement in those goods. All revenue is stated net of the amount of sales tax.

j) Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value.

Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of Profit and Loss and Other Comprehensive Income. Impairment testing is performed annually for goodwill and intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

k) Property, plant and equipment

The Company records Assets under Construction and the depreciation of these items commences when the asset is commissioned.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Office equipment	1-5 years
Plant and equipment	10-15 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

l) Borrowings and Borrowing Costs

Loans and borrowings, including promissory notes, are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

General and specific borrowing costs that are directly attributable to Assets under Construction are capitalised during the period of time until the asset is commissioned and operating at normal capacity.

Other borrowing costs are expensed in the period in which they are incurred.

m) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

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NOTES TO THE FINANCIAL REPORT

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt (promissory note) less principal payments and amortisation.

Impairment

For trade receivables the group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group considers historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

n) Issued Capital

Common shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

o) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

p) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on 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; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

q) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

CFOAM LIMITED
NOTES TO THE FINANCIAL REPORT

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction.

The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability.

No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

r) Foreign Currency Translation

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position are translated at the closing rate at the date of the statement of financial position;
- (ii) Income and expenses for each Statement of Profit or Loss and Other Comprehensive Income are translated at the average exchange rate for the period being reported on; and
- (iii) All resulting exchange differences are recognised in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in the foreign currency translation reserve, if material. When a foreign operation is sold the associated exchange differences are reclassified to the Statement of Profit or Loss and Other Comprehensive Income as part of the gain or loss on sale.

s) Trade & other receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

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NOTES TO THE FINANCIAL REPORT

NOTE 2. CURRENT ASSETS

TRADE AND OTHER RECEIVABLES	Consolidated	
	30 June 2019	30 June 2018
	US\$	US\$
Prepayments	87,467	38,235
Trade and other receivables	171,557	143,911
	<u>259,024</u>	<u>182,146</u>

NOTE 3. CURRENT ASSETS

INVENTORIES	Consolidated	
	30 June 2019	30 June 2018
	US\$	US\$
Finished goods	515,443	92,824
Raw materials	61,536	13,090
Work in progress	906,828	1,092,678
Inventory provision	(452,100)	-
	<u>1,031,707</u>	<u>1,198,592</u>

Note:

- (i) There are no interest or finance costs included in inventories.
- (ii) Amounts recognised in profit and loss – writedowns of inventories to net realisable value amounted to \$452,100 (2018-\$402,802). These were recognised as an expense during the period during the year ended 30 June 2019 and included in the profit or loss.

NOTE 4. NON-CURRENT ASSETS

PROPERTY, PLANT AND EQUIPMENT	Consolidated	
	30 June 2019	30 June 2018
	US\$	US\$
Assets in course of construction	451,471	2,911,792
Plant and equipment - at cost	6,275,948	3,016,825
Less: Accumulated depreciation	(933,084)	(493,588)
	<u>5,342,864</u>	<u>2,523,237</u>
Manufacturing use assets - at cost	205,751	205,751
Less: Accumulated depreciation	(112,057)	(70,906)
	<u>93,694</u>	<u>134,845</u>
Total property, plant and equipment - at cost	6,933,170	6,134,368
Less: Accumulated depreciation	(1,045,141)	(564,494)
	<u>5,888,029</u>	<u>5,569,874</u>

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Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial year are set out below:

Consolidated	Assets in course of construction US\$	Plant and equipment US\$	Manufacturing use US\$	Total US\$
Balance at 1 July 2018	2,911,792	2,523,237	134,845	5,569,874
Additions	792,421	3,259,124	-	4,051,545
Disposals/Transfers	(3,252,743)	-	-	(3,252,743)
Depreciation expense	-	(439,496)	(41,151)	(480,647)
Balance at 30 June 2019	<u>451,470</u>	<u>5,342,865</u>	<u>93,694</u>	<u>5,888,029</u>

NOTE 5. INTANGIBLES

	Consolidated	
	30 June 2019	30 June 2018
	US\$	US\$
Customer contract - at cost	-	570,371
Less: Accumulated amortisation	-	(570,371)
	<u>-</u>	<u>-</u>
Development asset - at cost	5,232,900	5,232,900
Less: Accumulated amortisation	(949,987)	(601,127)
	<u>4,282,913</u>	<u>4,631,773</u>
Total Intangibles - at cost	5,232,900	5,803,271
Less: Accumulated amortisation	(949,987)	(1,171,498)
	<u>4,282,913</u>	<u>4,631,773</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial year are set out below:

Consolidated	Development Asset US\$	Customer Contract US\$	Total Intangibles US\$
Balance at 1 July 2018	4,631,773	-	4,631,773
Amortisation expense	(348,860)	-	(348,860)
Balance at 30 June 2019	<u>4,282,913</u>	<u>-</u>	<u>4,282,913</u>

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The Development Asset refers to the acquired business assets for the production and sales of CFOAM including but not limited to the acquired patents (Intellectual Property Assets), all permits, machinery and equipment maintenance files, customer lists, customer purchasing histories, price lists, distribution lists, supplier lists, production data, quality control records and procedures, customer inquiry files, research and development files, records and data, sales material and records, strategic plans, internal financial statements, marketing and promotional surveys all relating to the business.

NOTE 6. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated	
	30 June 2019	30 June 2018
	US\$	US\$
Trade creditors	530,855	724,737
Deferred revenue	169,953	-
Accruals	462,247	162,243
	<u>1,163,055</u>	<u>886,980</u>

NOTE 7. CURRENT LIABILITIES – BORROWINGS

	Consolidated	
	30 June 2019	30 June 2018
	US\$	US\$
Loan payable – secured	174,823	1,927,430
Promissory notes – secured	1,162,982	608,408
	<u>1,337,805</u>	<u>2,535,838</u>

Refer to note 8 for further information on assets pledged as security and financing arrangements.

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NOTES TO THE FINANCIAL REPORT

NOTE 8. NON-CURRENT LIABILITIES - BORROWINGS

	Consolidated	
	30 June 2019	30 June 2018
	US\$	US\$
Convertible notes - unsecured	5,488,131	-
Loan payable – secured	1,562,166	-
Promissory notes – secured	220,283	2,384,756
	<u>7,270,580</u>	<u>2,384,756</u>

Convertible notes - unsecured:

The Company has issued US\$5,414,000 of convertible notes with a face value of USD\$1 each. The principal terms are as follows:

- a) Term: The Convertible Notes will be issued on the Subscription Date and shall be converted or otherwise redeemed within 36 months of issue (**Repayment Date**).
- b) Conversion price: Each Convertible Note will be convertible into Shares at a conversion price equal to A\$0.18 per Share to satisfy the Face Value of the Notes in USD at the election of the Subscriber as follows:
 - i. using the exchange rate set at the Subscription Date; or
 - ii. the exchange rate set at the date of the Prepayment Notice or the Conversion Notice, with the exchange rate to be not less than A\$1.00 = USD\$0.50.
- c) Interest:
 - i. Interest is payable on the Principal Amount from the Subscription Date until Repayment Date, unless the Convertible Notes are either redeemed or converted into Shares at a rate of 4% per annum (**Interest Rate**).
 - ii. Interest will be calculated monthly and payable six monthly in arrears (**Interest Payment Date**), accruing daily on the basis of a year of 365 days.
 - iii. Interest must be paid by the Company to the Subscriber no later than 10 Business Days after the relevant Interest Payment Date.
 - iv. The Subscriber may elect for the interest to be compounded on a six monthly basis. For the avoidance of doubt, if the Subscriber elects to compound the interest then this amount is added to the Principal Amount
- d) Conversion:

After a fixed period of 12 months and at each 6 month period thereafter and prior to the Repayment Date, at the election of the Subscriber by written notice to the Company (**Conversion Notice**), the Convertible Notes may be converted in whole or in part into Shares at the Conversion Price (the **Conversion Shares**).
- e) Redemption

Where any Convertible Notes remain not converted or redeemed on the Repayment Date, the Convertible Notes will be redeemed for their Face Value (plus any unpaid interest) as at the Repayment Date (**Noteholding Balance**).

The convertible notes also contain standard terms for early redemption, non-subordination and actions in the event of default.

Assets pledged as security:

Under the Asset Purchase Agreement, as amended, promissory notes remaining issued are as follows:

- (i) Original US\$800,000 promissory note with a term of 5 years and an interest rate of 3% per annum, and which is secured by a first lien security interest over the Assets. Payable monthly on a reducing principal basis. Balance due at 30 June 2019 is US\$383,510.
- (ii) Original balance was US\$4,000,000 with opening balance for this period being US\$2,350,000. The promissory note which will accrue interest at 2% per annum and be secured by a second lien security interest over the Assets. This promissory note and any accrued interest is payable as follows:

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- (A) US\$450,000 plus all unpaid accrued interest was paid on or before 15 January 2019;
 - (B) US\$500,000 was paid on or before 28 February 2019;
 - (C) US\$500,000 was paid on or before 15 April 2019; and
 - (D) US\$900,000 plus all unpaid accrued interest will be paid in full on or before 15 December 2019.
- Balance due at 30 June 2019 is US\$999,756.

Loan facility – Secured:

	Balance at 30 June 2019 US\$	Total Facility US\$	Interest rate
Secured loan - West Virginia Economic Development Authority (WVEDA)	1,166,320	1,200,000	3.46%
Secured loan – Summit Community Bank	570,670	600,000	6.58%
	1,736,990	1,800,000	

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NOTE 9. ISSUED CAPITAL

	Consolidated			
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
	Shares	Shares	A\$	A\$
Ordinary shares - fully paid	<u>117,388,961</u>	<u>116,207,143</u>	<u>17,323,513</u>	<u>17,113,113</u>

			30 June 2019	30 June 2018
			US\$	US\$
Ordinary shares - fully paid	<u>117,388,961</u>	<u>116,207,143</u>	<u>13,229,322</u>	<u>13,078,310</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	US\$
Balance	1 July 2017	93,500,000		8,453,426
Issue of shares – placement	30 October 2017	12,500,000	US\$0.276	3,447,408
Issue of shares – employee incentive	30 October 2017	50,000	US\$0.276	13,790
Issue of shares – placement	19 April 2018	10,157,143	US\$0.135	1,375,348
Cost of the contribution of capital				(211,662)
Balance	30 June 2018	<u>116,207,143</u>		<u>13,078,310</u>
Balance	1 July 2018	116,207,143		13,078,310
Issue of shares	24 December 2018	500,000	US\$0.124	62,110
Issue of shares	20 March 2019	681,818	US\$0.156	106,342
Cost of the contribution of capital				(17,440)
Balance	30 June 2019	<u>117,388,961</u>		<u>13,229,322</u>

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

NOTE 10. RESERVES

	Consolidated	
	30 June 2019	30 June 2018
	US\$	US\$
Share based payment reserve – performance rights	177,955	103,003
Foreign currency reserve	<u>(105,518)</u>	<u>(89,044)</u>
	<u>72,437</u>	<u>13,959</u>

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Movements in reserves

	Consolidated	
	30 June 2019	30 June 2018
	US\$	US\$
Share based payment reserve – performance rights		
Balance at beginning of period	103,003	-
Share based payment expense for the period	74,952	103,003
Balance at the end of the period	<u>177,955</u>	<u>103,003</u>

	Consolidated	
	30 June 2019	30 June 2018
	US\$	US\$
Foreign currency reserve		
Balance at beginning of period	(89,044)	(49,004)
Movement for the period	(16,474)	(40,040)
Balance at the end of the period	<u>(105,518)</u>	<u>(89,044)</u>

Nature and Purpose of Reserves

(1) Share based payment reserve – performance rights and options

The share based payment reserve is used to recognise the fair value of performance rights and options issued to employees but not converted into ordinary shares. The reserve is recognised in contributed equity when and if the relevant milestone is attained within the specified period and as a result the performance rights and options concerned convert to ordinary shares.

(3) Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to United States dollars.

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