CLEANSUBSEA LIMITED

ABN 50 120 233 490

General Purpose Financial Report
For the year ended 30 June 2019

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ABN 50 120 233 490
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Contents **Page**

Corporate Information

This financial report includes the financial statements and notes of the consolidated entity (or "Group") consisting of CleanSubSea Limited ("Company") and CleanSubSea Operations Pty Ltd.

The Group's functional currency is Australian Dollars ($).

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' report on pages 2 to 7. The Directors' report is not part of the financial report.

Directors

Roger Dyhrberg	(Executive Chairman)
Rory Anderson	(Executive Director)
Ian Campbell	(Non-Executive Director) *(resigned 13 July 2018)*
Walter Purio	(Non-Executive Director) *(appointed 13 July 2018)*
David Johnston	(Non-Executive Director) *(appointed 2 July 2019)*

Company Secretary

Shannon Coates

Registered Office

Suite 5
62 Ord Street
West Perth WA 6005

Auditors

Moore Stephens Chartered Accountants
Level 15
Exchange Plaza
2 The Esplanade
Perth WA 6000

Bankers

National Australia Bank Limited
1238 Hay Street
West Perth, WA 6005

Directors' Report

Your directors present their report on the consolidated entity consisting of CleanSubSea Limited and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors

The following persons were directors of CleanSubSea Limited during the financial year and up to the date of this report unless otherwise indicated:

Roger Dyhrberg

Roger is the founder of GRD-Franmarine Operations Pty Ltd and the inventor of the Envirocart in-water hull cleaning system. Since 1981, Roger has developed extensive experience as a Director and Managing Director of several private companies and has an exceptional reputation for innovation in subsea engineering. Over the last 29 years Roger has focused on building Franmarine Underwater Services and Gage Road Diving businesses. Roger has focused on innovation and niche environmental areas that provided a competitive advantage. Some of his achievements include a world first mechanical seagrass transplantation system which won a golden Gecko award in 2000. Roger is also a current sitting member of the Biofouling Management Expert Group (BMEG), the leading Scientific and Industry Advisory on Biofouling Management.

Rory Anderson

Rory has over thirty years of experience in both the corporate world and more recently the SME environment. Roles and responsibilities have included P&L accountability as Regional Vice President Asia Pacific, including successful establishment and management of joint venture manufacturing operations in the region, and US based operational general management and strategic planning. Rory has enjoyed a corporate focus on start-ups, and effective scalable business growth in new international markets culminating in the successful start up and co-founding of his own business, which is now a market leader in Malaysia and operates across four countries. Rory has also served on several international joint venture Boards and remains a non-executive director of EZ Money Express Sdn Bhd. Rory holds a degree in Economics from the University of Western Australia, a certificate in Mandarin language and business studies from Beijing University and an MBA in International Business from the University of Queensland.

Ian Campbell – *Resigned 13 July 2018*

Ian was a senator for Western Australian the Australian Federal Parliament and brings a wealth of experience at the highest levels of the Australian Government and in reforming the Australian corporate legal framework. Ian is a former Member of Federal Cabinet where he held the portfolios of Environment and Heritage and Human Services, Minister for Local Government, Territories and Roads. As Parliamentary Secretary to the Treasurer, Ian developed what is widely acknowledged as the most sweeping reform of business law in Australia's history, the Corporate Law Economic Reform Program (CLERP). The CLERP Reforms have been widely lauded by the business community for their improvements to Australia's governance regime. Ian has also acted as Parliamentary Secretary to the Minister for Communications, Information Technology and the Arts. Prior to entering Parliament, Ian worked as a commercial and industrial property consultant as well as acting as a director of a number of private groups.

Directors’ Report (continued)

Walter Purio – *Appointed 13 July 2018*

Captain Walter P. Purio is the Managing Director of P and H Marine Australasia Pty Ltd and currently assists oil and gas companies in Australia to develop their strategies to provide LNG as a marine fuel to the Australasian region. He is a former CEO of LNG Marine Fuel Institute where he currently serves as a non-executive director. Walter is a non-executive director to Pelican Clean Energy Pty Ltd which provides marine expertise, insight and advice to government, resource and oil and gas companies as they explore the potential to develop an LNG as a marine fuel industry in the Southern Hemisphere. Captain Purio is a seasoned maritime industry executive who has worked across several marine disciplines including commercial shipping, marine finance, marine compliance, naval operations, offshoring, mining and support to the oil and gas industry and holds a BS degree from the U.S. Merchant Marine Academy and MBA’s from the University of Chicago and the Katholieke Universitat Leuven, Belgium.

The Honourable David Johnston – *Appointed 2 July 2019*

David has a long and distinguished career in both politics and law. He graduated with a law degree from the University of Western Australia in 1979 and practiced for over 20 years as a barrister and solicitor in areas including criminal, mining, native title and administrative law. David was elected as a Liberal Senator for Western Australia in 2001, entering the Senate on 1 July 2002. In March 2007, he was appointed by Prime Minister John Howard to serve as Minister for Justice and Customs. In September 2008, he was appointed Shadow Minister for Defence, and was then appointed to serve as the Minister for Defence In 2013 and as a member of Cabinet in the Abbot Government, positions he held until December 2014. Currently, David serves as Australian Defence Export Advocate reporting to the Minister for Defence, Linda Reynolds. He is Non-Executive Chairman at Kalia Ltd, a Non-Executive Director at Saab Technologies Australia, and sits on the Advisory Committee at International SOS, and The Centre for Defence Industry Capability.

Company Secretary

Shannon Coates was the company secretary of CleanSubSea Limited during the financial year and up to the date of this report.

Directors' Report (continued)

Directors' Meetings

The number of directors' meetings and the number of meetings attended by each of the Directors of the Company during the financial year to 30 June 2019 are:

	Number of Meetings Eligible to Attend	Number of Meetings Attended
Number of Meetings Attended		
Director		
Roger Dyhrberg	11	11
Rory Anderson	11	11
Walter Purio[1]	9	9
Ian Campbell[2]	2	1

1. Water Purio was appointed to the Board on 13 July 2018.
2. Ian Campbell resigned from the Board on 13 July 2018.

Principal Activities

During the year, the principal continuing activities of the Group consisted of the development of new hull cleaning technology for use in the shipping industry.

Results of Operations

CleanSubSea Limited has had a very busy and successful year.

Key milestones achieved include:

- Successful commercial trial cleans completed on Royal Australian naval vessels using Envirocart Unit 1.0. One clean was completed in Perth, the other, including full mobilisation of the Envirocart System, was completed in Sydney Harbour. Both cleans generated revenue for CleanSubSea.
- Further Naval vessel cleans are anticipated in near term.
- CSS's Australian Licensee, Franmarine Underwater Services, secures Master Service Agreement with Naval Ship Management (NSM) for underwater vessel hull husbandry.
- Franmarine Underwater Services, is the only commercial diving and underwater contractor selected for inclusion within the WA Defence Industry Capability Directory that was officially launched in May by Minister Paul Papalia.
- We are pleased to confirm Envirocart was selected for testing against the New Zealand Ministry of Primary industries (NZMPI) Craft Risk management Framework. That trial was in fact completed in July 2019, with formal results expected in September 2019.

Directors' Report (continued)

- Roger Dyhrberg presented at the World Ocean Council's Sustainable Ocean Summit in Hong Kong, "Practical Biofouling Solutions for International Vessels: Innovation for the Future"
- Envirocart Unit 1.1 continues to take shape and be built for operation, and represents a further point of differentiation for the Envirocart technology delivering both environmental and operational advantages.

The consolidated entity's loss from ordinary activities after income tax expense for the financial year was $1,301,502 (2018: $2,558,781 loss).

Significant Changes in the State of Affairs

The following are the significant changes in the state of affairs of the consolidated entity during the financial year:

a) Mr Rob George tended his resignation on 9 July 2018.
b) Captain Walter Purio was appointed as a new Non-Executive Director of the company on 13 July 2018.
c) Mr Ian Campbell tended his resignation on 13 July 2018.
d) Executive salaries suspended from 1 November 2018, until 1 July 2019. Executives have agreed to received owed remuneration in the form of equivalent value in equity.

Events Subsequent to the End of the Reporting Period

The following events have arisen since 30 June 2019:

a) The Board has decided to seek up to $2,280,000 via a capital raising.
b) The Honourable David Johnston joined the Board as Non-Executive Director on 2 July 2019.

Apart from the above matters, there is, at the date of this report, no matter or circumstance which has arisen since 30 June 2019 that has significantly affected, or may significantly affect:

a) the consolidated entity's operations in future financial years; or
b) the results of those operations in future financial years; or
c) the consolidated entity's state of affairs in future financial years.

Likely Developments and Expected Results of Operations

In the opinion of the Directors, information as to the likely developments and expected results of the Group in subsequent years would prejudice the interests of the Company and therefore have not been included in this report.

Dividends

No dividends were paid during the year ended 30 June 2019 (2018: nil).

Directors' Report (continued)

Environmental Regulation

The consolidated entity has assessed whether there are any particular or significant environmental regulations which apply to it and has determined that in water hull cleaning regulations apply. The consolidated entity remains compliant and able to operate under the regulations.

Options

No options over issued shares or interests in the company or the controlled entity were granted during or since the end of the financial year, and there were no options outstanding as at the date of this report.

No shares were issued during or since the end of the year as a result of the exercise of an option over unissued shares or interests.

Indemnification of Officers

During or since the end of the financial year, the Group has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

a) The Group has entered into an agreement to indemnify the current Directors and company secretary, up to the maximum extent permitted by law, against certain liabilities incurred by the Directors while acting as a Director of the Company, including costs and expenses in successfully defending legal proceedings.

b) The Group has agreed to insure Mr Ian Campbell, a former Director of the Company, against all liabilities that may arise from his former position as a Director of the Company.

c) The Group has agreed to insure the current Directors and Officers of the Company against all liabilities to another person that may arise from their position as Director and Officers of the Company, except where the liability arises out of misconduct. Further disclosure of information relating to this policy is not permitted under the contract of insurance.

No indemnification has been obtained for the auditors.

Proceedings on Behalf of the Group

No person has applied for leave of court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings. The Group was not a party to any such proceedings during the year.

Directors' Report (continued)

Auditor's Independence Declaration

Moore Stephens Chartered Accountants continues in office in accordance with Section 327 of the Corporations Act 2001.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 8.

This directors' report is made in accordance with a resolution of the Board of Directors.

Roger Dyhrberg
Executive Chairman
Perth

Signed 27th day of September 2019

MOORE STEPHENS

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AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001* TO THE DIRECTORS OF CLEANSUBSEA LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2019, there have been:

a) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit, and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

Neil Pace

NEIL PACE
PARTNER

Moore Stephens

MOORE STEPHENS
CHARTERED ACCOUNTANTS

Signed at Perth this 27th day of September 2019.

MOORE STEPHENS

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CLEANSUBSEA LIMITED

Opinion

We have audited the financial report of CleanSubSea Limited (the Company) and its controlled entities (the consolidated entity), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, other explanatory information and the declaration by those charged with governance.

In our opinion the accompanying financial report of CleanSubSea Limited is in accordance with the *Corporations Act 2001*, including:

i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the year then ended; and

ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Uncertainty relating to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 1 to the financial statements concerning the Group's ability to continue as a going concern. As disclosed in Note 1 the Group is dependent on various funding initiatives in order to fund working capital and discharge its liabilities in the ordinary course of business. At this time we are uncertain as to whether or not the required funding can be raised and the timing of such, which may cast doubt as to the Group's ability to continue as a going concern. The financial statements do not include any adjustments that may be required if the Group were unable to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF CLEANSUBSEA LIMITED
(CONTINUED)

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibility for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to include the economic decisions of the users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standard Board website at: http://www.auasb.gov.au/auditors_files/ar3.pdf. This description forms part of our audit report.

Neil Pace

NEIL PACE
PARTNER

Moore Stephens

MOORE STEPHENS
CHARTERED ACCOUNTANTS

Signed at Perth this 27th day of September 2019.

Directors' Declaration

In the directors' opinion:

The directors declare that the financial statements and notes set out on pages 12 to 43 are in accordance with the Corporations Act 2001 and:

a) comply with Australian Accounting Standards which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards; and

b) give a true and fair view of the company and consolidated entity's financial position as at 30 June 2019 and of their performance, as represented by the results of their operations and its cash flows, for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Roger Dyhrberg

Executive Chairman

Perth, Western Australia

Signed 27th day of September 2019

Consolidated Statement of Profit and Loss and Other Comprehensive Income
For the year ended 30 June 2019

	Note	2019 $	2018 $
REVENUE			
Revenue from Ordinary Activities		2,852	76,037
Other Revenue	2	962,435	850,175
Total Revenue		965,287	926,212
OPERATING EXPENSES			
Administrative Expenses		(253,047)	(157,603)
Contractors Fees	3	(60,671)	(156,850)
Depreciation Expense	3	(341,112)	(500,785)
Employee Benefits Expense	3	(888,371)	(1,478,323)
Finance Costs		(32,354)	(21,149)
Research and Development		(235,037)	(506,561)
Share Based Payments	20	(83,826)	(28,870)
Other Expenses from ordinary activities		(372,371)	(634,852)
Total Operating Expenses		(2,266,789)	(3,484,993)
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX		(1,301,502)	(2,558,781)
Income Tax Relating to Ordinary Activities	4	-	-
NET LOSS FROM ORDINARY ACTIVITIES		(1,301,502)	(2,558,781)
Other Comprehensive Income net of Tax		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(1,301,502)	(2,558,781)
Total comprehensive income attributable to:			
Members of the parent entity		(1,301,502)	(2,558,781)
Non-controlling interest		-	-
		(1,301,502)	(2,558,781)

The above consolidated statement of profit and loss and other comprehensive income is to be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2019

	Note	2019	2018
		$	$
CURRENT ASSETS			
Cash Assets	6	357,994	758,353
Trade and Other Receivables	7	20,625	25,108
Prepayments		37,608	45,021
TOTAL CURRENT ASSETS		416,227	828,482
NON-CURRENT ASSETS			
Property Plant and Equipment	8	568,663	897,651
Intangible Assets	9	245,929	141,014
TOTAL NON-CURRENT ASSETS		814,592	1,038,665
TOTAL ASSETS		1,230,819	1,867,147
CURRENT LIABILITIES			
Trade and Other Payables	11	920,318	425,848
Provisions	12	23,097	77,419
Borrowings	13	148,941	3,030
TOTAL CURRENT LIABILITIES		1,092,356	506,297
NON- CURRENT LIABILITIES			
Borrowings	13	-	1,927
TOTAL NON-CURRENT LIABILITIES		-	1,927
TOTAL LIABILITIES		1,092,356	508,224
NET ASSETS		138,463	1,358,923
EQUITY			
Contributed Equity	14	7,693,952	7,612,910
Accumulated Losses	15	(7,555,489)	(6,253,987)
TOTAL EQUITY		138,463	1,358,923

The above consolidated statement of financial position is to be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity
For the year ended 30 June 2019

	Issued Capital	Performance Shares	Accumulated Losses	Total
	$	$	$	$
Balance at 30 June 2017	**5,321,194**	**114,863**	**(3,695,206)**	**1,740,851**
Additional issued capital	2,312,600	-	-	2,312,600
Performance shares issued	-	28,870	-	28,870
Conversion of A Class Performance shares	63,037	(63,037)	-	-
Share issue costs	(164,617)	-	-	(164,617)
Loss attributable to members	-	-	(2,558,781)	(2,558,781)
Balance at 30 June 2018	**7,532,214**	**80,696**	**(6,253,987)**	**1,358,923**
Performance shares issued	-	83,826	-	83,826
Share issue costs	(2,784)	-	-	(2,784)
Loss attributable to members	-	-	(1,301,502)	(1,301,502)
Balance at 30 June 2019	**7,529,430**	**164,522**	**(7,555,489)**	**138,463**

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 30 June 2019

	Note	2019 $	2018 $
Cash flows from operating activities			
Proceeds from sale of goods and services		2,852	76,036
Proceeds from grants received		956,468	824,981
Payments to employees and suppliers		(1,637,705)	(2,999,556)
Interest Received		1,600	15,736
Other Income		3,640	9,458
Net cash outflows from operating activities	16	**(673,145)**	**(2,073,345)**
Cash flows from investing activities			
Payments for intangible assets		(117,710)	(52,798)
Payments for property, plant and equipment		437	(182,899)
Proceeds from sale of assets		959	-
Net cash outflows from investing activities		**(116,314)**	**(235,697)**
Cash flows from financing activities			
Net proceeds from share issues		-	2,156,108
Proceed from shares to be issued		262,747	-
(Repayment of)/Proceeds from borrowings		126,353	(10,199)
Net cash inflows from financing activities		**389,100**	**2,145,909**
Net (decrease)/increase in cash held		**(400,359)**	**(163,133)**
Cash at the beginning of the financial year		758,353	921,486
Cash at the end of the financial year	6	**357,994**	**758,353**

The above consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

Notes to the Financial Statements

The consolidated financial statements and notes represent those of CleanSubSea Limited and CleanSubSea Operations Pty Ltd (the "consolidated group" or "group"). CleanSubSea Limited is a company limited by shares, incorporated and domiciled in Australia.

1. Statement of Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and the Corporations Act 2001. The group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

Going Concern Basis of Accounting

The financial report has been prepared on a going concern basis. After taking into account all available information, the directors have concluded that they have reasonable grounds to believe:

a) The Group will be able to continue to pay its debts as and when they become due and payable; and

b) The basis of preparation of the financial report on a going concern basis is appropriate.

The Directors have formed this view based on a number of factors including:

a) The Group's net asset position as at 30 June 2019 of $138,463 (2018: $1,358,923).

b) The Board has decided to seek up to $2,280,000 via a capital raising. The Group is currently in discussions with significant cornerstone type investors.

c) Availability of a loan facility from Franmarine Underwater Services Pty Ltd, a company associated with Roger Dyhrberg.

d) The Group is forecasting to have sufficient resources to meet its minimum operating requirements for the next 12 months.

e) The ability of the Group to raise additional funds as and when required either in the form of equity or debt.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied. The amounts presented in the financial statements have been rounded to the nearest dollar unless stated otherwise.

The following material accounting policies adopted by the Company in the preparation of the financial report, have been consistently applied unless otherwise stated.

a) Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent 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. A list of the subsidiaries is provided in Note 10.

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. 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) Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is obtained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exceptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

c) Plant and Equipment

Plant and equipment are measured on the cost basis and are therefore carried at cost less accumulated depreciation and any accumulated impairment losses. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss in the financial period in which they are incurred.

d) Depreciation

The depreciable amount of all fixed assets, including buildings and capitalised lease assets but excluding freehold land, is depreciated on a diminishing value basis over the asset's useful life to the Group commencing from the time the asset is held ready for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The estimated useful lives for the current and comparative periods are as follows:

Furniture and fitting	5 - 20 years
Computer Assets	2 - 4 years
Office Equipment	5 - 15 years
Plant and Equipment	3 - 25 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are recognised in profit or loss when the item is derecognised. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

e) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

e) Goods and Services Tax (continued)

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

f) Revenue and Other Income

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

Interest and other investment revenue is recognised as it accrues.

g) Contributed Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds.

h) Impairment of Assets

At each reporting date, the Company reviews the carrying values of its tangible 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 income statement.

i) Borrowing Costs

Borrowing costs include interest, application fees, facility fees and amortisation of ancillary costs incurred in connection with arrangement of borrowings.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

j) Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash includes deposits at call with financial institutions and other highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

k) Trade and other receivables

Trade and other receivables include amounts due from customers for services sold in the ordinary course of business and grants receivable. 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.

l) Trade and other payables

Payables, including goods received and services incurred but not yet invoiced, are recognised at the nominal amount when the Company becomes obliged to make future payments as a result of a purchase of assets or receipt of services.

m) Taxation

The charge for current income tax expenses is based on the profit for the financial year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

n) Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Trade receivables are initially measured at the transaction price if the trade receivables do not contain a significant financing component or if the practical expedient was applied as specified in AASB 15.63.

Classification and subsequent measurement

Financial liabilities

Financial instruments are subsequently measured at:
- amortised cost; or
- fair value through profit or loss.

A financial liability is measured at fair value through profit and loss if the financial liability is:
- a contingent consideration of an acquirer in a business combination to which AASB 3: Business Combinations applies;
- held for trading; or
- initially designated as at fair value through profit or loss.

All other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense in profit or loss over the relevant period. The effective interest rate is the internal rate of return of the financial asset or liability. That is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

A financial liability is held for trading if:
- it is incurred for the purpose of repurchasing or repaying in the near term;
- part of a portfolio where there is an actual pattern of short-term profit taking; or
- a derivative financial instrument (except for a derivative that is in a financial guarantee contract or a derivative that is in a effective hedging relationships).

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

n) Financial Instruments (continued)

Any gains or losses arising on changes in fair value are recognised in profit or loss to the extent that they are not part of a designated hedging relationship are recognised in profit or loss.

The change in fair value of the financial liability attributable to changes in the issuer's credit risk is taken to other comprehensive income and are not subsequently reclassified to profit or loss. Instead, they are transferred to retained earnings upon derecognition of the financial liability. If taking the change in credit risk in other comprehensive income enlarges or creates an accounting mismatch, then these gains or losses should be taken to profit or loss rather than other comprehensive income.

A financial liability cannot be reclassified.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially measured at fair values (and if not designated as at fair value through profit or loss and do not arise from a transfer of a financial asset) and subsequently measured at the higher of:

- the amount of loss allowance determined in accordance with AASB 9.3.25.3; and
- the amount initially recognised less the accumulative amount of income recognised in accordance with the revenue recognition policies.

Financial assets

Financial assets are subsequently measured at:
- amortised cost;
- fair value through other comprehensive income; or
- fair value through profit or loss.

Measurement is on the basis of two primary criteria:
- the contractual cash flow characteristics of the financial asset; and
- the business model for managing the financial assets.

A financial asset that meets the following conditions is subsequently measured at amortised cost:
- the financial asset is managed solely to collect contractual cash flows; and
- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

n) Financial Instruments (continued)

A financial asset that meets the following conditions is subsequently measured at fair value through other comprehensive income:

- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates;
- the business model for managing the financial assets comprises both contractual cash flows collection and the selling of the financial asset.

By default, all other financial assets that do not meet the measurement conditions of amortised cost and fair value through other comprehensive income are subsequently measured at fair value through profit or loss.

The Group initially designates a financial instrument as measured at fair value through profit or loss if:

- it eliminates or significantly reduces a measurement or recognition inconsistency (often referred to as "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;
- it is in accordance with the documented risk management or investment strategy, and information about the groupings was documented appropriately, so that the performance of the financial liability that was part of a group of financial liabilities or financial assets can be managed and evaluated consistently on a fair value basis;
- it is a hybrid contract that contains an embedded derivative that significantly modifies the cash flows otherwise required by the contract.

The initial designation of the financial instruments to measure at fair value through profit or loss is a one-time option on initial classification and is irrevocable until the financial asset is derecognised.

Equity instruments

At initial recognition, as long as the equity instrument is not held for trading and not a contingent consideration recognised by an acquirer in a business combination to which AASB 3: *Business Combinations* applies, the Group made an irrevocable election to measure any subsequent changes in fair value of the equity instruments in other comprehensive income, while the dividend revenue received on underlying equity instruments investment will still be recognised in profit or loss.

Regular way purchases and sales of financial assets are recognised and derecognised at settlement date in accordance with the Group's accounting policy.

Impairment

The Group recognises a loss allowance for expected credit losses on:

- financial assets that are measured at amortised cost or fair value through other comprehensive income;
- lease receivables;
- contract assets (eg amounts due from customers under construction contracts);
- loan commitments that are not measured at fair value through profit or loss; and

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

n) Financial Instruments (continued)

- financial guarantee contracts that are not measured at fair value through profit or loss.

Loss allowance is not recognised for:
- financial assets measured at fair value through profit or loss; or
- equity instruments measured at fair value through other comprehensive income.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

The Group uses the following approaches to impairment, as applicable under AASB 9: *Financial Instruments*:
- the general approach
- the simplified approach
- the purchased or originated credit impaired approach; and
- low credit risk operational simplification.

General approach

Under the general approach, at each reporting period, the Group assesses whether the financial instruments are credit-impaired, and if:
- the credit risk of the financial instrument has increased significantly since initial recognition, the Group measures the loss allowance of the financial instruments at an amount equal to the lifetime expected credit losses; or
- there is no significant increase in credit risk since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

Simplified approach

The simplified approach does not require tracking of changes in credit risk at every reporting period, but instead requires the recognition of lifetime expected credit loss at all times. This approach is applicable to:
- trade receivables or contract assets that result from transactions within the scope of AASB 15: Revenue from Contracts with Customers and which do not contain a significant financing component; and
- lease receivables.

In measuring the expected credit loss, a provision matrix for trade receivables was used taking into consideration various data to get to an expected credit loss (ie diversity of customer base, appropriate groupings of historical loss experience, etc).

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

n) Financial Instruments (continued)

Purchased or originated credit-impaired approach

For a financial asset that is considered credit-impaired (not on acquisition or origination), the Group measures any change in its lifetime expected credit loss as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Any adjustment is recognised in profit or loss as an impairment gain or loss.

Evidence of credit impairment includes:
- significant financial difficulty of the issuer or borrower;
- a breach of contract (eg default or past due event);
- a lender granting to the borrower a concession, due to the borrower's financial difficulty, that the lender would not otherwise consider;
- high probability that the borrower will enter bankruptcy or other financial reorganisation; and
- the disappearance of an active market for the financial asset because of financial difficulties.

Low credit risk operational simplification approach

If a financial asset is determined to have low credit risk at the initial reporting date, the Group assumes that the credit risk has not increased significantly since initial recognition and accordingly it can continue to recognise a loss allowance of 12-month expected credit loss.

In order to make such a determination that the financial asset has low credit risk, the Group applies its internal credit risk ratings or other methodologies using a globally comparable definition of low credit risk.

A financial asset is considered to have low credit risk if:
- there is a low risk of default by the borrower;
- the borrower has strong capacity to meet its contractual cash flow obligations in the near term;
- adverse changes in economic and business conditions in the longer term may, but not necessarily will, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

A financial asset is not considered to carry low credit risk merely due to existence of collateral, or because a borrower has a risk of default lower than the risk inherent in the financial assets, or lower than the credit risk of the jurisdiction in which it operates.

Recognition of expected credit losses in financial statements

At each reporting date, the Group recognises the movement in the loss allowance as an impairment gain or loss in the statement of profit or loss and other comprehensive income.

The carrying amount of financial assets measured at amortised cost includes the loss allowance relating to that asset.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

n) Financial Instruments (continued)

Assets measured at fair value through other comprehensive income are recognised at fair value, with changes in fair value recognised in other comprehensive income. Amounts in relation to change in credit risk are transferred from other comprehensive income to profit or loss at every reporting period.

For financial assets that are unrecognised (e.g. loan commitments yet to be drawn, financial guarantees), a provision for loss allowance is created in the statement of financial position to recognise the loss allowance.

o) Intangible Assets

Patents

Patents are recognised at cost of acquisition. They have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents are amortised over their useful life, being 20 years for standard patents.

Research and Development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs have been capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably.

Capitalised development costs have a finite useful life and are amortised on a systemic basis based on the future economic benefits over the useful life of the project.

p) Operating Leases

Operating leases and the leased assets are not recognised on the Group's statement of financial position. Payments made under operating leases are recognised as an expense in the profit and loss statement.

q) Employee Benefits

Provision is made for the Group's (including the parent's) obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

q) Employee Benefits (continued)

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

r) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group retrospectively applies an accounting policy, makes a retrospective restatement of items in the financial statements or reclassifies items in its financial statements, a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

s) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

(i) Impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

(ii) Probability of Performance Shares

The value of performance shares issued is based on as assessment of the probability of the relevant performance conditions being met as at reporting date. The fair value is determined by reference to the share price of the most recent capital raising and the relevant probability.

t) Adoption of New and Revised Accounting Standards

The Group has considered the implications of new or amended Accounting Standards which have become applicable for the current financial reporting period and had to change its accounting policies as a result of adopting the following standards:

- *AASB 9: Financial Instruments; and*
- *AASB 15: Revenue from Contracts with Customers*

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

t) Adoption of New and Revised Accounting Standards (continued)

The impact of the adoption of these standards and the respective accounting policies is discussed below.

AASB 9: Financial Instruments – Accounting Policies

AASB 9 replaces the “incurred loss” impairment model in AASB 139 Financial Instruments: “Recognition and Measurement” with a forward-looking “expected credit loss” (ECL) model. It is no longer necessary for a loss event to occur before an impairment loss is recognised under the new model. Under the ECL model, the Group assesses on a forward looking basis its expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The new impairment model applies to financial assets at amortised cost such as receivables and investments in equities. The application of the new standard results in a change in accounting policy. The Group applies the simplified approach permitted by AASB 9, which requires the recognition of lifetime expected losses for accounts receivables from initial recognition of such assets. At every reporting date, the Group reviews and adjusts its historically observed default rates based on current conditions and changes in the future forecasts. As regards other receivables, the Group considers they have low credit risk and hence recognises 12-month expected credit losses for such item where appropriate. The expected losses (if any) are considered to be insignificant to the Group. The adoption of AASB 9 has had no material impact on the results and financial position of the Group for the current and prior years.

The measurement categories for all financial liabilities remain the same, the carrying amounts for all financial liabilities at 1 July 2018 have not been impacted by the initial application of AASB 9.

The Group did not designate or de-designate any financial asset or financial liability at fair value through profit or loss at 1 July 2018.

AASB 15: Revenue from Contracts with Customers – Accounting Policies

AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue. The Group has adopted AASB 15 from 1 July 2018, which has not resulted in any significant changes to accounting policies for the recognition or valuation of revenue and accordingly there have been no adjustments to the amounts recognised in the financial statements.

Notes to the Financial Statements (continued)

1. Statement of Accounting Policies (continued)

u) New Accounting Standards for Application in Future Periods

AASB 16: Leases *(applicable to annual reporting periods beginning on or after 1 January 2019)*

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard are as follows:

- recognition of a right-of-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-of-use assets in line with AASB 116: *Property, Plant and Equipment* in profit or loss and unwinding of the liability in principal and interest components;
- inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;
- application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and
- inclusion of additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108: *Accounting Policies, Changes in Accounting Estimates and Errors* or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

The adoption of AASB 16 is likely to impact the Group's financial statements, mainly due to the property lease for the premises of the Group which may be required to be recognised in the statement of financial position as described above. However it is not expected that the new standard will have a material effect on the net profit or loss of the Group.

2. Revenue from Ordinary Activities

	2019	**2018**
	$	**$**
Other Revenue		
- Interest received	1,600	15,736
- Rebates received	-	1,586
- Gain on disposal of asset	727	-
- Other income	3,640	7,872
- Grant funding income	956,468	824,981
Total Other Revenue	962,435	850,175

Notes to the Financial Statements (continued)

3. Loss from Ordinary Activities

The loss from ordinary activities before income tax includes the following specific expenses:

	2019	**2018**
	$	**$**
Contractors Fees	60,671	156,850
Wages and Salary	803,440	1,248,377
Employee Benefits:		
– Directors Fees	36,185	57,000
– Annual Leave	(54,321)	3,813
– Payroll Tax	21,910	31,298
– Staff Amenities	3,179	3,915
– Superannuation	77,978	127,271
– Entertainment	-	1,669
– Accounting and Bookkeeping Services	-	4,726
– Uniforms and Protective Clothing	-	254
Depreciation & Amortisation	341,112	500,785

4. Income Tax Expense

The prima facie tax on loss from ordinary activities before income tax is reconciled to income tax expense as follows:

	2019	**2018**
	$	**$**
Accounting profit/(loss) from operations before income tax	(1,301,502)	(2,558,781)
Income tax (benefit)/expense calculated at 27.5%	(357,913)	(703,665)
Add:		
Tax effect of:		
– Fines and penalties	489	221
– Entertainment	74	459
– Share based payments	23,052	7,939
– Movement in deferred taxes not recognised	129,123	892,544
– Deferred tax asset/(liability) not recognised on tax losses	(205,175)	(197,498)
	-	-

Notes to the Financial Statements (continued)

5. Auditor's Remuneration

	2019	2018
	$	$
Remuneration of the auditor of the parent entity is as follows:		
Auditing or reviewing the financial statements	18,702	30,762
	18,702	30,762

6. Cash and Cash Equivalents

	2019	2018
	$	$
Cash on hand	262	872
Cash at bank	357,732	757,481
	357,994	758,353

7. Trade and Other Receivables

	2019	2018
	$	$
Deposits Held	20,625	20,625
Trade Debtors	-	4,483
	20,625	25,108

Credit risk

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties.

8. Property, Plant & Equipment

	2019	2018
	$	$
Furniture and Fittings:		
At cost	14,652	14,652
Accumulated Depreciation	(4,684)	(3,036)
	9,968	11,616

Notes to the Financial Statements (continued)

8. Property, Plant & Equipment (continued)

Computer Assets:		
At cost	34,500	35,350
Accumulated Depreciation	(25,483)	(19,711)
	9,017	15,639
Office Equipment:		
At cost	13,307	13,307
Accumulated Depreciation	(8,830)	(6,086)
	4,477	7,221
Plant and Equipment:		
At cost	1,503,106	1,503,547
Accumulated Depreciation	(957,905)	(640,372)
	545,201	863,175
Total Property, Plant and Equipment	568,663	897,651

Movements in carrying amounts

Furniture and Fittings:		
Balance at the beginning of the reporting period	11,616	13,416
Additions	-	200
Disposals – at written-down value	-	-
Depreciation expense	(1,648)	(2,000)
Balance at the end of the reporting period	9,968	11,616
Computer Assets:		
Balance at the beginning of the reporting period	15,639	16,486
Additions	-	7,403
Disposals – at written down value	(233)	-
Depreciation expense	(6,389)	(8,250)
Balance at the end of the reporting period	9,017	15,639
Office Equipment:		
Balance at the beginning of the reporting period	7,221	9,887
Additions	-	1,651
Disposals – at written down value	-	-
Depreciation expense	(2,744)	(4,317)
Balance at the end of the reporting period	4,477	7,221

Notes to the Financial Statements (continued)

8. Property, Plant & Equipment (continued)

Plant and equipment:

Balance at the beginning of the reporting period	863,175	1,168,532
Additions	-	173,645
Disposals – at written-down value	(437)	-
Depreciation expense	(317,537)	(479,002)
Balance at the end of the reporting period	545,201	863,175

9. Intangible Assets

	2019 $	2018 $
Patents	273,529	155,819
Less: Accumulated amortisation	(27,600)	(14,805)
Net Carrying Amount	245,929	141,014
Total Intangible Assets	245,929	141,014

10. Interests in Subsidiaries

CleanSubSea Ltd is the legal Australian parent entity. The legal subsidiaries are as follows:

Name of Subsidiary	Country of Incorporation	% Equity Interest		Investment ($)	
		2019	2018	2019	2018
CleanSubSea Operations Pty Ltd	Australia	100	100	114,122	114,122

Notes to the Financial Statements (continued)

11. Trade and Other Payables

	2019	2018
	$	$
Unsecured liabilities:		
Trade Creditors	310,487	189,612
GST Payable	12,762	12,321
Insurance Premium Funding	35,543	51,474
Superannuation Payable	6,628	24,139
Payroll Accruals	-	7,686
Accrued Expenses	278,637	125,402
Credit Card	13,514	15,214
Shares to be issued	262,747	-
	920,318	425,848

The average credit period on trade and other payables (excluding GST payable) is 30 days from end of the month. No interest is payable on outstanding payables during this period, except for insurance premium funding which incurs interest at 3.89%.

12. Provisions

	2019	2018
	$	$
Employee benefits	23,097	77,419
Total Provisions	23,097	77,419

Provision for employee benefits represents amounts accrued for annual leave.

The current portion of this provision includes the total amount accrued for annual leave entitlements. Based on past experience, it is not expected that the full amount of the annual leave balance classified as a current liability will be settled within the next 12 months. However, these amounts must be classified as current liabilities since there is no unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement.

Notes to the Financial Statements (continued)

13. Borrowings

	2019 $	2018 $
Current liabilities:		
Chattel Mortgage	1,927	3,030
Secured Short Term Loan	147,014	-
Total Current Borrowings	148,941	3,030
Non-Current liabilities:		
Chattel Mortgage	-	1,927
Total Non-Current Borrowings	-	1,927

The chattel mortgage borrowings are subject to an annual interest rate of 11%.

14. Equity

a) Ordinary Shares

	2019 $	2019 Number of shares	2018 $	2018 Number of shares
Ordinary shares on issue	7,529,430	67,869,626	7,532,214	67,869,626

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings. In the event of winding up of the Company ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

Movement in ordinary shares on issue	2019 $	2019 Number of shares	2018 $	2018 Number of shares
Balance at beginning of financial period	7,532,214	67,869,626	5,321,194	55,211,636
Capital raising	-	-	2,375,637	12,657,990
Share issue costs	(2,784)	-	(164,617)	-
Balance at end of financial period	7,529,430	67,869,626	7,532,214	67,869,626

Notes to the Financial Statements (continued)

14. Equity (continued)

b) Performance Shares

	2019 $	2019 Number of shares	2018 $	2018 Number of shares
Class A Performance Shares (i)	-	-	-	-
Class B Performance Shares (ii)	32,263	4,000,000	16,518	4,000,000
Class C Performance Shares (iii)	36,089	3,500,000	17,329	3,500,000
Class D Performance Shares (iv)	96,170	3,000,000	46,849	3,000,000
	164,522	10,500,000	80,696	10,500,000

(i) The Class A Performance Shares were convertible to ordinary shares upon the Company completing in-water copper based antifouling coating trials by 31 October 2015, receiving successful preliminary report test results by 31 January 2016 and approval for in-water hull cleaning of copper-based antifouling coating by 30 September 2016. All of the above performance conditions have been achieved and the Class A Performance Shares have been converted to ordinary shares during the 2018 financial year.

(ii) The Class B Performance Shares are convertible to ordinary shares upon the Company achieving 4 Envirocarts in commercial operations, 3 binding licence agreements in place with registered industry operators and Envirocart revenue (including licence and royalty revenue) of $2,500,000, within 12 months of stock exchange listing.

(iii) The Class C Performance Shares are convertible to ordinary shares upon the Company achieving Envirocart revenue of $10,000,000 in any 12 month rolling period, within 24 months of stock exchange listing.

(iv) The Class D Performance Shares are convertible to ordinary shares upon the Company achieving an EBITDA of $4,500,000 in any 12 month rolling period within 36 months of stock exchange listing.

Terms and Conditions of Shares

Each performance share will convert into one fully paid ordinary share subject when the relevant performance conditions are achieved. If the performance conditions are not achieved, the total number of performance shares on issue for that holder will convert into one fully paid ordinary share. The performance shares do not hold any entitlement to voting rights, dividend rights, or rights to capital on winding up of the company.

Notes to the Financial Statements (continued)

15. Accumulated (Losses)

	2019	2018
	$	$
(Accumulated losses)/ retained profits at the beginning of the financial year	(6,253,987)	(3,695,206)
Net loss attributable to members of the company	(1,301,502)	(2,558,781)
Accumulated losses at the end of the financial year	(7,555,489)	(6,253,987)

16. Reconciliation Of Net Cash Flows From Operating Activities To Operating (Loss) After Tax

	2019	2018
	$	$
Loss (after income tax) for the year	(1,301,502)	(2,558,781)
Non-cash items included in profit or loss:		
Depreciation and amortisation expense	341,112	500,785
Share Based Payments	83,826	28,870
Gain on disposal of asset	(727)	-
	424,211	529,655
Net changes in working capital:		
(Increase)/decrease in trade and other receivables	4,484	7,309
(Increase)/decrease in prepayments	7,413	490
Increase/(decrease) in trade and other payables	93,336	(149,301)
Increase/(decrease) in provisions	(54,321)	3,813
Increase/(decrease) in accruals	153,235	93,470
	204,146	(44,219)
Net cash provided by operating activities	(673,145)	(2,073,345)

17. Related Party Transactions

a) Directors:

The names of each person holding the position of director of the Company during the financial year are set out on page 1 of the Director's report.

Notes to the Financial Statements (continued)

17. Related Party Transactions (continued)

b) Directors holding of shares and share options:

The interests of directors of the Company and their related entities in shares of the Company at year end 30 June 2019 are as follows:

Director	Ordinary Shares	Performance Shares
Rory Anderson	2,356,542	4,500,000
Roger Dyhrberg	31,157,823	6,000,000

No directors have other rights or options over shares in the Company.

c) Transactions with Director related entities:

(i) The following expenses were paid during the year to Franmarine Underwater Services Pty Ltd, a company associated with Roger Dyhrberg:

- (a) Contractor expenses of $57,817 (2018: $153,470)
- (b) Research and development expenses of $209,638 (2018: $260,664)
- (c) Reimbursable expenses is nil (2018: $13,028)
- (d) Payment of interest of $1,721 (2018: nil)

(ii) The following sales were made to Franmarine Underwater Services Pty Ltd, a company associated with Roger Dyhrberg:

- (a) Lease of Envirocart of $448 (2018: $43,841)
- (b) Envirocart Royalties of $2,404 (2018: $32,195)
- (c) Hire of equipment of $3,640 (2018: $4,334)

(iii) The following expenses were paid during the year to Grange Consulting Group Pty Ltd and Grange Capital Partners Pty Ltd, companies associated with former director Ian Macliver:

- (a) Corporate advisory fees of $nil (2018: $145,036)
- (b) Company secretarial fees of $nil (2018: $22,400)
- (c) Reimbursable expenses of $nil (2018: $21,181.10)

Notes to the Financial Statements (continued)

18. Financial Risk Management

The Group's financial instruments consist mainly of deposits with banks.

The Group does not have any derivative instruments at 30 June 2019 and does not speculate in any financial instruments.

a) Financial Risks

The activities of the Group expose it primarily to the financial risks of interest rate risk, liquidity risk and credit risk. The Board of Directors is responsible for monitoring and managing the financial risks of the Group. The Managing Director monitors these risks by the review and analysis of monthly management accounts and other financial data, and advises the Board of Directors of any significant issues on a timely basis. Changes identified were communicated to the administration team via the Managing Director who implements the changes.

b) Interest Rate Risk

The Group is exposed to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. The following table summarises interest rate risk for the Group, together with effective interest rates as at balance date.

		Fixed Interest Rate Maturing				Average Interest Rate	
Company 30 June 2019	**Floating Interest Rate**	**1 Year or Less**	**1 to 5 Years**	**Non-Interest Bearing**	**Total**	**Floating**	**Fixed**
	($)	**($)**	**($)**	**($)**	**($)**	**(%)**	**(%)**
Financial Assets							
Cash Assets	357,732	-	-	262	357,994	0.26%	-
Receivables (excludes prepayments)	-	-	-	20,625	20,625	-	-
Total Financial Assets	357,732	-	-	20,887	378,619		
Financial Liabilities							
Payables (excludes Accruals)	-	49,057	-	352,975	402,032	-	8.33%
Borrowings	-	148,941	-	-	148,941	-	13.96%
Total Financial Liabilities	-	197,998	-	352,975	550,973		

Notes to the Financial Statements (continued)

18. Financial Risk Management (continued)

Company 30 June 2018	Floating Interest Rate ($)	Fixed Interest Rate Maturing: 1 Year or Less ($)	Fixed Interest Rate Maturing: 1 to 5 Years ($)	Non-Interest Bearing ($)	Total ($)	Average Interest Rate: Floating (%)	Average Interest Rate: Fixed (%)
Financial Assets							
Cash Assets	757,482	-	-	872	758,354	0.26%	-
Receivables (excludes prepayments)	-	-	-	25,108	25,108	-	-
Total Financial Assets	757,482	-	-	25,980	783,462		
Financial Liabilities							
Payables (excludes Accruals)	-	66,688	-	233,758	300,446	-	3.7%
Borrowings	-	3,030	1,927	-	4,957	-	10%
Total Financial Liabilities	-	69,718	1,927	233,758	305,403		

To demonstrate the Group's sensitivity to changes in interest rates, a movement in rates of plus/ minus 1% during the year would have increased/decreased interest income by $5,557 (2018: $6,858).

c) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Board of Directors manage liquidity risk by monitoring forecast cash flows on a regular basis and ensuring that either adequate cash reserves are maintained or that funds can be accessed via loan facilities.

The following table details the expected contractual maturity for its non-derivative financial liabilities.

2019	Total	1 year or less	1 – 5 years	5+ years
Financial liabilities due				
Trade and other payables	657,572	657,572	-	-
Provisions	23,097	23,097	-	-
Borrowings	148,941	148,941	-	-
Total expected outflows	829,610	829,610	-	-
Financial assets realisable				
Cash and cash equivalents	357,994	357,994	-	-
Total anticipated inflows	357,994	357,994	-	-
Net inflow	(471,616)	(471,616)		

Notes to the Financial Statements (continued)

18. Financial Risk Management (continued)

2018	Total	1 year or less	1 – 5 years	5+ years
Financial liabilities due				
Trade and other payables	425,848	425,848	-	-
Provisions	77,419	77,419	-	-
Borrowings	4,957	3,030	1,927	-
Total expected outflows	508,224	506,297	1,927	-
Financial assets realisable				
Cash and cash equivalents	758,354	758,354	-	-
Total anticipated inflows	758,354	758,354	-	-
Net inflow	250,130	252,057	(1,927)	

d) Credit Risk Exposure

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group has minor exposure to credit risk through is sundry receivables. The Group’s exposure to on balance sheet credit risk is indicated by the carrying amounts of those assets, as disclosed in the balance sheet.

All credit risks are located in Australia and the Group does not have any material credit risk exposure to any single receivable or group of receivables.

The directors managed credit risk by regular monitoring of receivables and establishing allowances for impairment when it was expected that any receivables would be uncollectable.

All cash and cash equivalents are held with large reputable financial institutions within Australian and therefore credit risk is considered minimal.

	2019	2018
	$	$
Cash and cash equivalents:		
AA rated	357,994	758,354

e) Price Risk

The Group is not exposed to any material price risks associated with financial instruments.

Notes to the Financial Statements (continued)

18. Financial Risk Management (continued)

f) Net Fair Values

The carrying amounts of financial assets and financial liabilities recorded in the financial statements represent their respective net fair values, determined in accordance with the accounting policies described in Note 1.

19. Remuneration of Directors and Key Management Personnel

Key Management Personnel

The key management personnel during the year ended 30 June 2019 includes the Directors.

Key Management Personnel Remuneration

	2019 $	2018 $
Salary and Directors Fees	548,997	658,300
Short-term employee benefits	-	21,653
Post-employment benefits	61,354	86,453
Share Based Payments	83,826	28,870
	694,177	795,276

20. Share Based Payments

During the 2016 financial year, Class A, B, C and D Performance Shares were granted under the share sale agreement with CleanSubSea Operations Pty Ltd entered into on 1 April 2016. The Performance Shares hold no voting or dividend rights and are not transferrable.

Details of Performance Shares granted as remuneration and expensed as share based payments during the year are as follows:

	2019 $	2019 Number of shares	2018 $	2018 Number of shares
Class A Performance Shares	-	-	(1,824)	-
Class B Performance Shares	15,745	-	9,171	-
Class C Performance Shares	18,760	-	4,577	-
Class D Performance Shares	49,321	-	16,946	-
	83,826	-	28,870	-

Refer to Note 14 for details of the performance conditions attaching to each class of Performance Shares.

Notes to the Financial Statements (continued)

20. Share Based Payments (continued)

The value of the performance shares has been determined based on the value of each share on issue by the Company following the reverse acquisition and reduced according to the probability of the relevant performance conditions being achieved. The value of the performance shares has been expensed as a share based payment over the period in which the performance conditions are anticipated to be achieved.

21. Events Subsequent To Reporting Period

The following events have arisen since 30 June 2019:

a) The Board has decided to seek up to $2,280,000 via a capital raising.
b) The Honourable David Johnston joined the Board as Non-Executive Director on 2 July 2019.

Apart from the above, no matters or events have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the group, the results of those operations or the state of affairs of the group in subsequent financial years.

22. Contingent Liabilities

There are no other contingent liabilities as at the date of this report.

23. Segment Reporting

The entity operates predominantly in one business and geographical segment.