



OCEAN
GUARDIAN

Powered by
Shark Shield® Technology

ANNUAL REPORT
30 JUNE 2019

**OCEAN GUARDIAN
HOLDINGS LIMITED**

ABN 76 089 951 066

FACTORY 1, 6A PROSPERITY PARADE
WARRIEWOOD, NSW 2102

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Directors' Report

The Directors of Ocean Guardian Holdings Limited (Ocean Guardian) present their report together with the financial statements of the Consolidated Entity, being Ocean Guardian Holdings Limited (the Company) and its controlled entities (the Group) for the year ended 30 June 2019 and the Independent Audit Report thereon.

Directors

The following persons were Directors of Ocean Guardian during or since the end of the financial year:

Alan J Broome AM
Chairman and Independent Non-Executive Director
Director since 2015

Alan is a professional chairman, director and business advisor with over 40 years' experience in building both small and large enterprises, primarily technology and mining related. In 2000, he was awarded the Order of Australia (AM) for services to mining. Alan was a long-standing Chairman of Ocean & Earth, one of the world's largest surf hardware companies; thus, he brings a wealth of knowledge to Ocean Guardian in developing and launching its new surfboard shark deterrent innovation.

Lindsay Lyon
Managing Director and Chief Executive Officer
Director since 2012

Lindsay has a successful track record in the creation and growth of both private and public companies. His corporate experience includes senior executive of a multi-national, CEO of an ASX listed company and the launch of globally focused start-up ventures that involved capital raisings, IPO's, M&A and management of a P&L while delivering customer satisfaction and shareholder value with no compromise on quality or safety standards. Lindsay's focus is on innovation, business strategy, global business development, channels, branding strategies, partnering, and strong teamwork.

James Wakim
Non-Executive Director
Director since 2015
Resigned 29 November 2019

James is a professional director and successful CEO with over 15 years board level experience across the banking, health, medical research, ethnic affairs and manufacturing sectors. He established the Bank of Sydney and the Arab Bank in Australia. As both a NED and MD/CEO, he has developed excellent skills in building sustainable corporations with robust and effective risk management policies and practices. James' extensive banking experience delivers Ocean Guardian a senior level of financing knowledge to support the Group's high growth plans.

Amanda Wilson
Executive Director and US General Manager
Director since 2012

Amanda has over 12 years of experience in worldwide product marketing and sales management. Amanda has held various positions in marketing, product management and engineering with Emerson Process Management located in Minnesota USA, and Mobilarm, Australia. Amanda holds a bachelor's degree in Mechanical Engineering from Iowa State University and an MBA from the University of St. Thomas.

Company Secretary

Hugh Ealey was appointed as secretary of the Ocean Guardian and Shark Shield Pty Ltd on 19 July 2016 and is the Chief Financial Officer. Hugh is a chartered accountant with experience gained at PWC and in various listed and unlisted companies.

Principal activities

During the year, the principal activities within the Group were:

- manufacture, sale and marketing of electrical shark deterrent devices
- innovation, design and development of new electrical shark deterrent products

There have been no significant changes in the nature of these activities during the year.

Dividends – Ocean Guardian Holdings Limited

There were no dividends paid or declared during the year.

Review of operations

2019 was a challenging year for the Company in having to recover from an unsuccessful 2018 IPO however we have successfully completed the development of new products for expansion in FY20.

The new products that have been developed using Shark Shield Technology are:

- BOAT01: creates a protective swimming area around a vessel or pontoon
- FISH01: protects your catch from “shark tax” in ocean sport fishing
- eSPEAR: volume consumer hand-held device for divers, spear fishers and snorkellers

Whilst new product orders had been received in FY19 the products were not ready for shipment and the first orders were delivered in FY20 Q1 to customers who had ordered and prepaid.

Despite the Company starting the 2019 financial year carrying the burden of IPO creditors, the Group was able to continue development of the new products as well as achieve the following:

- **Sales Growth** of 12% resulting in **Gross Profit** being \$75,906 higher than last year.
- 25% **Growth in US** sales and a \$33,282 higher US Gross Profit despite the new US 25% tariff on its exports from China to the US.
- Significantly reduced **Operating Expenses** to \$1,198,753 (2018: \$2,324,345)
- Reduced **Trade Creditors** to \$266,663 (2018: \$533,134)
- **Net Assets** improvement from \$(1,023,208) to \$(316,225)
- Establish Australia wide commission only **Sales Representatives**
- Finalise the **New Products** including the marketing materials required for launch
- Consolidated the Australian operations to a **new office/warehouse** in Warriewood, NSW

Significant changes in the state of affairs

The balance sheet was strengthened through the following share issues:

- Conversion of convertible notes and accrued interest of \$1,212,310
- Applications flowing post the IPO of \$70,000

Additional funding and financial support were also received from:

- R&D Tax Incentive refund received of \$158,651 (2018: \$84,278)
- A new issue of convertible notes totalling \$150,000
- Short term loans totalling \$125,000
- Advance sales of the new products
- Negotiating flexible financing arrangements with the Commonwealth Bank
- Extended payment terms and payment plans provided by the Group's creditors including the non-executive Directors

Events since the end of the financial year

Apart from the release and shipment of the new products into the market, no other matter or circumstance has arisen since 30 June 2019 that has significantly affected the group's operations, results or state of affairs, or may do so in future years.

Likely developments and expected results of operations

Likely developments in the operations of the group that were not finalised at the date of this report included raising additional capital on reasonable terms to further strengthen the balance sheet by repaying debt and providing working capital to grow the BOAT01 and FISH01 sales.

Directors' meetings

The number of meetings of Directors held during the year and the number of meetings attended by each Director is as follows:

| Board Member | Entitled to attend | Attended |
|----------------------|---------------------------|-----------------|
| Alan Broome | 5 | 5 |
| Lindsay Lyon | 5 | 5 |
| James Wakim (Note 1) | 3 | 3 |
| Amanda Wilson | 5 | 4 |

Note 1: James Wakim resigned as a director on 29 November 2019 after the Annual General Meeting. The Company greatly appreciates the contribution that James made over the 4 years he was a director.

Shares under option

There were no unissued shares under option at the date of this report.

Environmental legislation

Ocean Guardian's operations are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory in Australia.

Indemnities given to and insurance premiums paid for officers

During the year, Ocean Guardian paid a premium to insure officers of the Group. The officers of the Group covered by the insurance policy include all Directors.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Group.

Details of the amount of the premium paid in respect of insurance policies are not disclosed as such disclosure is prohibited under the terms of the contract.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer of the Group against a liability incurred as such by an officer.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Auditors Independence Declaration

A copy of the Auditor's Independence Declaration as required under s.307C of the Corporations Act 2001 is included in page 8 of this financial report and forms part of this Director's Report.

This report is made in accordance with a resolution of Directors.



Lindsay Lyon
Managing Director



Alan Broome AM
Chairman

Sydney
24 October 2019

Auditor's Independence Declaration



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Auditor's Independence Declaration

To those charged with governance of Ocean Guardian Holdings Limited

As auditor for the audit of Ocean Guardian Holdings Limited ("the Group") for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

- i. no contraventions of the independence requirements in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Greenwich & Co Audit Pty Ltd

Greenwich & Co Audit Pty Ltd

Nicholas Hollens

Nicholas Hollens
 Managing Director

Perth

24 October 2019

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2019

Schedule 1

| | Note | 2019 \$ | 2018 \$ |
|---|-------|-------------------------|---------------------------|
| Revenue from continuing operations | | | |
| Sale of goods | 4 | 1,441,030 | 1,290,182 |
| Cost of goods sold | | <u>(872,366)</u> | <u>(797,424)</u> |
| Gross profit | | 568,664 | 492,758 |
| Other income | 4 | 178,651 | 84,278 |
| Less, Operating expenses | | | |
| Staff and consultants | | (612,070) | (1,109,874) |
| Marketing and selling costs | | (279,925) | (459,845) |
| Premises | | (42,196) | (43,030) |
| Administration | | (222,397) | (237,584) |
| Intangible asset impairment | 12 | - | (98,967) |
| Capital raising costs | | - | (369,085) |
| Foreign currency gains / (losses) | | <u>(42,164)</u> | <u>(5,959)</u> |
| Earnings before interest, tax, depreciation, amortisation | | (451,437) | (1,747,308) |
| Depreciation and amortisation | 11,12 | <u>(22,537)</u> | <u>(15,608)</u> |
| Earnings before interest and tax | | (473,974) | (1,762,916) |
| Interest and finance costs | 5 | <u>(101,353)</u> | <u>(101,585)</u> |
| Profit / (Loss) before income tax | | (575,327) | (1,864,501) |
| Income tax expense | 6 | <u>-</u> | <u>-</u> |
| Profit / (Loss) for the year | | <u>(575,327)</u> | <u>(1,864,501)</u> |
| Other comprehensive income | | - | - |
| Total comprehensive income attributable to members of the entity | | <u>(575,327)</u> | <u>(1,864,501)</u> |

These financial statements must be read in conjunction with accompanying notes.



Consolidated Statement of Financial Position

As of 30 June 2019

Schedule 3

| | Note | 2019 \$ | 2018 \$ |
|--------------------------------------|------|---------------------|---------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 7 | 16,431 | 79,484 |
| Trade and other receivables | 8 | 93,901 | 186,750 |
| Inventories | 9 | 242,249 | 417,706 |
| Other current assets | 10 | <u>34,391</u> | <u>168,889</u> |
| Total current assets | | <u>386,972</u> | <u>852,829</u> |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 138,129 | 101,742 |
| Intangible assets | 12 | <u>1,056,622</u> | <u>963,967</u> |
| Total non-current assets | | <u>1,194,751</u> | <u>1,065,709</u> |
| TOTAL ASSETS | | <u>1,581,723</u> | <u>1,918,538</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 13 | 738,009 | 1,112,090 |
| Borrowings | 14 | 791,901 | 538,348 |
| Provisions | 15 | 52,092 | 43,376 |
| Other current liabilities | 16 | <u>55,434</u> | <u>6,114</u> |
| Total current liabilities | | <u>1,637,436</u> | <u>1,699,928</u> |
| Non-current liabilities | | | |
| Borrowings | 14 | 231,112 | 1,216,018 |
| Provisions | 15 | <u>29,400</u> | <u>25,800</u> |
| Total non-current liabilities | | <u>260,512</u> | <u>1,241,818</u> |
| TOTAL LIABILITIES | | <u>1,897,948</u> | <u>2,941,746</u> |
| NET ASSETS | | <u>(316,225)</u> | <u>(1,023,208)</u> |
| EQUITY | | | |
| Issued capital | 17 | 11,375,359 | 10,093,049 |
| Accumulated losses | | <u>(11,691,584)</u> | <u>(11,126,257)</u> |
| TOTAL EQUITY | | <u>(316,225)</u> | <u>(1,023,208)</u> |

These financial statements must be read in conjunction with accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2019

Schedule 3

| Prior Year | Issued Capital | Reserves | Accumulated Losses | Total |
|---|-------------------|----------|-----------------------|--------------------|
| Balance as at 1 July 2017 | 9,938,684 | - | (9,251,756) | 686,928 |
| Loss for the period | - | - | (1,864,501) | (1,864,501) |
| Total other comprehensive income | - | - | - | - |
| Total loss for the period | - | - | (1,864,501) | (1,864,501) |
| <i>Transaction with owners, directly recorded in equity</i> | | | | |
| Issue of ordinary shares | 140,000 | - | - | 140,000 |
| Issue of share capital under share based payment | 14,365 | - | - | 14,365 |
| Total transactions with owners | 154,365 | - | - | 154,365 |
| Balance at 30 June 2018 | 10,093,049 | - | (11,116,257) | (1,023,208) |

| Current Year | Issued Capital | Reserves | Accumulated Losses | Total |
|---|-------------------|----------|-----------------------|--------------------|
| Balance as at 1 July 2018 | 10,093,049 | - | (11,116,257) | (1,023,208) |
| Loss for the period | - | - | (575,327) | (575,327) |
| Total other comprehensive income | - | - | - | - |
| Total loss for the period | - | - | (575,327) | (575,327) |
| <i>Transaction with owners, directly recorded in equity</i> | | | | |
| Issue of ordinary shares | 1,282,310 | - | - | 1,282,310 |
| Issue of share capital under share based payment | - | - | - | - |
| Total transactions with owners | 1,282,310 | - | - | 1,282,310 |
| Balance at 30 June 2019 | 11,375,359 | - | (11,691,584) | (316,225) |

These financial statements must be read in conjunction with accompanying notes.



Consolidated Statement of Cash Flows

For the year ended 30 June 2019

Schedule 4

| | Note | 2019 \$ | 2018 \$ |
|--|------|------------------|------------------|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 1,650,699 | 1,475,398 |
| Payments to suppliers and employees (inclusive of GST) | | (2,118,780) | (2,485,119) |
| R&D Tax Incentive refund | | 158,651 | 84,278 |
| Interest paid | | <u>(60,191)</u> | <u>(72,187)</u> |
| Net cash inflow / (outflow) from operating activities | 19 | <u>(369,621)</u> | <u>(997,630)</u> |
| Cash flows from investing activities | | | |
| Payments for property plant and equipment | | (55,324) | (12,561) |
| Payment for development costs, patents, trademarks | | <u>(96,255)</u> | <u>(250,687)</u> |
| Net cash inflow / (outflow) from investing activities | | <u>(151,579)</u> | <u>(263,248)</u> |
| Cash flows from financing activities | | | |
| Proceeds from issues of shares | | 70,000 | 70,000 |
| Net proceeds / (repayment) of borrowings – related parties | | - | (131,035) |
| Proceeds from convertible notes | | 150,000 | 1,180,000 |
| Net proceeds / (repayment) of borrowings – third parties | | <u>238,081</u> | <u>112,603</u> |
| Net cash inflow / (outflow) from financing activities | | <u>458,081</u> | <u>1,231,568</u> |
| Net increase / (decrease) in cash | | (63,119) | (29,310) |
| Cash at the beginning of the financial year | | <u>(117,903)</u> | <u>(88,593)</u> |
| Cash and cash equivalents at end of year | 7 | <u>(181,022)</u> | <u>(117,903)</u> |

These financial statements must be read in conjunction with accompanying notes.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

NOTE 1. GENERAL INFORMATION AND STATEMENT OF COMPLIANCE

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Ocean Guardian Holdings Limited is a for-profit entity for the purpose of preparing the financial statements.

Ocean Guardian Holdings Limited is the Group's Ultimate Parent Company. Ocean Guardian Holdings Limited is a Public Company incorporated and domiciled in Australia. The address of its registered office and its principal place of business is Unit 1, 6A Prosperity Parade, Warriewood NSW 2102 Australia.

Ocean Guardian Holdings Limited and subsidiaries' (the Group) principal activities include:

- manufacture, sale and marketing of the Shark Shield shark deterrent devices
- design and development of new shark deterrent products

The consolidated financial statements for the year ended 30 June 2019 were approved and authorised for issue by the Board of Directors on 24 October 2019.

NOTE 2. NEW AND REVISED STANDARDS THAT ARE EFFECTIVE FOR THESE FINANCIAL STATEMENTS

ACCOUNTING STANDARDS ISSUED AND ADOPTED BY THE COMPANY

A number of new and revised standards are effective for annual periods beginning on or after 1 July 2018. Information on the most significant relevant standard is presented below.

AASB 15 Revenue from Contracts with Customers

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and several revenue-related Interpretations. The new Standard first applies from 1 July 2018.

Contracts with multiple performance obligations

Many of the Group's contracts comprise a variety of performance obligations including, but not limited to product sales, installation services, provision of data and software licencing.

Under AASB 15, the Group must evaluate the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both:

- the customer benefits from the item either on its own or together with other readily available resources; and
- it is 'separately identifiable' (i.e. the Group does not provide a significant service integrating, modifying or customising it).

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

While this represents significant new guidance, the implementation of this new guidance did not have a significant impact on the timing or amount of revenue recognised by the Group during the year.

On the date of the initial application of AASB15, 1 July 2018, the impact to retained earnings of the Group is considered to be immaterial.

ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE COMPANY

AASB 16 Leases

AASB 16 replaces AASB 117 Leases and is applicable to annual reporting periods beginning on or after 1 January 2019.

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

The Group will first apply AASB 16 in the financial year ending 30 June 2020 in respect of the Unit 1, 6A Prosperity Parade, Warriewood premises lease that commenced on 1 July 2019.

NOTE 3. SUMMARY OF ACCOUNTING POLICIES

(a) Overall Considerations

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised below.

The consolidated financial statements have been prepared using the measurement bases specified by Australian Accounting Standards for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

(b) Basis of Preparation – GOING CONCERN

The Group incurred a net loss after tax for the year ended 30 June 2019 of \$575,327 and a net cash outflow from operating and investing activities of \$369,621 and \$151,579 respectively. Net assets of the Company as at 30 June 2019 were a deficiency of \$(316,225).

The deficiency of net assets at 30 June 2018 of \$(1,023,208) following the unsuccessful Initial Public Offering made it necessary for the Company to convert the convertible notes principal and accrued totalling \$1,212,310 into ordinary share capital on 1 November 2018. In addition, during the year ended 30 June 2019 the Company:

- Raised post IPO capital of \$70,000
- Issued a new series of convertible notes totalling \$150,000
- Obtained short term loans of \$125,000
- Arranged extended payment terms and payment arrangements with certain creditors
- Received orders and prepaid deposits for the new products

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

- Grew its US sales by 25% in 2019 with US and rest of the world sales momentum (in \$USD) continuing through the northern hemisphere summer

The Company's ability to continue as a going concern and pay its debts as and when they fall due is dependent on the Company receiving ongoing support from its banker and creditors to enable it to have sufficient inventory of existing and new products in time for the Australian summer.

Once the new products have become established in the market, the Company is planning to raise capital at a fair valuation in order to strengthen the balance sheet ready for its next stage of growth.

The Directors have reviewed the business outlook and the cash flow forecasts after taking into account the above matters and are of the opinion that the use of the going concern basis of accounting is appropriate as the Directors believe that the Company will receive the continued support from its banker and creditors and be able to pay its debts as and when they fall due.

Should the Company not receive ongoing support from its banker and creditors or not have sufficient inventory for the Australian summer or be unable to raise capital at short notice there would be conditions that may cause significant doubt on the Company's ability to continue as a going concern.

The accounts do not include any adjustments to the classification nor carrying value of recorded assets and liabilities.

The financial statements are therefore prepared on the assumption that the Company is a going concern and will continue its operations for the foreseeable future.

(c) Basis of consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries as of 30 June 2019. The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

(d) Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in Australian Dollars (\$AUD), which is also the functional currency of the Parent Company.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group Entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the date of the transaction), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Foreign operations

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the \$AUD are translated into \$AUD upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into Australian-Dollars (\$AUD) at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into \$AUD at the closing rate. Income and expenses have been translated into \$AUD at the average rate over the reporting period. Exchange differences are charged / credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal.

(e) Revenue

Revenue arises from the sale of goods. It is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Grants from the government are recognised at their fair value when received.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

All revenue is stated net of the amount of Goods and Services Tax (GST).

(f) Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

(g) Income Tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. 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 calculated at the tax rates that are expected to apply to the period when the asset is realised, or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

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.

Ocean Guardian Holdings Limited and its wholly-owned Australian controlled entity, Shark Shield Pty Ltd, have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (eg the Research and Development Tax Incentive regime in Australia or other investment allowances). The Group accounts for such allowances as other income.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

(i) Trade and Other Receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are generally due for settlement within 30 days and therefore are all classified as current.

(j) 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 portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(k) Property, Plant and Equipment

Property, plant and equipment are carried at cost, independent of Directors' valuation. All assets, excluding freehold land and buildings, are depreciated over their useful lives to the Company. Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the assets charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have not been discounted in determining recoverable amounts.

(l) Intangibles and Impairment

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

Patents and trademarks

Patents and trademarks are recognised as intangible assets at cost of acquisition and are considered to have an indefinite useful life. The costs of renewing patents and trademarks are expensed as incurred.

Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and are tested annually for impairment if events or changes in circumstances indicate that they might be impaired.

(m) Trade and Other Payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Company during the reporting period, which remain unpaid. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(n) Employee Benefits

Short-term employee benefits

Short-term employee benefits are benefits, other than termination benefits, that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. Examples of such benefits include salaries and wages, non-monetary benefits and accumulating annual leave. Short-term employee benefits are measured at the undiscounted amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The Group's liabilities for long service leave are included in other long-term benefits as they are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are measured at the present value of the expected future payments to be made to employees. The expected future payments incorporate anticipated future wage and salary levels, experience of employee departures and periods of service, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that have maturity dates that approximate the timing of the estimated future cash outflows.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

Any re-measurements arising from experience adjustments and changes in assumptions are recognised in profit or loss in the periods in which the changes occur.

The Group presents employee benefit obligations as current liabilities in the statement of financial position if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period, irrespective of when the actual settlement is expected to take place.

(o) Share-based employee remuneration

The Group operates equity-settled share-based remuneration plans for its employees. None of the Group's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions), except where the Group is unable to estimate reliably the fair value of the equity instruments granted at the measurement date in which the intrinsic value method is applied.

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are allocated to share capital.

(p) Provisions

Provisions for product warranties, legal disputes, onerous contracts or other claims are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Restructuring provisions are recognised only if a detailed formal plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. Provisions are not recognised for future operating losses.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

No liability is recognised if an outflow of economic resources as a result of present obligation is not probable. Such situations are disclosed as contingent liabilities, unless the outflow of resources is remote in which case no liability is recognised.

(p) Equity and reserves

Share capital represents the fair value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits.

Retained earnings include all current and prior period retained profits.

(q) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. 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. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST components of investing and financing activities, which are disclosed as operating cash flows.

(r) Significant management judgement in applying accounting policies and estimation uncertainty

When preparing the financial statements, management undertakes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Significant management judgement

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the financial statements.

Recognition of deferred tax assets

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Impairment

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. In 2019, the Group recognised an impairment loss on licences.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain equipment.

Inventories

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

| | 2019 | 2018 |
|--|-------------------------|-------------------------|
| | \$ | \$ |
| NOTE 4. REVENUE | | |
| Revenue from operating activities | | |
| Sales of goods | <u>1,441,030</u> | <u>1,290,182</u> |
| Other income | | |
| R&D Tax Incentive | 158,651 | 84,278 |
| Other | <u>20,000</u> | <u>-</u> |
| Other income | <u>178,651</u> | <u>84,278</u> |
| Interest | <u>-</u> | <u>-</u> |
| Group revenue | <u>1,619,681</u> | <u>1,374,460</u> |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

| | 2019 | 2018 |
|---|-----------------------|-----------------------|
| | \$ | \$ |
| NOTE 5. FINANCE INCOME AND FINANCE COSTS | | |
| Interest income | - | - |
| Interest expense | | |
| Banks | 45,424 | 33,245 |
| Convertible Notes | 35,943 | 63,100 |
| Other | <u>19,986</u> | <u>5,240</u> |
| | <u>101,353</u> | <u>101,585</u> |

NOTE 6. INCOME TAX

(a) Income tax expense

The income tax for the financial year differs from the amount calculated on the profit / (loss). The differences are reconciled as follows:

| | | |
|---|------------------|--------------------|
| Profit / (loss) before income tax | <u>(575,327)</u> | <u>(1,864,501)</u> |
| Income tax calculated @ 27.5% (2019 – 27.5%) | (158,215) | (512,738) |
| Tax effect of items treated as permanent differences | (20,850) | 174,029 |
| Tax losses not booked | <u>179,065</u> | <u>338,709</u> |
| Income tax attributable to operating profit / (loss) | <u>-</u> | <u>-</u> |

| | |
|-------------|-------------|
| 2019 | 2018 |
| \$ | \$ |

(b) Tax losses

| | | |
|---|-------------------------|-------------------------|
| Unused tax losses for which no deferred tax asset has been recognised | 9,673,164 | 9,022,020 |
| Potential tax benefit @ 27.5% (2019 – 27.5%) | <u>2,660,120</u> | <u>2,481,055</u> |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

| | 2019 | 2018 |
|--|-------------------------|-------------------------|
| | \$ | \$ |
| NOTE 7. CASH AND CASH EQUIVALENTS | | |
| Cash at bank | | |
| • Australian Dollar (\$AUD) | 10,324 | 23,574 |
| • United States Dollar (\$USD) | <u>6,107</u> | <u>55,910</u> |
| Cash and cash equivalents | <u>16,431</u> | <u>79,484</u> |
| Reconciliation to cash flow statement | | |
| Cash and cash equivalents (above) | 16,431 | 79,484 |
| Bank overdraft (Note 14) | <u>(197,453)</u> | <u>(197,387)</u> |
| Balances per statement of cash flows | <u>(181,022)</u> | <u>(117,903)</u> |

NOTE 8. TRADE AND OTHER RECEIVABLES - Current

| | | |
|-----------------------------|----------------------|-----------------------|
| Trade receivables | 86,278 | 126,122 |
| Allowance for credit losses | <u>(5,000)</u> | <u>(5,000)</u> |
| | 81,278 | 121,122 |
| Other debtors | <u>12,623</u> | <u>65,628</u> |
| Financial assets | <u>93,901</u> | <u>186,750</u> |

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and an allowance for credit losses of \$5,000 (2018: \$5,000) has been recorded accordingly within other expenses. The impaired trade receivables are mostly due from customers in the business-to-business market that are experiencing financial difficulties.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

| | 2019 | 2018 |
|--|---------------------|---------------------|
| | \$ | \$ |
| Reconciliation of allowance for credit losses | | |
| Balance 1 July | 5,000 | - |
| Amounts written off (uncollectible) | (6,667) | - |
| Impairment loss | <u>6,667</u> | <u>5,000</u> |
| Balance 30 June | <u>5,000</u> | <u>5,000</u> |

An analysis of unimpaired trade receivables that are past due is given in Note 24(e).

The carrying amount of receivables whose terms have been renegotiated, that would otherwise be past due or impaired is \$Nil (2018: \$24,031).

NOTE 9. INVENTORIES

| | | |
|------------------|-----------------------|-----------------------|
| Stock in transit | - | 70,957 |
| Finished goods | <u>242,249</u> | <u>346,749</u> |
| | <u>242,249</u> | <u>417,706</u> |

Inventories included in profit & loss as an expense:

| | | |
|--------------------------|----------------|----------------|
| Cost of goods sold | 872,366 | 797,424 |
| Advertising & promotions | <u>18,504</u> | <u>12,643</u> |
| | <u>890,870</u> | <u>810,067</u> |

NOTE 10. OTHER ASSETS - Current

| | | |
|------------------------------------|----------------------|-----------------------|
| Deposits paid for inventory orders | 22,632 | 82,286 |
| Prepayments | <u>11,759</u> | <u>86,603</u> |
| Non-financial assets | <u>34,391</u> | <u>168,889</u> |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

| | 2019 | 2018 |
|---|-----------------------|-----------------------|
| | \$ | \$ |
| NOTE 11. PROPERTY, PLANT AND EQUIPMENT | | |
| Furniture and fittings | 4,864 | 4,864 |
| Less: Accumulated depreciation | <u>(2,264)</u> | <u>(1,388)</u> |
| | <u>2,600</u> | <u>3,476</u> |
| Office equipment | 14,542 | 14,542 |
| Less: Accumulated depreciation | <u>(10,189)</u> | <u>(6,611)</u> |
| | <u>4,353</u> | <u>7,931</u> |
| Plant & equipment | 166,062 | 110,738 |
| Less: Accumulated depreciation | <u>(34,886)</u> | <u>(20,403)</u> |
| | <u>131,176</u> | <u>90,335</u> |
| Total carrying amount | <u>138,129</u> | <u>101,742</u> |

Reconciliation of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

| | <u>1 July 2018</u> | <u>Additions</u> | <u>Disposals</u> | <u>Depreciation</u> | <u>30 June 2019</u> |
|------------------------|-----------------------|----------------------|------------------|------------------------|-----------------------|
| Furniture and fittings | 3,476 | - | - | (876) | 2,600 |
| Office equipment | 7,931 | - | - | (3,578) | 4,353 |
| Plant & equipment | <u>90,335</u> | <u>55,324</u> | <u>-</u> | <u>(14,483)</u> | <u>131,176</u> |
| Total | <u>101,742</u> | <u>55,324</u> | <u>-</u> | <u>(18,937)</u> | <u>138,129</u> |

NOTE 12. INTANGIBLES

| | | |
|-------------------------------|-------------------------|-----------------------|
| Licences, patents, trademarks | <u>174,433</u> | <u>143,143</u> |
| Product development | | |
| FREEDOM+Surf | 615,285 | 615,161 |
| Long range boat and beach | 171,358 | 116,202 |
| Hand-held dive eSpear | 68,394 | 62,309 |
| Other | <u>27,152</u> | <u>27,152</u> |
| Sub-total product development | <u>882,189</u> | <u>820,824</u> |
| Total carrying amount | <u>1,056,622</u> | <u>963,967</u> |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

Reconciliation of the carrying amounts of each class of intangible at the beginning and end of the current financial year are set out below.

| | <u>1 July 2018</u> | <u>Additions</u> | <u>Impairment</u> | <u>Amortisation</u> | <u>30 June 2019</u> |
|---------------------|-----------------------|----------------------|-------------------|---------------------|-------------------------|
| Patents | 83,146 | 19,682 | - | (3,600) | 99,228 |
| Trademarks | 59,997 | 15,208 | - | - | 75,205 |
| Product development | <u>820,824</u> | <u>61,365</u> | <u>-</u> | <u>-</u> | <u>882,189</u> |
| Total | <u>963,967</u> | <u>96,255</u> | <u>-</u> | <u>-</u> | <u>1,056,622</u> |

| | |
|-------------|-------------|
| 2019 | 2018 |
| \$ | \$ |

NOTE 13. TRADE AND OTHER PAYABLES

| | | |
|---------------------------------------|-----------------------|-------------------------|
| Accounts payable | 266,663 | 533,134 |
| Sundry creditors and accrued expenses | <u>471,346</u> | <u>578,956</u> |
| | <u>738,009</u> | <u>1,112,090</u> |

All amounts are short-term. The carrying values of trade payables and other payables are considered to be a reasonable approximation of fair value.

NOTE 14. BORROWINGS

Borrowing include the following financial liabilities:

Secured (current):

| | | |
|-------------------------------------|----------------|----------------|
| Bank overdraft (a) | 197,453 | 197,387 |
| Trade finance bills of exchange (a) | 382,823 | 243,074 |
| Business loan (a) | <u>21,000</u> | <u>21,000</u> |
| Total secured borrowings | <u>601,276</u> | <u>461,461</u> |

Unsecured (current):

| | | |
|---------------------------------|-----------------------|-----------------------|
| Loans from related parties | 70,000 | - |
| Other loans | <u>120,625</u> | <u>76,887</u> |
| Total unsecured borrowings | <u>190,625</u> | <u>76,887</u> |
| Total current borrowings | <u>791,901</u> | <u>538,348</u> |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

| | 2019 | 2018 |
|-------------------------------------|-----------------------|-------------------------|
| | \$ | \$ |
| Secured (non-current) | | |
| Business loan (a) | 20,612 | 36,018 |
| Unsecured (non-current) | | |
| Convertible notes (b) | 150,000 | 1,180,000 |
| Loans from related parties | <u>60,500</u> | <u>-</u> |
| Total non-current borrowings | <u>231,112</u> | <u>1,216,018</u> |

All borrowings are denominated in Australian Dollars (\$AUD).

(a) Bank borrowings

The Company has a finance facility with the Commonwealth Bank of Australia that includes a trade finance facility of \$700,000 (including overdraft) and a business loan of \$80,000 repayable over 5 years. The facility is secured by way of: a first ranking charge over all present and after acquired property of the Company and its Australian subsidiary and personal guarantees from Lindsay Lyon and Amanda Wilson.

(b) Convertible notes

The Company issued 30 convertible notes for \$5,000 in April 2019 at 12% interest per annum. The notes are convertible into ordinary shares of the Company, at the option of the note holder or the Company under certain circumstances, or redeemable by the Company anytime up to and including the maturity date or repayable on the maturity date which is 24 months from the date of the agreement entered into with a particular note holder. The conversion rate differs depending on the type of conversion event.

NOTE 15. PROVISIONS

| | | |
|--|----------------------|----------------------|
| Employee entitlements (current) | <u>52,092</u> | <u>43,376</u> |
| Annual leave | 17,000 | 17,000 |
| Long service leave | <u>12,400</u> | <u>8,800</u> |
| Employee entitlements (non-current) | <u>29,400</u> | <u>25,800</u> |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

| | 2019 | 2018 |
|---|----------------------|---------------------|
| | \$ | \$ |
| NOTE 16. OTHER LIABILITIES - Current | | |
| Unearned revenue | | |
| Back orders | 8,275 | 1,573 |
| Payments received in advance for the new product orders | <u>47,159</u> | <u>4,541</u> |
| | <u>55,434</u> | <u>6,114</u> |

NOTE 17. ISSUED CAPITAL

The share capital of Ocean Guardian Holdings Limited consists only of fully paid ordinary shares; the shares do not have a par value. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of Ocean Guardian Holdings Limited.

| | 2019 | 2018 | 2019 | 2018 |
|--|-------------------|-------------------|--------------------------|--------------------------|
| | Shares | Shares | \$ | \$ |
| Share capital | | | | |
| Ordinary shares | <u>53,478,814</u> | <u>45,046,750</u> | <u>11,375,359</u> | <u>10,093,049</u> |
| Movements in ordinary share capital | | | Number of shares | \$ |
| Opening balance 1 July 2018 | | | 45,046,750 | 10,093,049 |
| Convertible notes conversion @ \$0.15 | | | 8,082,064 | 1,212,310 |
| New share issues @ \$0.20 | | | <u>350,000</u> | <u>70,000</u> |
| Balance at 30 June 2019 | | | <u>53,478,814</u> | <u>11,375,359</u> |

NOTE 18. INTERESTS IN SUBSIDIARIES

| | |
|---|--|
| Name of subsidiary: | Shark Shield Pty Ltd |
| Country of incorporation and principle place of business: | Australia |
| Principle activity: | Manufacture, sale and marketing of the Shark Shield shark deterrent devices. |
| Proportion of ownership interests held by the Group at 30 June: | 100% (2018: 100%) |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

| | 2019 | 2018 |
|---|-------------------------|-------------------------|
| | \$ | \$ |
| NOTE 19. CASH FLOW INFORMATION | | |
| Reconciliation of profit after income tax to net cash inflow from operating activities | | |
| Profit / (loss) after income tax | (575,327) | (1,864,501) |
| Non-cash flows in profit | | |
| Depreciation and amortisation | 22,537 | 15,608 |
| Impairment of intangible assets | - | 98,967 |
| Net (gain) loss on sale of non-current assets | - | - |
| Directors' fees settled in shares | - | 70,000 |
| Share based payments | - | 14,365 |
| Convertible notes interest capitalised and converted to shares | 32,310 | - |
| Change in operating assets and liabilities | | |
| (Increase)/decrease in trade debtors | 39,844 | 107,805 |
| (Increase)/decrease in inventories | 175,457 | (290,396) |
| (Increase)/decrease in other operating assets | 187,503 | (13,054) |
| Increase/(decrease) in trade creditors | (266,471) | 342,525 |
| Increase/(decrease) in other operating liabilities | 2,210 | 465,363 |
| Increase in other provisions | <u>12,316</u> | <u>55,688</u> |
| Net cash inflow (outflow) from operating activities | <u>(369,621)</u> | <u>(997,630)</u> |

NOTE 20. AUDITOR REMUNERATION

Audit and review of financial statements

| | | |
|--|---------------|---------------|
| Financial years: 2015, 2016, 2017 | - | 26,000 |
| Half year 31 December 2017 | - | 4,000 |
| Current financial year | <u>22,000</u> | <u>20,000</u> |
| Remuneration from audit and review of financial statements | 22,000 | 50,000 |

Other services

| | | |
|---|----------------------|----------------------|
| Investigating Accountants Report for prospectus | - | 15,000 |
| Tax return and R&D tax incentive claim | <u>8,775</u> | <u>-</u> |
| Total auditor's remuneration | <u>30,775</u> | <u>65,000</u> |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

| | 2019 | 2018 |
|--|------|------|
| | \$ | \$ |

NOTE 21. RELATED PARTY TRANSACTIONS

The Group's related parties include its key management and others as described below. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

Key management personnel remuneration includes the following expenses:

Executives

| | | |
|-----------------------------------|---------|---------|
| Lindsay Lyon, CEO | 239,250 | 567,898 |
| Amanda Wilson, Executive Director | 98,279 | 86,469 |

Non-executives

| | | |
|-------------------------------------|-----------------------|-----------------------|
| Alan Broome, Chairman | 40,000 | 50,000 |
| James Wakim, Non-Executive Director | <u>14,583</u> | <u>35,000</u> |
| | <u>392,112</u> | <u>739,367</u> |

| | | |
|---|--------------|---------------|
| Relatives of Directors employed/contracted in sales & marketing roles | <u>1,923</u> | <u>68,404</u> |
|---|--------------|---------------|

Details of the CEO's remuneration expensed in the accounts for the year is follows:

| | | |
|----------------------------------|-----------------------|-----------------------|
| Salary, super, consultancy | 220,000 | 220,000 |
| Back-pay (accrued) | - | 161,569 |
| Long Term Incentive (accrued) | - | 132,000 |
| Motor vehicle allowance | - | 10,428 |
| Annual leave cashed out | 3,864 | - |
| Provision for annual leave | 11,786 | 36,336 |
| Provision for long service leave | <u>3,600</u> | <u>7,565</u> |
| Total | <u>239,250</u> | <u>567,898</u> |

The non-executive Directors invoice the Company through their director related entities. During the year, the non-executive Directors converted \$60,500 of their unpaid fees to interest free loans to be paid when cash flow permits. The Directors have also provided extended payment terms for fees invoiced and included in trade creditors:

Amounts owing to the non-executive Directors (incl GST):

| | | |
|-----------------|----------------------|----------------------|
| Trade creditors | 30,250 | 37,125 |
| Loans | <u>60,500</u> | <u>-</u> |
| Total | <u>90,750</u> | <u>37,125</u> |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

The CEO's employment contract includes the following incentives:

Short Term Incentive

40% of Fixed Remuneration based on the achievement of the KPIs set by the Board of Directors if and when determined by the Board.

Long Term Incentive

The CEO's employment contract contains a Long Term Incentive that provided for the issue of 6,210,000 Performance Shares on completion of the ASX listing that was in progress at the time of negotiating the employment contract. Since the Company decided not to proceed with the ASX listing, the CEO's employment contract was amended to issue Performance Rights with the same performance milestones, without the requirement of an ASX listing. Each Performance Right will vest into one Ordinary share based on the Company achieving the following performance milestones:

| | Number |
|---|---------------|
| Class A: Revenue of at least \$2,475,000 in financial year FY19 | 2,070,000 |
| Class B: A positive EBITDA in financial year FY20 | 2,070,000 |
| Class C: A positive Earnings Per Share (EPS) in financial year FY21 | 2,070,000 |

At the date of this report, none of the performance milestones have been achieved. The Company has adopted the policy of applying the intrinsic value method for booking the share based payments expense and accordingly share based payments expense will be booked when these Performance Rights are exercised.

| | 2019 | 2018 |
|---|---------------|---------------|
| | \$ | \$ |
| Amanda Wilson, Executive Director, remuneration includes the following: | | |
| Retainer | 35,000 | 35,000 |
| Commission on American sales | <u>63,279</u> | <u>51,469</u> |
| Total | <u>98,279</u> | <u>86,469</u> |

Short Term Incentive

Performance Rights to be converted into ordinary shares on achieving the following revenue milestones for the year ending 30 June 2020 within the territory of North and South America:

| | Number |
|-------------------------------------|---------------|
| Revenue of at least \$AUD 1,000,000 | 517,500 |
| Revenue of at least \$AUD 1,500,000 | 776,250 |
| Revenue of at least \$AUD 2,000,000 | 1,035,000 |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

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| | | 2019 | 2018 |
|---|-----------------------------------|-----------------------|-----------------------|
| | | \$ | \$ |
| Amounts owing to Directors or their director related entities (excluding provisions for leave): | | | |
| Lindsay Lyon: | Unpaid back-pay | 281,580 | 282,619 |
| Lyonpark Super Fund: | Short term loan | 20,000 | - |
| Coastal Roofing WA Pty Ltd: | Short term loan | 50,000 | - |
| Amanda Wilson: | Unpaid US sales commission | 15,819 | 7,322 |
| Alan Broome: | Unpaid Directors' fees (incl GST) | 71,500 | 27,500 |
| James Wakim: | Unpaid Directors' fees (incl GST) | <u>19,250</u> | <u>9,625</u> |
| | | <u>458,149</u> | <u>327,066</u> |

The amounts owing to Directors are not subject to interest except for the \$70,000 in short term loans on which interest is being calculated daily @ 12% and is payable on repayment of the loan 12 months from the date the loan was advance.

NOTE 22. COMMITMENTS FOR EXPENDITURE

Operating leases as lessee

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

| | | |
|---|-----------------------|----------------------|
| Within 1 year | 42,751 | 28,509 |
| Later than 1 year but not later than 5 years | <u>96,181</u> | <u>6,627</u> |
| Commitments not recognised in the financial statements | <u>138,932</u> | <u>35,136</u> |
| Operating lease expense | <u>37,509</u> | <u>37,509</u> |

NOTE 23. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

The Company has no contingent assets.

A provision for future warranty claims has not been recorded in the accounts because the probability of future warranty claims is uncertain, and the amount cannot be reasonably estimated.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

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NOTE 24. FINANCIAL INSTRUMENT RISK

(a) Risk management objectives and policies

The Group is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated at its headquarters, in close cooperation with the Board of Directors, and focuses on actively securing the Group's short to medium-term cash flows by minimising the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes. The most significant financial risks to which the Group is exposed are described below.

(b) Market risk analysis

The Group is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks, which result from both its operating and investing activities.

(c) Foreign currency sensitivity

Most of the Group's transactions are carried out in Australian Dollars (\$AUD). Exposures to currency exchange rates arise from the Group's overseas sales and purchases, which are primarily denominated in US-Dollars (\$USD).

To mitigate the Group's exposure to foreign currency risk, non-\$AUD cash flows are monitored, and forward exchange contracts are entered into in accordance with the Group's risk management policies. Generally, the Group's risk management procedures distinguish short-term foreign currency cash flows (due within six months) from longer-term cash flows (due after six months).

Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken. Forward exchange contracts are mainly entered into for significant long-term foreign currency exposures that are not expected to be offset by other currency transactions.

Foreign currency denominated financial assets and liabilities which expose the Group to currency risk are disclosed below. The amounts shown are those reported to key management translated from \$USD into \$AUD at the closing rate:

| | 2019 | 2018 |
|---|------------------------|-------------------------|
| | \$ | \$ |
| Cash and cash equivalents | 6,107 | 55,910 |
| Accounts receivable | 46,584 | 27,277 |
| Accounts payable | (136,878) | (21,930) |
| Sundry creditors and accrued expenses | - | (179,217) |
| Net asset / (liability) exposure | <u>(84,187)</u> | <u>(117,960)</u> |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

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The following table illustrates the sensitivity of profit and equity in regard to the Group's financial assets and financial liabilities and the \$USD/\$AUD exchange rate 'all other things being equal'. It assumes a +/- 5% change of the \$AUD/\$USD exchange rate for the year ended at 30 June 2019 which has been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date and also takes into account forward exchange contracts that offset effects from changes in currency exchange rates.

| | 2019 | 2018 |
|---|----------------|----------------|
| | \$ | \$ |
| Impact on profit / (loss) for the year: | | |
| \$AUD had strengthened against the \$USD by 5% (2018: 5%) | 4,009 | 5,617 |
| \$AUD had weakened against the \$USD by 5% (2018: 5%) | <u>(4,431)</u> | <u>(6,208)</u> |

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

(d) Interest rate sensitivity

The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates. At 30 June 2019, the Group is exposed to changes in market interest rates on the bank overdraft. Other borrowings are at fixed interest rates. The exposure to variable interest rates on the Group's bank overdraft is considered immaterial.

(e) Credit risk analysis

Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers, placing deposits, investment in bonds etc.

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

| | | |
|-------------------|----------------------|-----------------------|
| Trade receivables | 86,278 | 126,122 |
| Other debtors | <u>12,623</u> | <u>65,628</u> |
| | <u>98,901</u> | <u>191,750</u> |

The Group continuously monitors defaults of customers and other counterparties, identified either by individual or group and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

| | 2019 | 2018 |
|---|----------------------|----------------------|
| | \$ | \$ |
| The Group's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality. | | |
| Some of the unimpaired trade receivables are past due as at the reporting date. Information on financial assets past due but not impaired are as follows: | | |
| Not more than three months | 85,794 | 65,680 |
| More than three months but not more than six months | <u>484</u> | <u>12,279</u> |
| Total | <u>86,278</u> | <u>77,959</u> |

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a wholesale, retail and direct customers in various geographical areas. Based on historical information about customer default rates management consider the credit quality of trade receivables that are not past due or impaired to be good.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(f) Liquidity risk analysis

Liquidity risk is the risk that the Group might be unable to meet its obligations. The Group manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business. The data used for analysing these cash flows is consistent with that used in the contractual maturity analysis below. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly. Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows that available borrowing facilities are expected to be sufficient over the lookout period to fund inventory purchases.

The Group's objective is to maintain cash to meet its liquidity requirements for 30-day periods at a minimum. This objective was not met for the reporting periods which is why the company is raising capital.

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables. The Group's existing cash resources and trade receivables are insufficient for the current cash outflow requirements. Cash flows from trade and other receivables are all contractually due within six months.

As at 30 June 2019, the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarised below:

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

| 30 June 2019 | Within 6 months | 6-12 months | 1-5 years |
|---------------------------------|-------------------------|-----------------------|-----------------------|
| Bank overdraft | 197,453 | - | - |
| Trade and other payables | 453,141 | - | 281,580 |
| Trade finance bills of exchange | 382,823 | - | - |
| Business loan | 10,500 | 10,500 | 20,612 |
| Other loans | 40,793 | 217,745 | - |
| Convertible notes | <u>3,288</u> | <u>-</u> | <u>150,000</u> |
| | <u>1,091,288</u> | <u>228,245</u> | <u>452,194</u> |

NOTE 25. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity plus its convertible notes, less cash and cash equivalents as presented on the face of the statement of financial position.

The group is not subject to externally imposed capital requirements.

Management assesses the Group's capital requirements in order to maintain an efficient overall financing structure while avoiding excessive leverage. This takes into account the subordination levels of the Group's various classes of debt. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The amounts managed as capital by the Group for the reporting periods under review are summarised as follows:

| | 2019 | 2018 |
|---|-------------------------|-----------------------|
| | \$ | \$ |
| Total equity | (316,225) | (1,023,208) |
| Convertible notes | 150,000 | 1,180,000 |
| Cash and cash equivalents | <u>(16,431)</u> | <u>(79,484)</u> |
| Capital | <u>(182,656)</u> | <u>77,308</u> |
| Total equity | (316,225) | (1,023,208) |
| Borrowings | <u>1,023,013</u> | <u>1,754,366</u> |
| Overall financing | <u>706,933</u> | <u>731,158</u> |
| Capital-to-overall financing ratio | (0.26) | 0.11 |

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

Schedule 5

NOTE 26. PARENT ENTITY INFORMATION

Information relating to Ocean Guardian Holdings Limited (the Parent Entity):

| | 2019 | 2018 |
|---|-------------------------|---------------------------|
| | \$ | \$ |
| Statement of financial position | | |
| Current assets | 11 | 45,872 |
| Non-current assets | <u>174,433</u> | <u>143,143</u> |
| Total assets | <u>174,444</u> | <u>189,015</u> |
| Current liabilities | 6,288 | 32,222 |
| Non-current liabilities | <u>150,000</u> | <u>1,180,000</u> |
| Total liabilities | <u>156,288</u> | <u>1,212,222</u> |
| Net assets | <u>18,156</u> | <u>(1,023,207)</u> |
| Issued capital | 11,375,359 | 10,093,049 |
| Accumulated losses | <u>(11,357,203)</u> | <u>(11,116,256)</u> |
| Total equity | <u>18,156</u> | <u>(1,023,207)</u> |
| Statement of profit or loss and other comprehensive income | | |
| Profit / (loss) for the year | <u>(240,946)</u> | <u>(1,864,501)</u> |
| Total comprehensive income | <u>(240,946)</u> | <u>(1,864,501)</u> |

NOTE 27. SEGMENT INFORMATION

Management has determined the operating segments based on reports reviewed by the Board of Directors for making strategic decisions. The current Board of Directors monitors the business based on operational and geographical factors and has determined there is only one relevant business segment. The Company operates in one industry being consumer technology.

NOTE 28. POST-REPORTING DATE EVENTS

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorisation.

Directors' Declaration

For the year ended 30 June 2019

Schedule 6

In the opinion of the Directors of Ocean Guardian Holdings Limited:

1. The consolidated financial statements and notes of Ocean Guardian Holdings Limited are in accordance with the *Corporations Act 2001*, including:
 - a. Giving a true and fair view of its financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
 - b. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
2. There are reasonable grounds to believe that Ocean Guardian Holdings Limited will be able to pay its debts as and when they become due and payable.
3. The consolidated financial statements comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors.



Lindsay Lyon
Managing Director



Alan Broome AM
Chairman

Sydney
24 October 2019

Independent Auditor's Report



Greenwich & Co

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Independent Audit Report to the members of Ocean Guardian Holdings Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report Ocean Guardian Holdings Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial 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 as in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and 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.

Material Uncertainty Related to Going Concern

Without modifying our opinion, we draw attention to Note 3 to the financial statements which outlines that the ability of the Company to continue as a going concern is dependent on the ability of the Company securing further working capital by the issue of additional equity.

As a result there is a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Intangible Assets

Refer to accounting policy Note 3(l) and Note 12 for the accounting policy and disclosures in relation to the Intangible Assets (\$1,056,622) as at 30 June 2019.

Key Audit Matter

Intangible asset is a substantial figure in the financial statements of the Group. We considered it necessary to assess whether facts and circumstances existed to suggest if there is objective evidence that the Intangible asset could be impaired.

How our audit addressed the matter

Our audit work included, but was not restricted to, the following:

- Assessing the valuation methodology adopted by management.
- Challenging the reasonableness of key assumptions based on our knowledge of the business and industry;
- Reconciling input data used in the cash flow forecasts to supporting evidence, such as approved budgets and considering the reasonableness of those budgets; and
- Considering the potential impact of reasonably possible downside changes in these key assumptions.

Other Information

The directors are responsible for the other information. The other information comprises the Review of Operations and Directors Report and other information included in the Group's annual report for the year ended 30 June 2019 but does not include the financial report and our auditor's report thereon.

The other information obtained at the date of this auditor's report is included in the annual report, (but does not include the financial report and our auditor's report thereon).

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities 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 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 influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used in the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Greenwich & Co Audit Pty Ltd

Nicholas Hollens,
Nicholas Hollens
Managing Director
Perth

24th October 2019