Microba Life Sciences Limited and controlled entities

ABN: 82 617 096 652

Consolidated Financial report

For the year ended 30 June 2020

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MICROBA LIFE SCIENCES LIMITED AND CONTROLLED ENTITIES
ABN: 82 617 096 652

DIRECTORS' REPORT

The Directors present their report together with the financial report of the group, being the company and its controlled entities, for the year ended 30 June 2020 and auditor's report thereon.

Directors names

The names of the Directors in office at any time during or since the end of the year are:

Pasquale Rombola (Appointed: 23 June 2017)

Ian Hector Frazer (Appointed: 31 January 2017)

Blake Alan Wills (Appointed: 5 September 2019)

Vernon Alan Wills (Appointed: 23 June 2017, Resigned: 31 January 2020)

Philip Hugenholtz (Appointed: 31 January 2017, Resigned: 31 January 2020)

Gene William Tyson (Appointed: 31 January 2017)

Richard Adam Bund (Appointed: 8 February 2018)

Hyungtae Kim (Appointed: 14 June 2019)

Caroline Popper (Appointed: 29 January 2020)

The Directors have been in office since the start of the year to the date of this report unless otherwise stated.

Blake Alan Wills held the role of Company Secretary until 5 September 2019, until his appointment as Director, whereby he resigned as Company Secretary. James Samuel Heath was appointed to the role of Company Secretary on 5 September 2019. He is the Chief Financial Officer of the company.

Results

The loss of the group for the year after providing for income tax amounted to $6,650,667 (2019: loss of $4,733,829).

Review of operations

The group continued to engage in its principal activity, the results of which are disclosed in the attached financial statements.

COVID-19

On 30 January 2020, the spread of COVID-19 was declared a Public Health Emergency of International Concern by the World Health Organisation ("WHO"). On 11 March 2020, WHO characterised COVID-19 as a pandemic affecting the world.

The group experienced a reduction in direct-to-customer and healthcare practitioner sales (both Insight and Metabiome) as a result of COVID-19 for the year ended 30 June 2020.

As a result of these impacts, management undertook a review in April 2020 of the forecast revenue and expenditure of the group for the next 12 months. This led to a number of cost reduction initiatives in relation to employee expenses, travel and other operational expenditure being implemented.

The group also claimed available Federal and State Government stimulus packages, including JobKeeper, Payroll Tax Relief and PAYG Refunds to assist with the operating cash flows of the group and these have been disclosed within the financial report.

Significant changes in state of affairs

There were no significant changes in the group's state of affairs that occurred during the financial year, other than those referred to elsewhere in this report.

Principal activities

The principal activity of the group during the year was providing world class microbiome testing as well as developing new pathology services, therapeutics and diagnostics based on the microbiome.

No significant change in the nature of these activities occurred during the year.

After balance date events

Particulars of matters or circumstances that 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 future financial years are as follows:

The impact of COVID-19 pandemic is ongoing and it is not practicable to estimate the full potential of any impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any further economic stimulus that may be provided.

In August 2020 the group was successful in obtaining $8,500,000 in committed funding from investors for the issue of 30,357,136 shares at an average price of $0.28 per share to assist in funding the operations of the group. The group is in the process of finalising the terms and conditions of this capital raise. At the date of this report, $6,350,000 has been received in cash with a remaining $2,150,000 to be received on completion of the terms and conditions of the capital raise.

Likely developments

Over the next 12 months, the group will focus on market share growth and business expansion as well as the development of the group's therapeutic and diagnostic programs.

At 30 June 2020 the group had cash and cash equivalents of $6,897,309. The group requires additional cash to continue to fund business expansion and the group's operations. As per note 28 of the financial report, subsequent to year end the group was successful in a $8,500,000 capital raise.

Environmental regulation

The group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Dividends paid, recommended and declared

No dividends were paid or declared since the start of the year. No recommendation for payment of dividends has been made.

Information on Directors and Company Secretary

Pasquale Rombola	Chairman & Non-Executive Director
Experience	Pasquale Rombola is highly experienced executive with a track record in international financial markets including senior positions with firms including Morgan Stanley and Deutsche Bank. Mr Rombola has previously held Director positions with listed Australian entities.

Information on Directors and Company Secretary (Continued)

Ian Hector Frazer	Deputy Chairman & Non-Executive Director
Experience	Professor Ian Frazer is a clinical scientist and Professor at the University of Queensland and is the current Chairman of the Federal Government Medical Research Future Fund. Professor Frazer was recognised as Australian of the year in 2006 and is a board member of several other companies and not for profit organisations.
Blake Alan Wills	Executive Director & Chief Executive Officer
Experience	Mr Wills is a proven company executive who has worked in the finance, life sciences and education sectors. Mr Wills spent 7 years at the ASX listed Site Group International Limited in roles including Chief Operating Officer and General Manager – Commercial and Operations. During this period, Site experienced significant growth and expanded into multiple jurisdictions. Since 2017, Mr. Wills has been Managing Director and Chief Executive Officer of Microba. Mr Wills holds the following degrees from the Queensland University of Technology: Master of Business (Professional Accounting); Bachelor of Finance (Hons); Bachelor of Business (Finance).
Vernon Alan Wills	Chairman & Non-Executive Director (to 31 January 2020 - resigned)
Experience	Vernon Wills is the current Managing Director and CEO of Site Group International, an ASX listed company with operations throughout Asia Pacific. Mr Wills is an experienced start-up Chairman and holds directorships with several Australian companies.
Philip Hugenholtz	Director (Co-Founder) (resigned)
Experience	Professor Hugenholtz is the Director of the Australian Centre for Ecogenomic research and is also a Fellow of the Australian Academy of Science. Professor Hugenholtz was formerly the Director of the Microbial Ecology and Metagenomic Programs at the Dept of Energy's Joint Genome Institute in the USA. He is a world leading expert in microbial analysis and pioneer in the microbiome space.
Gene William Tyson	Director (Co-Founder)
Experience	Professor Tyson is the Deputy Director of the Australian Centre for Ecogenomics. Australia's leading centre for genomic research. Professor Tyson completed his PhD at the University of California, Berkeley where he was the first person to publish the use of metagenomic sequencing for assessing microbial communities. Prof Tyson is also considered a world leading expert in microbial analysis and pioneer in the microbiome space.
Richard Adam Bund	Non-Executive Director
Experience	Richard Bund is a Chartered Accountant and Director of Tilbrook Rasheed Accounting Firm. Mr Bund has more than 20 years experience in accounting and corporate finance and is the Director of several private Australian companies.
Hyungtae Kim	Non-Executive Director
Experience	Dr Hyungtae Kim is an internationally experienced leader in the genomics field having held the positions of CEO of Macrogen Inc. from Oct. 2008 to Dec. 2014 and CEO, Macrogen Europe from Jan. 2015 to Dec. 2017. Dr Kim is now a Director of the Gongwu Genome Information Foundation. Dr Kim holds a PhD in molecular biology and brings a wealth of knowledge and experience to the Microba board.

Information on Directors and Company Secretary (Continued)

Caroline Popper	Non-Executive Director
Experience	Dr Popper is a US-based pathologist and business consultant with more than 20 years' experience in the international diagnostics, medical devices and drug discovery fields, including 10 years in senior management and marketing roles at the leading medical technology firm, Becton Dickson & Company. Dr Popper has served in senior managerial and advisory positions at various Fortune 500 and start-up companies, including bioMerieux and MDS Proteomics. Dr Popper is currently a Non-Executive Director of LBT Innovations Limited.
James Heath	Company Secretary
Experience	Mr Heath is Microba's Chief Financial Officer and Company Secretary. He is a Chartered Accountant who prior to joining Microba, was a management consultant at Deloitte Australia. He has over 8 years' experience in accounting, finance and operations advisory across a broad range of industries. Mr Heath is a member of Chartered Accountants Australia and New Zealand. He holds a Bachelor of Business Management (International Business) and Bachelor of Commerce (Accounting) from the University of Queensland.

Meetings of Directors

Directors	Directors' meetings	
	Number eligible to attend	Number attended
Philip Hugenholtz	5	5
Gene William Tyson	12	12
Ian Hector Frazer	12	10
Vernon Alan Wills	5	5
Pasquale Rombola	12	12
Richard Adam Bund	12	12
Hyungtae Kim	11	8
Blake Alan Wills	12	12
Caroline Popper	7	6

Options

Options over unissued ordinary shares granted by Microba Life Sciences Limited during or since the financial year, including options granted to the Directors and any of the 3 most highly remunerated officers of the group (other than the Directors) were as follows:

Directors	Options granted
Blake Alan Wills	900,000

Executives	Options granted
James Heath	800,000
Luke Holtham	800,000

The options granted during the year, to the Director and executives listed above, were granted as part of the 25 November 2019 options issue disclosed in the 'Shares under option' table below and at note 20 of the financial report.

Options (Continued)
Shares under option

Unissued ordinary shares of Microba Life Sciences Limited under option at the date of this report are as follows:

Date options granted	Number of unissued ordinary shares under option	Issue price of shares	Expiry date of the options
15/10/2018	6,900,000	0.15	15/10/2023
08/02/2019	400,000	0.15	15/10/2023
26/02/2019	150,000	0.15	15/10/2023
29/03/2019	400,000	0.15	15/10/2023
25/11/2019	5,100,000	0.28	24/11/2024
31/01/2020	600,000	0.28	24/11/2024
30/06/2020	400,000	0.28	29/06/2025

No option holder has any right under the options to participate in any other share issue of the group.

Shares issued on exercise of options

No shares were issued during the year or up to the date of this report on exercise of options.

Indemnification of officers

No indemnities have been given or insurance premiums paid, during or since the end of the year, for any person who is or has been an officer of the group.

Indemnification of auditors

No indemnities have been given or insurance premiums paid, during or since the end of the year, for any person who is or has been an auditor of the group.

Auditor's independence declaration

A copy of the auditor's independence declaration under section 307C of the *Corporations Act 2001* in relation to the audit for the financial year is provided with this report.

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.

Signed in accordance with a resolution of the Board of Directors.

Director: ____________________

Pasquale Rombola

Dated this 8th day of September 2020

Level 38, 345 Queen Street
Brisbane, QLD 4000

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p. +61 7 3222 8444

The Directors
Microba Life Sciences Limited
Level 12, 388 Queen Street
Brisbane QLD 4000

Auditor's Independence Declaration

In relation to the independent audit for the year ended 30 June 2020, to the best of my knowledge and belief there have been:

(i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and

(ii) No contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards).*

This declaration is in respect of Microba Life Sciences Limited and the entities it controlled during the year.

PITCHER PARTNERS

CHERYL MASON
Partner

Brisbane, Queensland
8 September 2020

MICROBA LIFE SCIENCES LIMITED AND CONTROLLED ENTITIES
ABN: 82 617 096 652

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 $	2019 $
Revenue			
Sales income	3	2,909,026	1,828,155
Less: Cost of sales			
Cost of sales		(1,482,397)	(1,012,864)
Gross profit		1,426,629	815,291
Other revenue and income			
Interest income		101,583	68,297
Profit on sale/revaluation of non current assets		-	653
Subsidies and grant income		748,528	25,000
	3	850,111	93,950
		2,276,740	909,241
Less: expenses			
Employee benefits and other related costs	4	(4,388,363)	(2,540,203)
Consulting fees		(1,103,118)	(678,300)
Depreciation and amortisation expense	4	(1,091,050)	(765,184)
Data storage expense		(495,665)	(203,744)
Travel expense		(302,162)	(237,141)
Legal fees		(235,303)	(100,857)
Advertising expense		(224,708)	(317,849)
Research and development expense		(163,272)	-
Conference expense		(142,587)	(117,231)
Finance costs	4	(36,965)	(24,028)
Other expenses		(750,734)	(645,564)
		(8,933,927)	(5,630,101)
Profit / (loss) before income tax expense		(6,657,187)	(4,720,860)
Income tax (expense) / benefit	6	6,520	(12,969)
Profit / (loss) for the year		(6,650,667)	(4,733,829)
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		(5,235)	-
		(5,235)	-
Other comprehensive income for the year		(5,235)	-
Total comprehensive income		(6,655,902)	(4,733,829)

The accompanying notes form part of these financial statements.

MICROBA LIFE SCIENCES LIMITED AND CONTROLLED ENTITIES
ABN: 82 617 096 652

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	Note	2020 $	2019 $
Current assets			
Cash and cash equivalents	7	**6,897,309**	10,995,304
Receivables	8	**622,787**	162,346
Inventories	9	**340,809**	169,600
Other assets	10	**244,614**	172,784
Total current assets		**8,105,519**	11,500,034
Non-current assets			
Property, plant and equipment	11	**1,391,668**	1,597,633
Intangible assets	12	**1,070,160**	892,851
Lease assets	13	**240,476**	-
Total non-current assets		**2,702,304**	2,490,484
Total assets		**10,807,823**	13,990,518
Current liabilities			
Payables	14	**1,198,672**	650,895
Lease liabilities	13	**172,923**	-
Borrowings	15	**145,302**	129,159
Provisions	16	**181,734**	75,361
Contract liabilities	17	**1,144,708**	295,257
Total current liabilities		**2,843,339**	1,150,672
Non-current liabilities			
Lease liabilities	13	**109,536**	-
Borrowings	15	**135,886**	277,219
Provisions	16	**15,160**	-
Deferred tax liabilities	6	**-**	6,520
Total non-current liabilities		**260,582**	283,739
Total liabilities		**3,103,921**	1,434,411
Net assets		**7,703,902**	12,556,107
Equity			
Share capital	18	**19,289,292**	17,887,991
Reserves	19	**622,912**	182,873
Retained earnings	21	**(12,208,302)**	(5,514,757)
Total equity		**7,703,902**	12,556,107

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020

	Contributed equity $	Reserves $	Retained earnings $	Total equity $
Consolidated				
Balance as at 1 July 2018	7,326,343	-	(780,928)	**6,545,415**
Profit/(loss) for the year	-	-	(4,733,829)	**(4,733,829)**
Total comprehensive income for the year	-	-	(4,733,829)	**(4,733,829)**
Transactions with owners in their capacity as owners:				
Contributions	10,561,649	-	-	**10,561,649**
Buy-backs	(1)	-	-	**(1)**
Share based payments expensed	-	**182,873**	-	**182,873**
Total transactions with owners in their capacity as owners	10,561,648	**182,873**	-	**10,744,521**
Balance as at 30 June 2019	17,887,991	**182,873**	(5,514,757)	**12,556,107**
Consolidated				
Balance as at 1 July 2019	17,887,991	**182,873**	(5,514,757)	**12,556,107**
Adjustment on change in accounting policy (AASB 16)	-	-	(42,878)	**(42,878)**
Restated balance as at 1 July 2019	17,887,991	**182,873**	(5,557,635)	**12,513,229**
Balance as at 1 July 2019	17,887,991	**182,873**	(5,557,635)	**12,513,229**
Profit/(loss) for the year	-	-	(6,650,667)	**(6,650,667)**
Other comprehensive income for the year	-	**(5,235)**	-	**(5,235)**
Total comprehensive income for the year	-	**(5,235)**	(6,650,667)	**(6,655,902)**
Transactions with owners in their capacity as owners:				
Contributions	1,401,301	-	-	**1,401,301**
Share based payments expensed	-	**445,274**	-	**445,274**
Total transactions with owners in their capacity as owners	1,401,301	**445,274**	-	**1,846,575**
Balance as at 30 June 2020	19,289,292	**622,912**	(12,208,302)	**7,703,902**

The accompanying notes form part of these financial statements.

MICROBA LIFE SCIENCES LIMITED AND CONTROLLED ENTITIES
ABN: 82 617 096 652

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 $	2019 $
Cash flow from operating activities			
Receipts from customers		3,922,164	1,949,391
Operating grant receipts		390,063	-
Payments to suppliers and employees		(8,666,753)	(5,694,434)
Interest received		68,213	68,217
Finance costs		(36,965)	(24,028)
Income tax paid		-	80,296
Net cash used in operating activities	22(a)	(4,323,278)	(3,620,558)
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment		-	2,422
Payment for property, plant and equipment		(360,859)	(131,753)
Payment for intangible assets	12	(495,316)	(704,374)
Net cash used in investing activities		(856,175)	(833,705)
Cash flow from financing activities			
Proceeds from share issue	18	1,400,000	10,625,226
Repayment of borrowings		(125,190)	(144,782)
Principal portion of lease payments		(207,102)	-
Share issue transaction cost		-	(63,578)
Proceeds from term deposits		13,750	3,300,000
Net cash provided by financing activities		1,081,458	13,716,866
Reconciliation of cash			
Cash at beginning of the financial year		10,995,304	1,732,701
Net increase / (decrease) in cash held		(4,097,995)	9,262,603
Cash at end of financial year		6,897,309	10,995,304

The accompanying notes form part of these financial statements.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards - Reduced Disclosure Requirements, Interpretations and other applicable authoritative pronouncements of the Australian Accounting Standards Board.

The financial report covers Microba Life Sciences Limited and its consolidated entities. Microba Life Sciences Limited is a company limited by shares, incorporated and domiciled in Australia. Microba Life Sciences Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial report was approved by the Directors as at the date of the Directors' report.

The following are the significant accounting policies adopted by the group in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation of the financial report

Historical Cost Convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets and liabilities as described in the accounting policies.

Significant accounting estimates and judgements

The preparation of the financial report requires the use of certain estimates and judgements in applying the group's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2 to the financial statements.

(b) Principles of consolidation

The consolidated financial statements are those of the consolidated entity ("the group"), comprising the financial statements of the parent entity and all of the entities the parent controls. The group controls an entity where it has the power, for which the parent has exposure or rights to variable returns from its involvement with the entity, and for which the parent has the ability to use its power over the entity to affect the amount of its returns.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is obtained by the group and are de-recognised from the date that control ceases.

Equity interests in a subsidiary not attributable, directly or indirectly, to the group are presented as non-controlling interests. Non-controlling interests are initially recognised either at fair value or at the non-controlling interests' proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Non-controlling interests in the results of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position respectively.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) New and revised accounting standards effective at 30 June 2020

The group has applied all new and revised Australian Accounting Standards that apply to annual reporting periods beginning on or after 1 July 2019, including AASB 16 *Leases* (AASB 16).

AASB 16: Leases

AASB 16 replaces AASB 117 *Leases* and introduces a single lessee accounting model that requires a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:

(a) right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for on a cost basis unless the underlying asset is accounted for on a revaluation basis; and

(b) lease liabilities are accounted for on a similar basis to other financial liabilities, whereby interest expense is recognised in respect of the lease liability and the carrying amount of the lease liability is reduced to reflect the principal portion of lease payments made.

In accordance with the transition requirements of AASB 16, the group has elected to apply AASB 16 retrospectively to those contracts that were previously identified as leases under the predecessor standard, with the cumulative effect, if any, of initially applying the new standard recognised as an adjustment to opening retained earnings at the date of initial application (i.e., at 1 July 2019). Accordingly, comparative information has not been restated.

The group has also elected to apply the following practical expedients to the measurement of right-of-use assets and lease liabilities in relation to those leases previously classified as operating leases under the predecessor standard:

- to not recognise a right-of-use asset and a lease liability for leases for which the underlying asset is of low value;
- to not recognise a right-of-use asset and a lease liability for leases for which the lease term ends within 12 months of the date of initial application;
- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- to exclude initial direct costs from the measurement of each right-of-use asset at the date of initial application; and
- to use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

The application of AASB 16 resulted in the recognition of right-of-use assets with an aggregate carrying amount of $446,693 (referred to in these financial statements as "lease assets") and corresponding lease liabilities with an aggregate carrying amount of $489,561. The weighted average incremental borrowing rate applied in the calculation of the initial carrying amount of lease liabilities was 5.00%.

The following is a reconciliation of non-cancellable operating lease commitments disclosed at the end of the prior reporting period (i.e. at 30 June 2019) to the aggregate carrying amount of lease liabilities recognised at the date of the initial application (i.e. at 1 July 2019):

	$
Aggregate non-cancellable operating lease commitments at 30 June 2019	188,443
Plus: impact of including option periods in the calculation of lease liabilities	325,754
Less: impact of discounting lease payments to their present value at 1 July 2020	(24,636)
Carrying amount of lease liabilities recognised at 1 July 2019	489,561

Further details of the group's accounting policy in relation to accounting for leases under AASB 16 are contained in Note 1(q) .

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Going concern

The financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The group incurred a loss from ordinary activities of $6,650,667 during the year ended 30 June 2020 (2019: loss of $4,733,829) and had net cash outflows from operating activities of $4,323,278 (2019: net cash outflows of $3,620,558).

Management's budgeted expenditure for the next 12 months to continue to fund the current operations and planned business expansion requires the need for additional capital. The group held cash and cash equivalents of $6,897,309, including term deposits of $49,766 at year end.

Due to the additional cash requirements, the group has successfully raised $8,500,000 in capital in August 2020 (refer to note 28).

(e) Events after the reporting period

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial report is authorised for issue.

The amounts recognised in the financial statements reflect events after the reporting period that provide evidence of conditions that existed at the reporting date. Whereas, events after the reporting period that are indicative of conditions that arose after the reporting period (i.e., which did not exist at the reporting date) are excluded from the determination of the amounts recognised in the financial statements.

(f) Foreign currency transactions and balances

Functional and presentation currency

The financial statements of each entity within the consolidated entity is measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars which is the consolidated entity's functional and presentation currency.

Transactions and Balances

Transactions in foreign currencies of entities within the consolidated group are translated into functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are restated to the spot rate at the reporting date.

Except for certain foreign currency hedges, all exchange gains or losses are recognised in profit or loss for the period in which they arise.

Subsidiaries that have a functional currency different from the presentation currency of the group are translated as follows:

- Assets and liabilities are translated at the closing rate on reporting date;
- Income and expenses are translated at actual exchange rates or average exchange rates for the period, where appropriate; and
- All resulting exchange differences are recognised in other comprehensive income.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Revenue from contracts with customers

The group derives revenue from microbiome testing and research services.

Revenue is recognised at an amount that reflects the consideration to which the group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the group:

- identifies the contract with a customer;

- identifies the performance obligations in the contract;

- determines the transaction price which takes into account estimates of variable consideration and the time value of money;

- allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and

- recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds and any other contingent events.

Testing and Metabiome partner platform services

Revenue from microbiome testing services is recognised at the point in time when the customer obtains the final testing results report.

Research and Other partner platform services

Revenue from contracts to provide research and partner platform services is recognised over time as the services are rendered and performance obligations are satisfied

Receivables from contracts with customers

A receivable from a contract with a customer represents the group's unconditional right to consideration arising from the transfer of goods or services to the customer (i.e., only the passage of time is required before payment of the consideration is due). Subsequent to initial recognition, receivables from contracts with customers are measured at amortised cost and are tested for impairment.

Contract liabilities

A contract liability represents the group's obligation to transfer goods or services to the customer for which the group has received consideration (or an amount of consideration is due) from the customer. Amounts recorded as contract liabilities are subsequently recognised as revenue when the group transfers the contracted goods or services to the customer.

(h) Other income

Interest

Interest revenue is measured in accordance with the effective interest method.

All revenue is measured net of the amount of goods and services tax (GST).

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Government grants

Government grants are recognised when there is reasonable certainty that the grant will be received and all grant conditions are met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating.

Government grants include amounts received or receivable under the Federal Government's JobKeeper Payment Scheme and Cash Flow Boost Scheme, which provide temporary subsidies to eligible businesses affected by COVID-19.

The 'COVID-19 Payroll Tax Relief', including the 2 month refund of payroll tax and 3 month payroll tax holiday, provided by the State Government of Queensland has been recognised in the 'Statement of Profit or Loss and Other Comprehensive Income' as a reduction in the 'Employee benefits and other related costs'.

(j) Income tax

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not recognised if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax Consolidation

The parent entity and its subsidiaries have implemented the tax consolidation legislation and have formed a tax-consolidated group. This means that:

- each entity recognises their own current and deferred tax amounts in respect of the transactions, events and balances of the entity.
- the parent entity assumes the current tax liability and any deferred tax assets relating to tax losses, arising in the subsidiary, and recognises a contribution to (or distribution from) the subsidiaries.

(k) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(l) Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to 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 are initially measured at fair value adjusted for transaction costs, except where the instrument is classified as fair value through profit or loss, in which case transaction costs are immediately recognised as expenses in profit or loss.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments (Continued)

Classification of financial assets

Financial assets recognised by the group are subsequently measured in their entirety at either amortised cost or fair value, subject to their classification and whether the group irrevocably designates the financial asset on initial recognition at fair value through other comprehensive income (FVtOCI) in accordance with the relevant criteria in AASB 9.

Financial assets not irrevocably designated on initial recognition at FVtOCI are classified as subsequently measured at amortised cost, FVtOCI or fair value through profit or loss (FVtPL) on the basis of both:

(a) the group's business model for managing the financial assets; and

(b) the contractual cash flow characteristics of the financial asset.

Classification of financial liabilities

Financial liabilities classified as held-for-trading, contingent consideration payable by the group for the acquisition of a business, and financial liabilities designated at FVtPL, are subsequently measured at fair value.

All other financial liabilities recognised by the group are subsequently measured at amortised cost.

Trade and other receivables

Trade and other receivables arise from the group's transactions with its customers and are normally settled within 30 days.

Consistent with both the group's business model for managing the financial assets and the contractual cash flow characteristics of the assets, trade and other receivables are subsequently measured at amortised cost.

(m) Property, plant and equipment

Each class of plant and equipment is measured at cost or fair value less, where applicable, any accumulated depreciation and any accumulated impairment losses.

Plant and equipment

Plant and equipment is measured at cost, less accumulated depreciation and any accumulated impairment losses.

Depreciation

Land is not depreciated. The depreciable amount of all other property, plant and equipment is depreciated over their estimated useful lives commencing from the time the asset is held available for use, consistent with the estimated consumption of the economic benefits embodied in the asset.

Class of fixed asset	**Depreciation rates**	**Depreciation basis**
Furniture, fixtures and fittings at cost	5%-20%	Diminishing value
Computer equipment at cost	25%-50%	Diminishing value
Laboratory equipment at cost	10-25%	Diminishing value

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Intangible assets

System development costs and Intellectual property

Costs incurred in developing the Microba System and Intellectual property are capitalised when the group can demonstrate all of the following: the technical feasibility of completing the asset so that it will be available for use or sale; the intention to complete the asset and use or sell it; the ability to use or sell the asset; how the asset will generate probable future economic benefits; the availability of adequate technical, financial and other resources to complete the development and to use or sell the asset; and the ability to measure reliably the expenditure attributable to the asset during its development. Capitalised development costs and Intellectual property are amortised over their estimated useful lives of 4 years on a straight-line, and 8 years on a diminishing value basis respectively, commencing from the time in which the costs are incurred. The amortisation method applied to an intangible asset is consistent with the estimated consumption of economic benefits of the asset. Subsequent to initial recognition, costs recognised as an intangible asset are measured at cost, less accumulated amortisation and any accumulated impairment losses.

(o) Research and development expenditure

Expenditure on research activities is recognised as an expense when incurred.

Other development expenditure which does not meet the recognition requirements disclosed in note 1(n) is recognised as an expense when incurred.

(p) Impairment of non-financial assets

Intangible assets not yet ready for use and intangible assets with indefinite useful lives are not subject to amortisation and are therefore tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

For impairment assessment purposes, assets are generally grouped at the lowest levels for which there are largely independent cash flows ('cash generating units'). Accordingly, most assets are tested for impairment at the cash-generating unit level.

Assets other than goodwill, intangible assets not yet ready for use and intangible assets with indefinite useful lives are assessed for impairment whenever events or circumstances arise that indicate the asset may be impaired.

An impairment loss is recognised when the carrying amount of an asset or cash generating unit exceeds the asset's or cash generating unit's recoverable amount. The recoverable amount of an asset or cash generating unit is defined as the higher of its fair value less costs to sell and value in use (where 'value in use' is determined as the present value of the future cash flows expected to be derived from an asset or cash-generating unit).

Impairment losses in respect of individual assets are recognised immediately in profit or loss unless the asset is measured at a revalued amount, in which case the impairment loss is treated as a revaluation decrease and is recognised in other comprehensive income to the extent that it does not exceed the amount in the revaluation surplus for the same asset.

A reversal of an impairment loss for an asset measured at cost is recognised in profit or loss. A reversal of an impairment loss for an asset measured at a revalued amount is treated as a revaluation increase and is recognised in other comprehensive income, except to the extent that an impairment loss on the same asset was previously recognised in profit or loss, in which case a reversal of that impairment loss is also recognised in profit or loss.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Leases

At the commencement date of a lease (other than leases of 12-months or less and leases of low value assets), the group recognises a lease asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Lease assets

Lease assets are initially recognised at cost, comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date of the lease, less any lease incentives received, any initial direct costs incurred by the group, and an estimate of costs to be incurred by the group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Subsequent to initial recognition, lease assets are measured at cost (adjusted for any remeasurement of the associated lease liability), less accumulated depreciation and any accumulated impairment loss.

Lease assets are depreciated over the shorter of the lease term and the estimated useful life of the underlying asset, consistent with the estimated consumption of the economic benefits embodied in the underlying asset.

Lease liabilities

Lease liabilities are initially recognised at the present value of the future lease payments (i.e., the lease payments that are unpaid at the commencement date of the lease). These lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the group's incremental borrowing rate.

Subsequent to initial recognition, lease liabilities are measured at the present value of the remaining lease payments (i.e., the lease payments that are unpaid at the reporting date). Interest expense on lease liabilities is recognised in profit or loss (presented as a component of finance costs). Lease liabilities are remeasured to reflect changes to lease terms, changes to lease payments and any lease modifications not accounted for as separate leases.

Variable lease payments not included in the measurement of lease liabilities are recognised as an expense when incurred.

Leases of 12-months or less and leases of low value assets

Lease payments made in relation to leases of 12-months or less and leases of low value assets (for which a lease asset and a lease liability has not been recognised) are recognised as an expense on a straight-line basis over the lease term.

(r) Employee benefits

(i) Short-term employee benefit obligations

Liabilities arising in respect of wages and salaries, annual leave and other employee benefits (other than termination benefits) expected to be settled wholly before twelve months after the end of the reporting period are measured at the (undiscounted) amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short-term employee benefits in the form of compensated absences such as annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables in the consolidated statement of financial position.

(ii) Long-term employee benefit obligations

The provision for other long-term employee benefits, including obligations for long service leave and annual leave, which are not expected to be settled wholly before twelve months after the end of the reporting period, are measured at the present value of the estimated future cash outflow to be made in respect of the services provided by employees up to the reporting date. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee turnover, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. For currencies in which there is no deep market in such high quality corporate bonds, the market yields (at the end of the reporting period) on government bonds denominated in that currency are used. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the change occurs.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Employee benefits (Continued)

Other long-term employee benefit obligations are presented as current liabilities in the consolidated statement of financial position if the group does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur. All other long-term employee benefit obligations are presented as non-current liabilities in the consolidated statement of financial position.

(iii) Retirement benefit obligations

Defined contribution superannuation plan

The group makes superannuation contributions to the employee's defined contribution superannuation plan of choice in respect of employee services rendered during the year. These superannuation contributions are recognised as an expense in the same period when the related employee services are received. The group's obligation with respect to employee's defined contributions entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the consolidated statement of financial position.

(s) Borrowing costs

Borrowing costs include interest expense calculated using the effective interest method, finance charges in respect of lease arrangements, and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed as incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset, in which case the costs are capitalised until the asset is ready for its intended use or sale.

(t) Goods and services tax (GST)

Revenues, expenses and purchased 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 consolidated statement of financial position are shown inclusive of GST.

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

(u) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

NOTE 2: SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Capitalisation of System Development Costs

System development projects where knowledge and understanding gained from research and practical experience are directed towards developing new service offerings or processes, are recognised as intangible assets in the Statement of Financial Position when they meet the criteria for capitalisation. Development costs may be capitalised if the group can demonstrate the technical and commercial feasibility of completing the service offering or process, the intention and ability to complete the development and use or sell the asset. It must also be probable that future economic benefits related to the asset will flow to the group and the acquisition cost can be reliably measured. The reported value includes all directly attributable costs, such as those for materials and services as well as compensation to employees. Individual assessment is made of major ongoing research and development projects to determine whether these criteria have been met. However, because it may be difficult to distinguish between research and development projects, this judgment can be affected by individual interpretations.

NOTE 2: SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Subsidies and grants - Export market development grants ("EMDG")

The group has recognised income of $241,465 in relation to the 2020 financial year claim for the EMDG submitted to Austrade. This has been accrued for as a 'Receivable' at 30 June 2020 within the Statement of Financial Position. Management have assessed there is reasonable assurance that this claim will be successfully approved and paid based on the approval of the 2019 financial year claim and receipt of these funds during the current reporting year. The assessment of 'reasonable assurance' requires a level of judgement and the maintenance of appropriate records to support amounts claimed.

(c) Accounting for and validity of R&D Tax Claims

The group accounts for R&D Tax Claims under the "Income Tax Approach", and the basis of recognition relates to whether there is a reasonable expectation that the entity will be able to realise the benefit, and whether this amount can be reliably estimated. In respect of the year ended 30 June 2018, Microba lodged a return claiming $189,000 as the R&D tax incentive for qualifying R&D expenses, under the R&D tax incentive, and recorded an income tax benefit of $80,000.

R&D Tax claims in relation to the years ended 30 June 2019 and 30 June 2020 have not yet been lodged, and thus no tax benefits / R&D accounting entries have been recorded. The application of the R&D provisions requires a level of judgement and the maintenance of appropriate records to support amounts claimed. The Directors are of the view that Microba is in accordance with the R&D incentive requirements. t considers that it is probable that future taxable profits will be available to utilise those temporary differences.

(d) Lease term and incremental borrowing rate

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the group's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The group reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the group estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

(e) COVID-19 pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

(f) Share-based payment transactions

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. Refer to note 21 for further information.

NOTE 2: SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(g) Useful lives of, and recoverable amount of intangible assets and plant & equipment

In respect of the useful lives of material intangible assets and property, plant and equipment, Management believes these lives are reasonable, though different assigned lives could have a significant impact on the reported profit or loss. The carrying amounts of Intangible assets and property, plant and equipment are reviewed at each reporting date or whenever events or changes in circumstances indicate that the carrying amount of an asset may be impaired. The recoverable amount of an asset is estimated as the higher of fair value less the cost of disposal and the value in use, with an impairment charge recognised whenever the carrying amount exceeds the recoverable amount. The value in use is calculated using a discounted cash flow model which is most sensitive to the discount rate as well as the expected future cash flows. Movement in key assumptions used in the impairment testing, would have a material impact on the assessment of carrying amount and thus reported profit or loss.

(h) Revenue from contracts with customers

When recognising revenue in relation to testing and research services, the key performance obligations of the group is considered to be as follows, as this is deemed to be the time that the customer obtains control of the promised goods or services and therefore the benefits of unimpeded access.

Insight testing services (services transferred at a point in time)
- the point of delivery of the report to the customer.

Metabiome partner platform testing services (services transferred at a point in time)
- the point of delivery of the kit to the customer; and
- the point of delivery of the report to the customer.

Research services and Other partner platform services (services transferred over point in time)
- the point in which the agreed services are performed based on distinct obligations under the agreement. Where there is an arrangement with a customer for the group to receive a non-refundable prepayment in exchange for providing the customer a right to receive a good or service in the future and the likelihood of the customer exercising its remaining right becomes remote, the group recognises the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer.

	2020 $	2019 $
NOTE 3: REVENUE FROM CONTRACTS WITH CUSTOMERS		
Rendering of services	**2,909,026**	1,828,155
Disaggregation of revenue from contracts with customers is as follows:		
- Revenue from services transferred at a point in time	**1,599,308**	1,646,062
- Revenue from services transferred over time	**1,309,718**	182,093
	2,909,026	1,828,155

NOTE 4: OPERATING PROFIT

	2020 $	2019 $
Profit / (losses) before income tax has been determined after:		
Cost of sales	**1,482,397**	1,012,864
Depreciation	**773,044**	578,996
Amortisation	**318,006**	186,188
Impairment of inventory	**-**	30,314
Lease expenses	**18,982**	184,385
Foreign currency translation losses / (gains)	**64,199**	1,729
Employee benefits:		
- Short term benefits	**3,446,206**	1,987,398
- Share based payments	**467,388**	182,873
- Superannuation guarantee contributions	**332,090**	179,474
- Other employee benefits and related costs	**142,679**	190,458
	4,388,363	2,540,203

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION (INCLUDING DIRECTORS)

	2020 $	2019 $
Total compensation received by key management personnel	**1,001,881**	340,454

Costs relating to 11 (2019: 7) key management personnel have been included in the compensation received by management personnel disclosed above, including all Executive and Non-Executive Directors. A Director fee pool has been introduced during the 2020 financial year.

NOTE 6: INCOME TAX

	2020 $	2019 $
(a) Components of tax expense		
Current tax	-	-
Deferred tax	(6,520)	12,969
	(6,520)	12,969
(b) Income tax reconciliation		
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Prima facie income tax payable on profit before income tax at 27.5% (2019: 30.0%)	(1,830,726)	(1,416,258)
Add tax effect of:		
- Share based payments expense	128,532	54,862
- Other non-allowable items	13,750	7,521
- Tax losses not recognised	1,688,330	1,366,844
- Restate deferred taxes to 27.5%	(324)	-
	1,830,288	1,429,227
Income tax expense attributable to profit	(438)	12,969
(c) Deferred tax		
Deferred tax relates to the following:		
The balance comprises:		
Employee benefits	54,146	22,608
Plant & equipment	-	747
Accruals	19,859	17,728
Lease assets and Lease liabilities (net)	11,545	-
Income tax losses	176,098	-
	261,648	41,083
Deferred tax liabilities		
The balance comprises:		
Capitalised development costs	261,648	-
Prepayments	-	47,603
	261,648	47,603
Net deferred tax liabilities	-	6,520

(d) Tax losses not recognised

As at 30 June 2020, the group has income tax losses not recognised, the balance of which will be determined on lodgement of outstanding income tax returns including the relevant R&D claims.

(e) Changes in applicable tax rates

During the year ended 30 June 2020 the income tax rate was reduced from 30% to 27.5%.

NOTE 7: CASH AND CASH EQUIVALENTS

	2020 $	2019 $
Cash at bank	6,847,543	10,995,304
Cash on deposit	49,766	-
	6,897,309	10,995,304

	2020 $	2019 $

NOTE 8: RECEIVABLES

	2020 $	2019 $
CURRENT		
Receivables from contracts with customers	148,967	80,470
Other receivables	473,820	81,876
	622,787	162,346

NOTE 9: INVENTORIES

	2020 $	2019 $
CURRENT		
At cost		
Raw materials and consumables	340,809	169,600

NOTE 10: OTHER ASSETS

	2020 $	2019 $
CURRENT		
Prepayments	244,614	159,034
Other current assets	-	13,750
	244,614	172,784

NOTE 11: PROPERTY, PLANT AND EQUIPMENT

	2020 $	2019 $
Furniture, fixtures and fittings at cost	60,384	44,679
Accumulated depreciation	(13,110)	(6,324)
	47,274	38,355
Computer equipment at cost	157,782	117,335
Accumulated depreciation	(104,769)	(56,402)
	53,013	60,933
Laboratory equipment at cost	2,372,104	2,067,384
Accumulated depreciation	(1,080,723)	(569,039)
	1,291,381	1,498,345
Total property, plant and equipment	1,391,668	1,597,633

(a) Reconciliations

Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year

	2020 $	2019 $
Furniture, fixtures and fittings		
Opening carrying amount	38,355	33,779
Additions	15,699	10,471
Depreciation expense	(6,780)	(5,895)
Closing carrying amount	47,274	38,355

	2020 $	2019 $

NOTE 11: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Reconciliations (Continued)

	2020 $	2019 $
Computer equipment		
Opening carrying amount	**60,933**	59,478
Additions	**40,440**	51,005
Disposals	**-**	(117)
Depreciation expense	**(48,360)**	(49,433)
Closing carrying amount	**53,013**	60,933
Laboratory equipment		
Opening carrying amount	**1,498,345**	1,954,694
Additions	**304,720**	70,277
Disposals	**-**	(2,995)
Depreciation expense	**(511,684)**	(523,631)
Closing carrying amount	**1,291,381**	1,498,345

(b) Property, plant and equipment pledged as security

Refer to note 16 for further information on property, plant and equipment secured under an equipment loan and goods mortgage and classified as a finance lease.

NOTE 12: INTANGIBLE ASSETS

	2020 $	2019 $
Capitalised system development at cost	**1,379,443**	889,601
Accumulated amortisation	**(427,994)**	(149,052)
	951,449	740,549
Intellectual property at cost	**220,911**	215,437
Accumulated amortisation	**(102,200)**	(63,135)
	118,711	152,302
Total intangible assets	**1,070,160**	892,851

(a) Reconciliations

Reconciliation of the carrying amounts of intangible assets at the beginning and end of the current financial year

	2020 $	2019 $
Capitalised system development at cost		
Opening balance	**740,549**	246,096
Additions	**489,842**	637,640
Amortisation	**(278,942)**	(143,187)
Closing balance	**951,449**	740,549
Intellectual property at cost		
Opening balance	**152,302**	128,569
Additions	**5,474**	66,771
Amortisation	**(39,065)**	(43,038)
Closing balance	**118,711**	152,302

NOTE 13: LEASE ASSETS AND LEASE LIABILITIES

The following information relates to the current reporting period only, and is presented in accordance with AASB 16 *Leases* which was applied by the group for the first time in the current reporting period.

	2020 $
(a) Lease assets	
Buildings under lease	691,711
Accumulated depreciation	(451,235)
	240,476
Total carrying amount of lease assets	240,476

Reconciliations

Reconciliation of the carry amount of lease assets at the beginning and end of the financial year:

Buildings	
Opening carrying amount	-
Initial recognition on adoption of AASB 16	446,694
Depreciation	(206,218)
Closing carrying amount	240,476

The group leases buildings for its offices and laboratory under agreements of between 18 months and 4 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The group also leases laboratory equipment under an equipment loan and goods mortgage agreement of four years.

(b) Lease liabilities

CURRENT	
Lease liability - buildings	172,923
NON CURRENT	
Lease liability - buildings	109,536
Total carrying amount of lease liabilities	282,459

(c) Lease expenses and cashflows

Interest expense on lease liabilities	18,635
Expense relating to variable lease payments not included in the measurement of lease liabilities	-
Expense relating to lease payments made for leases of 12-months or less (for which a lease asset and a lease liability has not been recognised)	18,982
Depreciation expense on lease assets	206,218
Cash outflow in relation to leases	225,737

	2020 $	2019 $

NOTE 14: PAYABLES

	2020 $	2019 $
CURRENT		
Unsecured liabilities		
Trade creditors	**392,306**	266,961
Sundry creditors and accruals	**806,366**	383,934
	1,198,672	650,895

NOTE 15: BORROWINGS

	2020 $	2019 $
CURRENT		
Secured liabilities		
Credit card liability	**3,969**	(5,309)
Equipment loan	**141,333**	134,468
	145,302	129,159
NON CURRENT		
Secured liabilities		
Equipment loan	**135,886**	277,219

The equipment loan liability relates to a goods mortgage on laboratory equipment.

The liability is effectively secured as the rights to the assets, recognised in the statement of financial position in property, plant and equipment, revert to the lender in the event of default.

NOTE 16: PROVISIONS

	2020 $	2019 $
CURRENT		
Employee benefits	**181,734**	75,361
NON CURRENT		
Employee benefits	**15,160**	-

NOTE 17: CONTRACT LIABILITIES

	2020 $	2019 $
CURRENT		
Contract liabilities: contracts with customers where services are transferred at a point in time	**361,297**	202,076
Contract liabilities: contracts with customers where services are transferred over time	**783,411**	93,181
	1,144,708	295,257

Contract liabilities relate to contracted services with customers where revenue is to be recognised in a future period.

	2020 $	2019 $
NOTE 18: SHARE CAPITAL		
Issued and paid-up capital		
156,770,984 (2019: 151,275,690) Ordinary shares	**19,289,292**	17,887,991

	2020 Number	2020 $	2019 Number	2019 $
Ordinary shares				
Opening balance	**151,275,690**	17,887,991	**111,328,608**	7,326,343
Shares issued:				
14 June 2019 $0.2557	-	-	**41,547,082**	10,625,227
30 September 2019 $0.2550	**5,495,294**	1,420,222	-	-
Transaction costs relating to shares issued	-	(18,921)	-	(63,578)
	5,495,294	1,401,301	**41,547,082**	10,561,649
Shares bought back:				
3 October 2018	-	-	**(1,600,000)**	(1)
	-	-	**(1,600,000)**	(1)
At reporting date	**156,770,984**	19,289,292	**151,275,690**	17,887,991

Rights of each type of share

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

NOTE 19: RESERVES

	2020 $	2019 $
Foreign currency translation reserve	**(5,235)**	-
Share based payments reserve	**628,147**	182,873
	622,912	182,873

The foreign currency translation reserve is used to record the exchange differences arising on translation of a foreign entity.

The share based payments reserve is used to record the fair value of shares or options issued to employees. Refer to note 20.

NOTE 20: SHARE BASED PAYMENTS

(a) Equity-settled share-based payments

(i) Employee option plan

The group has approved an employee share and option plan titled the 'Microba Employee Share and Option Plan' designed, to provide eligible persons with the opportunity to participate at the discretion of the Directors. The options are subject to vesting conditions and disposal restrictions.

Details of the options granted are provided below, with a reconciliation of movements from the balance at the beginning of the relevant year to the balance at the end of the year as follows:

2020

Grant date	Expiry date	Exercise price	Balance at beginning of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at the end of the year	Exercisable at end of the year
15/10/2018	15/10/2023	$ 0.18	6,900,000	-	-	-	6,900,000	-
15/02/2019	15/10/2023	$ 0.18	400,000	-	-	-	400,000	-
1/03/2019	15/10/2023	$ 0.18	150,000	-	-	-	150,000	-
5/04/2019	15/10/2023	$ 0.18	400,000	-	-	-	400,000	-
25/11/2019	24/11/2024	$ 0.30	-	5,100,000	-	-	5,100,000	-
13/01/2020	24/11/2024	$ 0.26	-	400,000	-	-	400,000	-
31/01/2020	24/11/2024	$ 0.30	-	200,000	-	-	200,000	-
30/06/2020	29/06/2024	$ 0.30	-	400,000	-	-	400,000	-
			7,850,000	6,100,000	-	-	13,950,000	-

2019

Grant date	Expiry date	Exercise price	Balance at beginning of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at the end of the year	Exercisable at end of the year
15/10/2018	15/10/2023	$ 0.18	-	7,100,000	-	(200,000)	6,900,000	-
15/02/2019	15/10/2023	$ 0.18	-	400,000	-	-	400,000	-
1/03/2019	15/10/2023	$ 0.18	-	150,000	-	-	150,000	-
5/04/2019	15/10/2023	$ 0.18	-	400,000	-	-	400,000	-
			-	8,050,000	-	(200,000)	7,850,000	-

Fair value of options granted:

The assessed fair value of the options at grant date is:
- $0.092 for options vesting within 1 year;
- $0.099 for options vesting within 2 years;
- $0.103 for options vesting within 3 years;
- $0.212 for options vesting within 4 years; and

Fair value was determined using the Binomial option pricing model. The following inputs were utilised:
- Exercise prices and expected lifes as disclosed above
- Expected price volatility of the group's shares: 75% (2019: 95%)
- Expected dividend yield: 0.0% (2019: 0.0%)
- Risk-free interest rate: 0.41 to 0.82% (2019: 1.52% to 2.30%)

Expected volatility was determined by the share price volatility of Australian listed biotechnology companies.

(ii) Expenses recognised from share-based payment transactions

The expense recognised in relation to the share-based payment transactions was recognised within employee benefit expense within the statement of profit or loss were as follows:

	2020 $	2019 $
Options issued under employee option plan	467,388	182,873
Total expenses recognised from share-based payment transactions	467,388	182,873

	2020 $	2019 $
NOTE 21: RETAINED EARNINGS		
Retained earnings at beginning of year	(5,557,635)	(780,928)
Net profit / (loss)	(6,650,667)	(4,733,829)
	(12,208,302)	(5,514,757)

NOTE 22: CASH FLOW INFORMATION

(a) Reconciliation of cash flow from operations with profit after income tax

	2020 $	2019 $
Profit / (loss) from ordinary activities after income tax	(6,650,667)	(4,733,829)
Adjustments and non-cash items		
Amortisation	318,006	186,188
Depreciation	773,044	578,996
Impairment of inventory	-	30,314
Profit on sale of of plant and equipment	-	653
Net foreign exchange differences	(5,235)	-
Share based payments	446,575	182,873
Changes in operating assets and liabilities		
(Increase) / decrease in receivables	(460,441)	165,052
(Increase) / decrease in other assets	(85,580)	(115,467)
(Increase) / decrease in inventories	(171,209)	(163,841)
Increase / (decrease) in payables	547,765	336,461
Increase / (decrease) in other liabilities	849,451	(225,044)
(Increase) / decrease in income tax receivable	-	80,296
Increase / (decrease) in deferred tax liability	(6,520)	12,969
Increase / (decrease) in provisions	121,533	43,821
Cash flows from operating activities	(4,323,278)	(3,620,558)

(b) Non-cash financing and investing activities

Non-cash investing and financing activities included:

- Acquisition of right-of-use assets – note 13(a); and
- Shares issued to suppliers for no cash consideration (2020: $1,300, 2019: nil).

NOTE 23: RELATED PARTY TRANSACTIONS

There were no transactions with related parties during the current and previous financial years, including no trade receivables from, or trade payables, to related parties.

NOTE 24: COMMITMENTS

(a) Operating lease commitments not recognised as liabilities in financial report	2020 $	2019 $
- not later than one year	-	188,443
	-	188,443

From 1 July 2019, the group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see note 1(c) and note 13 for further information.

	2020 $	2019 $

NOTE 25: CONTINGENT LIABILITIES

There were no contingent liabilities requiring disclosure in the financial report.

NOTE 26: INTERESTS IN SUBSIDIARIES

(a) Subsidiaries

The following are the group's significant subsidiaries:

Subsidiaries of Microba Life Sciences Limited:	Country of incorporation	Ownership interest held by the group 2020 %	2019 %
Microba Pty Ltd	Australia	100	100
Microba Services Pty Ltd	Australia	100	-
Microba IP Pty Ltd	Australia	100	-
Microba US, Inc.	United States of America	100	-

NOTE 27: PARENT ENTITY DETAILS

Summarised presentation of the parent entity, Microba Life Sciences Limited, financial statements:

(a) Summarised statement of financial position

	2020 $	2019 $
Assets		
Current assets	5,937,930	11,500,034
Non-current assets	1,802,730	2,490,484
Total assets	7,740,660	13,990,518
Liabilities		
Current liabilities	30,238	1,150,672
Non-current liabilities	6,520	283,739
Total liabilities	36,758	1,434,411
Net assets	7,703,902	12,556,107
Equity		
Share capital	19,289,292	17,887,991
Retained earnings	(12,213,537)	(5,514,757)
Share based payments reserve	628,147	182,873
Total equity	7,703,902	12,556,107

(b) Summarised statement of comprehensive income

	2020 $	2019 $
Loss for the year	6,720,894	4,733,829
Other comprehensive income for the year	-	-
Total comprehensive loss for the year	6,720,894	4,733,829

NOTE 28: EVENTS SUBSEQUENT TO REPORTING DATE

The impact of COVID-19 pandemic is ongoing and it is not practicable to estimate the full potential of any impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any further economic stimulus that may be provided.

In August 2020 the group was successful in obtaining $8,500,000 in committed funding from investors for the issue of 30,357,136 shares at an average price of $0.28 per share to assist in funding the operations of the group. The group is in the process of finalising the terms and conditions of this capital raise. At the date of this report, $6,350,000 has been received in cash with a remaining $2,150,000 to be received on completion of the terms and conditions of the capital raise.

DIRECTORS' DECLARATION

The Directors of the company declare that:

1. In the Directors opinion, the financial statements and notes thereto, as set out on pages 7 - 32, are in accordance with the *Corporations Act 2001*, including:

   (a) complying with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Regulations 2001*; and

   (b) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2020 and its performance for the year ended on that date.

2. 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 Board of Directors.

Director: ____________________

Pasquale Rombola

Dated this 8th day of September 2020

PITCHER PARTNERS

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Independent Auditor's Report
To the Members of Microba Life Sciences Limited

Opinion

We have audited the financial report of Microba Life Sciences Limited and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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:

(a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
(b) 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 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 (including Independence Standards)* "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 Group, 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.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's directors report for the year ended 30 June 2020 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, 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 the 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 ability of the Group 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 has 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 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 influence the economic decisions of users taken on the basis of this 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 and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 a 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 those charged with governance 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.

Pitcher Partners

PITCHER PARTNERS

CMason

CHERYL MASON
Partner

Brisbane, Queensland
8 September 2020