



— ANNUAL REPORT

For the year ended 30 June 2023

Terragen Holdings Limited and Controlled Entity | ABN 36 073 892 636



CHAIRMAN AND MANAGING DIRECTOR'S REPORT

FY23 represents a significant year as Terragen, supported by additional investor capital, shifts focus towards further developing a portfolio of agricultural products that will provide sustainable chemical-free alternatives for the industry.

Dear Shareholders,

We are pleased to present the 2023 Annual Report for Terragen Holdings Limited.

Terragen is an agricultural biological company, specialising in the application of microbial technology to improve animal wellbeing, soil quality and crop growth. Through the development of innovative products, Terragen is helping to reduce agriculture's reliance on chemicals, and enabling farmers to operate profitably in a natural, sustainable and chemical-free way.

Since listing in 2019, Terragen has been focussed on driving sales of its direct fed microbial feed supplement MYLO[®], and the soil conditioner Great Land, which became the re-formulated Great Land Plus[®].

This year Terragen has recognised the challenges of selling a revolutionary new product into the agricultural industry, and has adjusted its strategy accordingly. To fund this strategy, the company undertook a capital raise in June 2023, raising A\$4.2m. We are immensely privileged to have such a supportive investor base that has entrusted us to continue with this mission. At the conclusion of the raise, Terragen confirmed the appointment of Mr Scobie Ward to the Board of Directors. Mr Ward has a long association with Terragen, and was the cornerstone investor for the raise, and is a highly credentialed addition to the Board.

The underlying thematic for Terragen remains sound. The clamour for sustainability in agriculture is undeniable. Animal health and wellbeing is becoming a greater consumer priority, as is the health of the environment more broadly. This increased consumer focus is bringing pressure on agricultural businesses to operate more sustainably. The reduction of greenhouse gas (GHG) emissions from livestock and nitrogen fertiliser usage now forms a key component in many countries' responses to global warming. In this context, the technology that Terragen is developing is vital, and the products that will arise from the application of this technology have the potential to become critical in the collective effort to solve these generational challenges.

Terragen recognises that its core capabilities lie in the field of research and development of probiotic technologies. To that end, we have allocated our additional resource to activities which will advance Terragen's research and development work. The key intent is to complete key research projects and use this knowledge to develop exciting new products that will drive the future success of the business. Stepping up these activities will increase Terragen's scientific credibility through an increase in the number of publications and presentations. This program has commenced, with Terragen giving two oral presentations to the 2023 Joint International Congress of Animal Science in Lyon, France in August, and showcasing three posters to the IDF World Dairy Summit in Chicago in October 2023.

Foremost in Terragen's key projects is the work underway to develop a dry formulation of its direct fed microbial MYLO[®]. Liquid MYLO is a highly effective product, with proven productivity, reproductive and methane mitigating properties. As released to the market earlier this year, the latest studies have shown that cows supplemented with MYLO have 10.1% higher average milk yield after calving and are on average 9.6 days quicker to first insemination. However, we appreciate that it has a relatively short shelf life, and a liquid format presents logistical challenges for dosing into the dairy herd or feedlot system. This has hampered the adoption of the technology to a much greater extent than initially projected.

Terragen has already identified options for freeze drying the component bacteria of MYLO, with a shelf life anticipated to be in excess of two years. Small scale versions of dry product are being trialled in two ongoing projects. These trials are examining current dose as well as high dose versions of the product. Terragen is anticipating that results from these various studies will start to be known from late 2023.

Terragen is already working on various options to commercialise the next generation of MYLO which will arise from these studies. These options will include scope for international distribution as well as launching in our current sales regions of Australia and New Zealand.



Further to the MYLO work being carried out, Terragen in FY23 has continued to investigate opportunities for improving the commercial value of GREAT LAND PLUS®. GREAT LAND PLUS has already been shown to increase milk productivity by 7.3% and significantly increase crop growth. We are now exploring the potential to improve the product's ability to reduce nitrogen fertiliser requirements. If the anticipated gains are delivered, then GREAT LAND PLUS would have greater appeal to a wide range of agricultural sectors. Similar to MYLO, the large markets for an updated product are likely to be overseas, as well as in higher margin segments outside of the current core focus on dairy pasture.

As outlined in the investor presentation for this year's capital raise, Terragen is also looking to allocate resource to the development of new products that will grow the portfolio into other agricultural applications by expanding the application of Terragen's existing microbial IP. This includes Lactolin teat wash, which is showing great promise as a potential alternative to the chemical solutions currently used in the industry. There is a substantial global market for teat washes, and early work indicates great promise, with early trials using Terragen's microbes performing at least as well as the comparable iodophor treatment. This also includes Sylo, a proposed probiotic silage inoculant utilising Terragen's proprietary microbes, which is currently undergoing lab-scale testing. Silage inoculants accelerate the forage fermentation process, resulting in rapid preservation, higher quality and more palatable silage. Subsequently, this improves animal health and productivity outcomes.

While the business is busy working on these exciting new developments, it is not doing so at the expense of the operating discipline that has been instilled over the course of the past year. We continue to drive a cost-conscious culture, examining expenditure carefully to ensure that spend is directed to the appropriate activities.

As your relatively new Chairman and Managing Director, it would be remiss of us not to recognise the efforts of the previous Chairman Travis Dillon and the previous Managing Director Jim Cooper. On behalf of the entire Board, we thank both Travis and Jim for all their time and effort over the years, and wish them well for the future.

Finally, on behalf of the entire team here at Terragen we would like to thank all shareholders for your on-going support of the company.



Mike Barry | Chairman
Melbourne, 13 October 2023



Miles Brennan | Managing Director and CEO
Melbourne, 13 October 2023



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DIRECTOR'S REPORT

The directors of Terragen Holdings Limited (the "Company" or "Terragen") submit herewith the financial report of the Company and the entity it controlled for the year ended 30 June 2023 (collectively "Group"). To comply with the provisions of the Corporations Act 2001, the directors report as follows.

DIRECTORS

The following persons were directors of the Company during the whole of the year and up to the date of this report, unless otherwise stated:

| | | |
|---|--------------------------|--|
| » | Michael Barry | Non-Executive Chair (appointed 30 June 2023) |
| » | Travis Dillon | Non-Executive Chair (resigned 30 June 2023) |
| » | Sam Brougham | Non-Executive Director |
| » | Ingrid van Dijken | Non-Executive Director |
| » | Miles Brennan | Managing Director (appointed 28 March 2023) |
| » | Jim Cooper | Managing Director (resigned 28 March 2023) |

Information on directors and key management personnel in office during the financial year and to the date of this report:

| Name and Position | Qualifications and Experience | Particulars of interests in shares and options of Terragen Holdings Limited | |
|--|--|---|---------|
| | | Shares [#] | Options |
| Michael Barry <i>Non-Executive Chair</i> Appointed 30 June 2023 | Mr. Barry's executive career included 10 years in senior executive roles at Boral Limited, including Regional General Manager for the Western Australian and South Australian Construction Materials operations. Most recently Mr Barry was CEO of MSF Sugar Limited for 13 years up until 2020. Mr Barry is a Director of Entyr Limited and various unlisted and private Companies. Other listed directorships in past three years: Entyr Limited | Nil | Nil |
| Travis Dillon <i>Non-Executive Chair</i> Resigned 30 June 2023 | Mr Dillon holds extensive commercial and strategic expertise in the agricultural distribution channel. Mr Dillon was the CEO and Managing Director of Ruralco Holdings Limited until its acquisition by Nutrien in September 2019. Prior to becoming Ruralco's Managing Director in 2015, he was the Executive General Manager of Ruralco's Operations. Over a career in Agriservices, spanning nearly 3 decades, Mr Dillon has held many positions including Branch Manager, Agronomist, and numerous Category Manager roles. Travis is a Non-Executive Director of Lifeline Australia. Other listed directorships in past three years: Clean Seas Seafood Limited; Select Harvests Limited | 350,000 held indirectly | Nil |

| Name and Position | Qualifications and Experience | Particulars of interests in shares and options of Terragen Holdings Limited | |
|--|---|---|---------|
| | | Shares [#] | Options |
| <p>Sam Brougham</p> <p><i>Non-Executive Director</i></p> | <p>Mr Brougham has an economics degree from the University of Adelaide. He has over thirty years' experience in private and public investment and is currently a director of Ellerston Global Investments and Ceres Capital, a private global equity investment firm he cofounded in 1999. Mr Brougham also co-founded Structured Asset Management in 1993. After receiving an economics degree from the University of Adelaide, he spent his early career with Price Waterhouse, and as a partner at JB Were. Sam is a Director of Ellerston Asian Investments Limited.</p> <p>Other listed directorships in past three years: Ellerston Global Investments Limited; Ellerston Asian Investments Limited</p> | 15,178,718 held indirectly | Nil |
| <p>Ingrid van Dijken</p> <p><i>Non-Executive Director</i></p> | <p>Ms van Dijken holds a Masters' degree in International Relations from the Graduate Institute in Geneva and an undergraduate degree from the Universiteit Utrecht, in the Netherlands.</p> <p>Ms van Dijken has more than 20 years' experience in private banking and funds management both in Australia and Switzerland. During these years she held senior management positions and acquired an in-depth understanding of wealth management for high-net-worth individuals.</p> <p>Ms van Dijken currently works at a privately held funds management firm. From early 2014 until September 2018, she worked at the Impact Investment Group (IIG) in Melbourne, an Australian impact investment funds manager. She joined as the General Manager and became the Chief Operating Officer & Head of Investor Relations.</p> <p>Ms van Dijken is a Trustee of the St Peters Eastern Hill Melbourne Charitable Foundation. She has been a non-executive board member of Escala Partners, a Melbourne based wealth management firm from 2015 until March 2019.</p> <p>Other listed directorships in past three years: Nil</p> | 970,000 held indirectly | Nil |

| Name and Position | Qualifications and Experience | Particulars of interests in shares and options of Terragen Holdings Limited | |
|---|--|---|---|
| | | Shares [#] | Options |
| <p>Miles Brennan</p> <p><i>Managing Director, Chief Executive Officer</i></p> <p>Appointed CEO and Managing Director 28 March 2023</p> | <p>Mr Brennan was appointed as Managing Director and Chief Executive Officer on 28 March 2023, following the resignation of Jim Cooper. Prior to this appointment, Miles had been Chief Financial Officer and Company Secretary of Terragen since August 2021. Miles retained the previous roles in the interim, until the appointment of Mrs Robyn Smith as CFO and Company Secretary on 24 July 2023.</p> <p>Prior to joining Terragen, Miles enjoyed a long finance leadership career across a variety of highly successful businesses in the FMCG industry, including Simplot Australia, Treasury Wine Estates and Red Bull UK. Miles is a member of CIMA (Chartered Institute of Management Accountants) and CPA Australia.</p> <p>Other listed directorships in past three years: Nil</p> | Nil | Nil |
| <p>Jim Cooper</p> <p><i>Managing Director and Chief Executive Officer</i></p> <p>Resigned 28 March 2023</p> | <p>Mr Cooper is an experienced agribusiness, infrastructure, and supply chain CEO with expertise in business development, stakeholders, sustainability, and strategy. Jim's experience in infrastructure and supply chain comes from 13 years managing privatised shipping ports in Portland and Melbourne.</p> <p>He has policy experience with 6 years as a Board member of Ports Australia, and he has been a member of numerous Government committees and advisory boards.</p> <p>Other listed directorships in past three years: Nil</p> | 500,000 held indirectly | 8,000,000 (Incentive Options) held directly |
| <p>Paul Grave</p> <p><i>General Manager New Zealand</i></p> <p>Resigned 7 December 2022</p> | <p>Mr Grave has had an extensive agricultural career with dairy giant Fonterra across legal, commercial, and senior management roles. He was Director of Global Dairy Trade, growing the business from start up to electronically trading dairy products in over 100 countries, and the Head of Farm Source Waikato, leading a high performing team driving engagement across 5,000 farmers.</p> <p>Mr Grave was also a Director of Milk Test NZ. He holds a Bachelor of Laws (LLB) and a Bachelor of Commerce (B. Com) (Economics) from the University of Otago, New Zealand.</p> | Nil | Nil |

| Name and Position | Qualifications and Experience | Particulars of interests in shares and options of Terragen Holdings Limited | |
|---|---|---|---------|
| | | Shares [#] | Options |
| Jocelyn West <i>Chief Operating Officer</i> Appointed 28 March 2023 | Dr West is a qualified veterinarian and holds a BVetBiol/ BVSc from Charles Sturt University and an MBA from Griffith University. Prior to joining Terragen, she worked in clinics, with a focus on mixed and production animal practice for eight years. In 2018, Dr West became Clinic Lead for National Vet Care. Dr West was appointed Chief Operating Officer of Terragen in March 2023, having previously been Terragen's Head of Veterinary Science. | 616,466 held directly | Nil |
| Robyn Smith <i>Chief Financial Officer and Company Secretary</i> Appointed on 24 July 2023 | Mrs Smith is a Chartered Accountant (CAANZ) and holds a Bachelor of Commerce (Honours) in Accounting, Financial Management, Auditing and Tax. Robyn joined Terragen in April 2021 as the Company's Financial Controller, prior to which, she provided support to Terragen through the IPO process and as an outsourced Finance Manager. Mrs Smith has over 15 years of expertise as a finance professional for public and private companies across the manufacturing and mining sectors. | Nil | Nil |

[#] Includes shares in which the Director has an indirect interest through associated entity.

Company secretaries

Miles Brennan (to 24 July 2023)
Robyn Smith (appointed 24 July 2023)

MEETINGS OF DIRECTORS

The number of meetings of the Group's board of directors and each board committee held during the year ended 30 June 2023, and the numbers of meetings attended by each director were as follows:

| Number of meetings held | BOARD MEETINGS: 10 | |
|--------------------------|---------------------------------------|-----------------------------|
| | Number of meetings eligible to attend | Number of meetings attended |
| Travis Dillon | 10 | 10 |
| Sam Brougham | 10 | 10 |
| Ingrid van Dijken | 10 | 10 |
| Jim Cooper | 7 | 7 |
| Miles Brennan | 3 | 3 |

The members of the Audit and Risk Committee and the Remuneration and Nomination Committee during the financial year were:

- » Audit and Risk Committee: Ingrid van Dijken (Chairperson), Sam Brougham and Travis Dillon
- » Remuneration and Nomination Committee: Ingrid van Dijken (Chairperson), Sam Brougham and Travis Dillon.

The numbers of meetings attended by each committee member were as follows:

| Number of Audit and Risk Committee meetings held | MEETINGS: 2 | |
|--|---------------------------------------|-----------------------------|
| | Number of meetings eligible to attend | Number of meetings attended |
| Ingrid van Dijken | 2 | 2 |
| Sam Brougham | 2 | 2 |
| Travis Dillon | 2 | 2 |

| Number of Remuneration and Nomination Committee meetings held | MEETINGS: 2 | |
|---|---------------------------------------|-----------------------------|
| | Number of meetings eligible to attend | Number of meetings attended |
| Ingrid van Dijken | 2 | 2 |
| Sam Brougham | 2 | 2 |
| Travis Dillon | 2 | 2 |

PRINCIPAL ACTIVITIES

The Group's principal activities during the financial year were research and early market development of biological products in the agriculture sector. There were no significant changes in the nature of these activities during the financial year.

CORPORATE ACTIVITIES

During the year, the Group:

- » Made the following Board and Management Changes:
 - The position of General Manager New Zealand, held by Paul Grave, was made redundant effective 7 December 2022 following a restructuring of the Group's Sales Team arising from a general review of Terragen's overhead costs;
 - On 28 March 2023 Jim Cooper stepped down from his role as Chief Executive Officer and Managing Director;
 - Miles Brennan was appointed as the Chief Executive Officer and Managing Director effective 28 March 2023. Miles retained the Chief Financial Officer and Company Secretary positions until 24 July 2023;
 - Jocelyn West was appointed Chief Operating Officer effective 28 March 2023 having previously held the position of Head of Veterinary Science; and
 - Robyn Smith was appointed as Chief Financial Officer and Company Secretary on 24 July 2023 having previously held the position of Senior Financial Controller.
- » Completed Tranche 1 of a two-tranche institutional placement and a share purchase plan. Tranche 1 completed on 15 June 2023. 29,102,880 fully paid ordinary shares were issued at \$0.024 per share to raise equity of \$698,469 before capital raising costs.

The Share Purchase Plan (SPP), offered to retail investors, closed on 30 June 2023, raising a further \$466,000. The 19,416,651 shares were issued at \$0.024 per share on 6 July 2023.

Subsequent to year-end, a further 126,542,360 fully paid ordinary shares are expected to be issued under Tranche 2 of the placement on 7 September 2023, to raise a further \$3,037,017 before capital raising costs. The issue of these shares is subject to shareholder approval. The General meeting will be held on 4 September 2023.

OPERATING AND FINANCIAL REVIEW

REVIEW OF FINANCIAL RESULTS

The Group reported a loss after tax for the year of \$3,233,919 (2022: loss of \$5,407,130). The significant items affecting the operating result were:

- » Revenues of \$3,275,719 (2022: \$2,890,716) from the sale of the Company's two products Mylo® and Great Land Plus® in Australia and New Zealand.
- » Income tax benefit of \$741,791 (2022: \$893,430) comprising the accrued research and development tax benefit in relation to research expenditure incurred by the Group during the year.
- » Operating expenses of \$7,364,714 in the year have decreased by 21% from the prior year operating expenses of \$9,286,538. Expenditure consists principally of:
 - Employee benefits expense \$3,616,509 (2022: \$4,498,319)
 - Sales commissions to Retail Agents of \$806,463 (2022: \$694,786)
 - Depreciation on right-of-use leased assets of \$186,142 (2022: \$181,430)
 - Direct research expenditure of \$314,196 (2022: \$840,396).

REVIEW OF FINANCIAL POSITION

- » Net cash flows used in operating activities decreased by 42% to \$(2,809,025) (2022: \$(4,805,134)).
- » Issued capital of \$43,649,618 (2022: \$43,004,870) following completion of Tranche 1 of a two-tranche institutional placement. Tranche 1 completed on 15 June 2023 raising equity of \$698,469 before capital raising costs of \$177,485.
- » Terragen Group's net assets have decreased from \$7,761,261 to \$5,076,183 which is consistent with and largely attributable to the current year's loss after tax. The Group's receivables and cash flow management continue to support overall strength in working capital.
- » Terragen Group's borrowings relate to lease liabilities for the Group's rental premises and small motor vehicle fleet. The Group's gearing ratio at period end, defined as net debt over net debt plus equity, is negligible at <1% and in line with prior year.

REVIEW OF OPERATIONS

Terragen conducts research activities for the advancement of the use of probiotics in agricultural applications. Research is focussed on determining the optimum combination and concentration of naturally occurring live microbe strains to help boost the productivity, welfare and resilience of farm production animals and address soil health.

Terragen's aim is to increase farm productivity through the use of these products, whilst providing improved environmental sustainability that will be attractive to consumers.

Terragen continues to prioritise various research trials to further scientific knowledge and expand the product offering, as it works to present a compelling proposition for commercial partners seeking sustainable options.

Terragen has two products on the market in Australia and New Zealand: a microbial feed supplement for animals known as Mylo®, and a soil conditioner called Great Land Plus®.

PRINCIPAL RISKS

The Group's growth and success depends on its ability to understand and respond to the challenges of an uncertain and changing world. This uncertainty generates risk, with the potential to be a source of both opportunities and threats. By understanding and managing risks, we provide greater certainty and confidence for all shareholders.

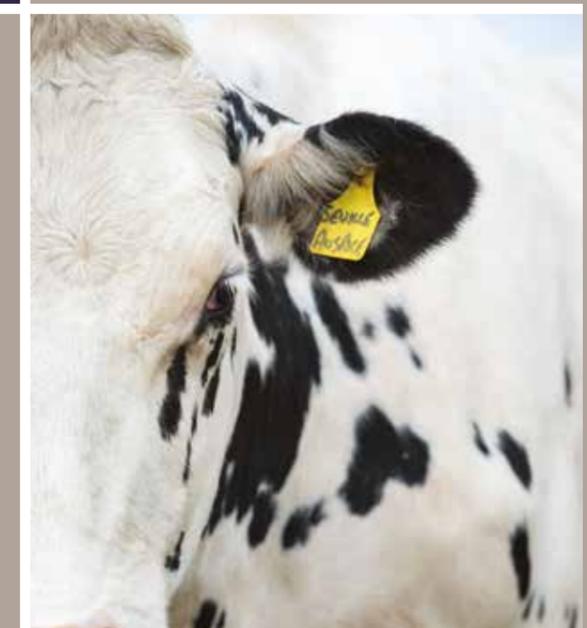
The material business risks that could adversely impact the Group's financial prospects in future periods and the broad approach Terragen takes to manage these risks are outlined below. These risks are not a complete or exhaustive list of the risks the Group is exposed to.

| RISK | DESCRIPTION | MITIGATION |
|--|---|---|
| Ownership and protection of intellectual property | <p>Terragen's business model depends on its ability to commercially exploit its intellectual property (IP). Terragen relies on laws relating to trade secrets, copyright and trademarks to assist in protecting its proprietary rights. There is a risk that unauthorised use or copying of intellectual property, business data or secure documentation (electronic laboratory books) will occur.</p> <p>A breach of Terragen's intellectual property may result in the need to commence legal action, which could be costly and time consuming. A failure or inability to protect the Company's intellectual property rights could have an adverse impact on operating and financial performance.</p> | <p>Terragen's use of microbes are protected by patents across Australia, New Zealand, US and Europe.</p> <p>Terragen ensures that its IP is protected when entering into any agreements with 3rd parties such as research institutions or distributors.</p> |

| RISK | DESCRIPTION | MITIGATION |
|--|--|--|
| Loss of key personnel | The successful operation of Terragen in part relies on the Company's ability to attract and retain experienced and high performing personnel. The loss of any key members of management or other personnel, or the inability to attract additional skilled individuals to key projects or roles, may adversely affect Terragen's ability to develop and implement its business strategies. | Terragen operates in a manner conducive for retaining high performing personnel. In particular, this includes flexible workplace arrangements, and cross functional training and development experiences. |
| Risk of delay and continuity of operations | The potential for delay of any of Terragen's key projects presents a number of risks (including potential cost overruns and impacts of delays on the conclusion of commercial partnerships). Delays may be caused by various factors, including delays in obtaining regulatory approvals, delays in scientific studies, and delays in completing successful field trials. | Strategic planning is fundamental to Terragen's business model. This identifies the process steps and allows management to develop options as required. |
| Regulatory approvals | Terragen's target markets for its products are emerging, and as such the regulatory environment is constantly changing. There is also a possibility that Terragen may become subject to additional legal or regulatory requirements if its business operations, strategy or geographic reach expand in the future or if there is a change in applicable law or regulation. | Terragen engages appropriate expert advice when entering into new business areas. This approach will continue in the future, whenever Terragen seeks to enter into new jurisdictions with existing or new products. |
| Failure to realise benefits from product research and development | The development and commercialisation of products is expensive and often involves an extended period to achieve return on investment. A critical aspect of Terragen's business model is to continually invest in innovative research and product development opportunities. Terragen may not realise benefits from these investments for several years. The Company makes assumptions about the expected future benefits generated by investment in product research and development and the expected timeframe in which the benefits will be realised. These assumptions are subject to change and involve both known risks and risks that are beyond the Company's control. Any change to the assumptions the Company has made about certain product development may have an adverse impact on the Company's ability to realise a benefit from investment in the development of that product. | Terragen tracks its progress as a matter of course. As new knowledge arises, management will adjust its business plans to maintain an appropriate path to commercial success. |

| RISK | DESCRIPTION | MITIGATION |
|--|--|--|
| Product risks and liability | Terragen currently manufactures Great Land Plus® and Mylo® on a commercial scale. However, there is no assurance that unforeseen adverse events or manufacturing defects will not arise, which could have significant impacts for Terragen's corporate and brand reputations, as well as having regulatory implications. | Terragen operates in accordance with current Good Manufacturing Practices, prescribed by the APVMA and other regulatory authorities. It also operates a strong Quality Assurance framework, including use of retention samples. |
| Arrangements with third party collaborators | Terragen may pursue collaborative arrangements with life science companies, academic institutions or other partners to complete the development and commercialisation of the Terragen Products. However, there is no assurance that Terragen will attract and retain appropriate strategic partners or that any such collaborations will result in commercial grade outcomes. There is a risk that third party collaborators may seek commercial exploitation of Terragen's intellectual property that has been shared under any collaboration arrangement, such as in the form of copycat products. | Terragen engages with appropriate expert advice when entering into new arrangements. Through written agreements, Terragen protects its IP and associated trade secrets, and restricts third parties through undertakings of confidentiality. |
| Market acceptance and competitor risk | Terragen believes that there is a growing demand for non-chemical products that enable farmers to pursue sustainable agricultural practices. The demand for such products can be significantly impacted by changes in the regulatory and industry economic environment. Whilst the market for such products is relatively new, and demand is developing, there is a risk that there will be new entrants into the market and the risk of existing competitors introducing new products or technologies. Competition in the market has the potential to disrupt Terragen's business and market share. There may be aggressive, fast-moving, early stage, start-up companies developing products that are comparable or competing products with properties that are similar to one or more of the properties of the Terragen equivalent. | Terragen considers it has a competitive advantage in being one of the first in the market to provide a new approach to the development of natural live microbial products. Terragen also supports its early-mover advantage with a level of investment in research that distinguishes itself from the competitive set of biological products. |

| RISK | DESCRIPTION | MITIGATION |
|---|--|--|
| Uncertainty of future revenue and profitability | <p>Terragen's long term viability is contingent on, amongst other things, the Company's ability to enter into appropriate licensing or distribution arrangements that deliver the requisite revenues to cover the Company's ongoing indirect costs, including the ongoing research into next generation products.</p> <p>Future revenues could be impacted by general economic conditions, market demand, competitor activity and the results of further studies and field trials.</p> | <p>Terragen's products are targeted towards a large global market opportunity and are well positioned to increase market share given the growing market trend towards sustainability, organic products and environmentally friendly solutions.</p> |
| Sufficiency of funding and additional requirements for capital | <p>There is a risk that the costs of research and development may be higher than anticipated or increase as a result of unforeseen circumstances (which may include circumstances related to other key risk factors set out in this section).</p> | <p>As a business that is still in the IP building phase of its development, management undertakes continuous assessment to allocate available funds to projects or activities that are identified as delivering the best return on investment.</p> |
| Financial risks | <p>Terragen is exposed to a variety of financial risks, including credit risk, adverse movements in interest rates as well as liquidity risk. These risks may have an adverse effect on the Company's operating and financial performance.</p> | <p>Terragen has in place a framework for managing these risks.</p> <p>Information on how Terragen manages financial risks is included in note 23 to the Financial Statements.</p> |
| Operational risks | <p>A prolonged and unplanned interruption to Terragen's operations could significantly impact the Company's financial performance and reputation. Terragen is exposed to a variety of operational risks, including risk of site loss or damage, environmental and climatic events, global pandemic risks, technology failure or incompetency and systems security or data breaches.</p> <p>Failure to mitigate these risks could impact on Terragen's corporate reputation, and adversely impact delivery of Terragen's strategy, through a failure in customer service.</p> | <p>Terragen has a comprehensive range of controls and strategies in place to manage such risks, including operational processes to GMP standards, inventory management processes and business continuity plans.</p> |
| Cyber risks | <p>Terragen, like any organisation, faces an ever-changing cyber security threat, and needs to prevent, detect and respond to cyber security threats by maintaining a high standard of information security control.</p> | <p>The Group has in place a Computer and Cyber Security, Digital Information, Internet and Email policy. The policy sets out security controls and standards of behaviour determined as necessary to achieve an appropriate level of information security.</p> |



EARNINGS PER SHARE

| | 2023 | 2022 |
|----------------------------------|------------|------------|
| Basic and diluted loss per share | 1.57 cents | 2.80 cents |

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Terragen intends to continue its investment into research on probiotic applications in agriculture. This research is intended to provide the scientific basis for a new generation of sustainable agricultural treatments for both animal and crop applications.

EVENTS SINCE THE END OF THE FINANCIAL YEAR

Other than the matters listed below, there has been no matter or circumstance which has arisen since the end of the year that has significantly affected, or may significantly affect the Group's operations, the result of those operations or the Group's state of affairs:

- » On 6 July 2023, 19,416,651 shares were issued under the Share Purchase Plan (SPP), offered to retail investors. The shares were issued at \$0.024 per share raising equity of \$466,000.
- » On 4 August 2023 the Company issued the Notice of General Meeting to shareholders, to be held on 4 September 2023. At the General meeting, shareholders approval will be sought for the issue of a further 126,542,360 fully paid ordinary shares under Tranche 2 of the share placement that commenced in June 2023. If approved, a further \$3,037,017 will be raised before capital raising costs.

DIVIDENDS

No dividends were paid or declared during the year and no recommendation is made as to payment of dividends.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the financial year.

ENVIRONMENTAL REGULATION

The Group was not subject to any significant environmental regulation under a law of the Commonwealth or a State or Territory of Australia.

SHARES UNDER OPTION

Unissued ordinary shares of the Group under option at the date of this report are as follows:

| Option series | Grant Date | Expiry Date | Exercise price of options | Number under options |
|---------------|------------|-------------|---------------------------|----------------------|
| Tranche 13 | 4/12/2020 | 4/12/2025 | \$0.25 | 1,000,000 |
| Tranche 14 | 4/12/2020 | 4/12/2025 | \$0.50 | 2,000,000 |
| Tranche 15 | 4/12/2020 | 4/12/2025 | \$1.00 | 5,000,000 |
| | | | | 8,000,000 |

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

SHARES ISSUED ON THE EXERCISE OF OPTIONS

During the financial year 600,000 shares were issued as a result of the exercise of options.

REMUNERATION REPORT (AUDITED)

This remuneration report, which forms part of the Directors' Report, sets out information about the remuneration of Terragen's key management personnel for the financial year ended 30 June 2023. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing, and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group. The prescribed details for each person covered by this report are detailed below under the following headings:

- » Key management personnel
- » Remuneration policy
- » Remuneration, Group performance and shareholder wealth
- » Remuneration of key management personnel
- » Loans to key management personnel

a. KEY MANAGEMENT PERSONNEL

The directors and other key management personnel of the consolidated entity during the financial year were:

| Non-executive directors | Position |
|-------------------------|--|
| Travis Dillon | Chairman (<i>resigned 30 June 2023</i>) |
| Michael Barry | Chairman (<i>appointed 30 June 2023</i>) |
| Sam Brougham | Non-Executive Director |
| Ingrid van Dijken | Non-Executive Director |

| Executive Directors | Position |
|---------------------|---|
| Jim Cooper | Managing Director, Chief Executive Officer (<i>resigned 28 March 2023</i>) |
| Miles Brennan | Managing Director, Chief Executive Officer (<i>appointed 28 March 2023</i>) |
| | Chief Financial Officer and Company Secretary (<i>until 24 July 2023</i>) |

| Other Key Management Personnel | Position |
|--------------------------------|---|
| Paul Grave | General Manager New Zealand (<i>resigned 7 December 2022</i>) |
| Jocelyn West | Chief Operating Officer (<i>appointed 28 March 2023</i>) |

Except as noted, the named persons held their current position for the whole of the financial year.

b. REMUNERATION POLICY

The Board of Terragen is responsible for determining and reviewing compensation arrangements for the non-executive directors and the executive director. The Board's remuneration policy is to ensure that the remuneration package properly reflects the person's duties and responsibilities, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high-quality board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost to the Group. In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

NON-EXECUTIVE DIRECTOR REMUNERATION

OBJECTIVE

The Board seeks to set aggregate remuneration at a level which provides the Group with the ability to attract and retain directors of high calibre, whilst incurring a cost which is acceptable to shareholders.

STRUCTURE

Remuneration of non-executive directors is determined by the Board, within the maximum amount approved by the shareholders from time to time (currently set at an aggregate of \$300,000 per annum).

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each non-executive director receives a fee for being a director of the Company. The non-executive Chair receives an annual fee of \$54,000, all other non-executive directors receive an annual fee of \$36,000. In addition, non-executive directors receive an annual fee of \$4,000 for each board sub-committee of which they are a member. Non-executive directors who are the Chair of those sub-committees, receive an additional \$4,000 annually. Non-executive directors who are called upon to perform extra services beyond the director's ordinary duties may be paid additional fees for those services.

In November 2022 the Board decided to waive its non-executive fees for the remainder of the financial year.

The following fees were paid to non-executive directors for additional services during the year ended 30 June 2023:

- » \$6,000 to Travis Dillon (2022: \$50,000) in relation to consulting services provided to the Sales and Marketing Team during the year.

Non-executive directors may also be granted equity incentives from time to time. The options granted are considered by the Board to be an effective means of appropriately compensating directors whilst preserving the Group's cash reserves and providing an alignment between Director and shareholder interests. No equity incentives were issued to non-executive directors as remuneration during the financial year.

EXECUTIVE DIRECTORS AND KEY MANAGEMENT PERSONNEL REMUNERATION

OBJECTIVE

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group so as to:

- » reward executives for Group and individual performance against agreed targets;
- » align the interest of executives with those of shareholders;
- » link reward with the strategic goals and performance of the Group; and
- » ensure total remuneration is competitive by market standards.

STRUCTURE

In determining the level and make-up of executive remuneration, the Board has had regard to market levels of remuneration for comparable executive roles. It is the Board's policy that employment contracts are entered into with all senior executives.

VARIABLE REMUNERATION - SHORT AND LONG-TERM INCENTIVES

OBJECTIVE

The objectives of the incentive plan are to:

- » recognise the ability and efforts of the employees of the Group who have contributed to the success of the Group and to provide them with rewards where deemed appropriate;
- » provide an incentive to the employees to achieve the long-term objectives of the Group and improve the performance of the Group; and
- » attract persons of experience and ability to employment with the Group and foster and promote loyalty between the Group and its employees.

STRUCTURE

Long term incentives granted to senior executives are delivered in the form of shares, options or performance rights in accordance with an Employee Incentive Plan. As part of the Group's annual strategic planning process, the Board and Management agree upon a set of financial and non-financial objectives for the Group. The objectives form the basis of the assessment of Management performance and vary but are targeted directly to the Group's business and financial performance and thus to shareholder value.

c. REMUNERATION, GROUP PERFORMANCE AND SHAREHOLDER WEALTH

The development of remuneration policies and structures is considered in relation to the effect on Group performance and shareholder wealth. They are designed by the Board to align director and executive behaviour with improving Group performance and ultimately shareholder wealth. The Board considers at this stage in the Group's development, that share price growth itself is an adequate measure of total shareholder return.

Executives are currently remunerated by a combination of cash base remuneration, options and short-term incentives. The options granted are considered by the Board to provide an alignment between the employees and shareholders interests.

The table below shows for the current financial year and previous financial years the total remuneration cost of the key management personnel, earnings per ordinary share (EPS), dividends paid or declared, and the closing price of ordinary shares on ASX at year end.

| Financial Year | Total Remuneration \$ | EPS (Cents) | Dividends (cents) | Share Price as at 30 June (cents) |
|----------------|-----------------------|-------------|-------------------|-----------------------------------|
| 2023 | 1,001,966 | (1.57) | - | 2.4 |
| 2022 | 1,111,142 | (2.80) | - | 15.5 |
| 2021 | 2,500,558 | (3.23) | - | 28.0 |
| 2020 | 766,416 | (3.27) | - | 17.5 |
| 2019 | 488,211 | (3.38) | - | N/A ¹ |

¹The Company commenced trading on the ASX on 11 December 2019.

d. REMUNERATION OF KEY MANAGEMENT PERSONNEL

Compensation paid, payable or provided by the Group or on behalf of the Group, to key management personnel is set out below. Key management personnel include all directors of the Group and certain executives who, in the opinion of the Board and Managing Director, have authority and responsibility for planning, directing, and controlling the activities of the Group directly or indirectly.

The Company's Managing Director and other members of senior management are employed under individual contracts of employment with the Company. The contracts set out:

- » The individual's total fixed compensation, including fixed cash remuneration and the Company's superannuation contribution;
- » Notice and termination provisions; and
- » Employee entitlements including leave.

The Company makes contributions with respect to the senior executives to complying superannuation funds in accordance with relevant superannuation legislation and the individual contracts of employment. Summaries of material service agreements are set out below:

MILES BRENNAN

Managing Director and Chief Executive Officer (appointed 28 March 2023)

Chief Financial Officer and Company Secretary (until 24 July 2023)

- » Base Remuneration – Effective 28 March 2023 \$250,000 per annum, plus superannuation contributions, on a fulltime basis, subject to annual increases at the discretion of the Board of Directors.
- » Termination – By four months' notice from either party.
- » Incentive benefits – Entitled to participate in the Terragen Employee Incentive Plan subject to the usual Board and Shareholder approvals.
- » Equity – The Director shall be entitled to participate in the Employee Incentive Plan of the Company.

JOCELYN WEST

Chief Operating Officer (appointed 28 March 2023)

- » Base Remuneration – Effective 28 March 2023 \$190,000 per annum plus superannuation contributions, on a fulltime basis, subject to annual increases at the discretion of the Board of Directors.
- » Termination – By one month's notice from either party.
- » Incentive benefits – Entitled to participate in the Terragen Employee Incentive Plan subject to the usual Board and Shareholder approvals.

JIM COOPER

Managing Director and Chief Executive Officer (resigned 28 March 2023)

- » Base Remuneration – Effective 25 June 2020 \$301,125 per annum, including superannuation contributions, on a fulltime basis, subject to annual increases at the discretion of the Board of Directors.
- » Additional annual car allowance of \$19,495.
- » Termination – By four months' notice from either party.
- » Incentive benefits – Under the Employee Incentive Plan, to be determined by the Board of Directors after review of the annual company result for the relevant calendar year, and Management's performance
- » Equity – The Director shall be entitled to participate in the Employee Incentive Plan of the Company.

PAUL GRAVE

General Manager New Zealand (resigned 7 December 2022)

- » Base Remuneration – Effective 10 May 2021 NZD \$257,500 per annum, including KiwiSaver contributions, plus car allowance NZD\$25,000, on a fulltime basis, subject to annual increases at the discretion of the Board of Directors.
- » Annual incentive of NZD\$100,000 on achievement of Key Performance Indicators set by the Company.
- » Termination – By three months' notice from either party.



2023

| | Cash and salary fees | Super-annuation | Employee entitlements ^h | Share based payments | Other | Total remuneration | Proportion of remuneration that is performance based |
|--------------------------------------|----------------------|-----------------|------------------------------------|----------------------|--------------------|--------------------|--|
| | \$ | \$ | \$ | \$ | \$ | \$ | % |
| NON-EXECUTIVE DIRECTORS | | | | | | | |
| Travis Dillon ^a | 25,833 | - | - | - | 6,000 ^j | 31,833 | 0% |
| Michael Barry ^b | 206 | - | - | - | - | 206 | 0% |
| Sam Brougham ^c | 18,333 | - | - | - | - | 18,333 | 0% |
| Ingrid van Dijken | 18,333 | - | - | - | - | 18,333 | 0% |
| Total Non-Executive Directors | 62,705 | - | - | - | 6,000 | 68,705 | 0% |

| EXECUTIVE DIRECTORS | | | | | | | |
|----------------------------------|----------------|---------------|--------------|----------|---------------------|----------------|-----------|
| Jim Cooper ^d | 337,176 | 27,500 | - | - | 14,659 ^k | 379,335 | 0% |
| Miles Brennan ^e | 233,284 | 24,495 | 7,457 | - | - | 265,236 | 0% |
| Total Executive Directors | 570,460 | 51,995 | 7,457 | - | 14,659 | 644,571 | 0% |

| OTHER KEY MANAGEMENT PERSONNEL | | | | | | | |
|---------------------------------------|----------------|--------------------|---------------|----------|----------------------|----------------|-----------|
| Paul Grave ^f | 98,086 | 6,838 ⁱ | 24,428 | - | 105,427 ^l | 234,779 | 0% |
| Jocelyn West ^g | 48,975 | 5,142 | - | - | - | 54,117 | 0% |
| Total Key Management Personnel | 147,061 | 11,980 | 24,428 | - | 105,427 | 288,896 | 0% |

| | | | | | | | |
|--|----------------|---------------|---------------|----------|----------------|------------------|-----------|
| Total Director and KMP Compensation | 780,226 | 63,975 | 31,885 | - | 126,086 | 1,002,172 | 0% |
|--|----------------|---------------|---------------|----------|----------------|------------------|-----------|

^a Travis Dillon invoices director fees via Dillon Consulting Company Pty Ltd. Mr Dillon resigned as Chairman on 30 June 2023.

^b Appointed Non-Executive Director and Chairman on 30 June 2023. Agreed annual fee of \$75,000 with no additions for sub-committee fees.

^c Sam Brougham invoices director fees via Crofton Park Developments Pty Ltd atf Sam Brougham Family Trust.

^d Resigned 28 March 2023.

^e Appointed Executive Director and Managing Director 28 March 2023. Previously held the position of Chief Financial Officer.

^f Resigned 7 December 2022 and received a payment in lieu of notice. Paul Grave's earnings were paid in NZD and have been translated to AUD for the purposes of this table.

^g Appointed Chief Operating Officer 28 March 2023.

^h Reflects annual and long service leave movements during the year.

ⁱ KiwiSaver contribution of 3.3% of Gross Earnings

^j Fees paid to Travis Dillon in relation to consulting services provided to the Sales and Marketing Team during the year.

^k Annual car allowance in accordance with contract.

^l Lump sum (In lieu of notice) payment on resignation.

2022

| | Cash and salary fees | Super-annuation | Employee entitlements ^g | Share based payments | Other | Total remuneration | Proportion of remuneration that is performance based |
|--------------------------------------|----------------------|-----------------|------------------------------------|----------------------|---------------------|--------------------|--|
| | \$ | \$ | \$ | \$ | \$ | \$ | % |
| NON-EXECUTIVE DIRECTORS | | | | | | | |
| Travis Dillon ^a | 62,000 | - | - | - | 50,000 ⁱ | 112,000 | 0% |
| Dr Paul Schober ^b | 29,333 | - | - | - | - | 29,333 | 0% |
| Sam Brougham ^c | 44,000 | - | - | - | - | 44,000 | 0% |
| Ingrid van Dijken | 44,000 | - | - | - | - | 44,000 | 0% |
| Total Non-Executive Directors | 179,333 | - | - | - | 50,000 | 229,333 | 0% |

| EXECUTIVE DIRECTORS | | | | | | | |
|----------------------------------|----------------|---------------|---------------|----------|---------------------|----------------|-----------|
| Jim Cooper | 276,931 | 24,194 | 37,026 | - | 19,495 ^j | 357,646 | 0% |
| Total Executive Directors | 276,931 | 24,194 | 37,026 | - | 19,495 | 357,646 | 0% |

| OTHER KEY MANAGEMENT PERSONNEL | | | | | | | |
|---------------------------------------|----------------|--------------------|---------------|----------|---------------------|----------------|-----------|
| Paul Grave ^d | 225,569 | 7,444 ^h | 8,589 | - | 22,557 ^l | 264,159 | 0% |
| Kara King ^e | 35,592 | 2,955 | - | - | - | 38,547 | 0% |
| Miles Brennan ^f | 191,116 | 19,112 | 11,229 | - | - | 221,457 | 0% |
| Total Key Management Personnel | 452,277 | 29,511 | 19,818 | - | 22,557 | 524,163 | 0% |

| | | | | | | | |
|--|----------------|---------------|---------------|----------|---------------|------------------|-----------|
| Total Director and KMP Compensation | 908,541 | 53,705 | 56,844 | - | 92,052 | 1,111,142 | 0% |
|--|----------------|---------------|---------------|----------|---------------|------------------|-----------|

^a Travis Dillon invoices director fees via Dillon Consulting Company Pty Ltd.

^b Dr Paul Schober invoiced director fees via an ABN. Paul Schober resigned on 28 February 2022.

^c Sam Brougham invoices director fees via Crofton Park Developments Pty Ltd atf Sam Brougham Family Trust.

^d Paul Grave's earnings are paid in NZD and have been translated to AUD for the purposes of this table.

^e Resigned 29 August 2021

^f Appointed 30 August 2021

^g Reflects annual and long service leave movements during the year

^h KiwiSaver contribution of 3% of Gross Earnings

ⁱ Fees paid to Travis Dillon in relation to consulting services provided to the Sales and Marketing Team during the year.

^j Annual car allowance in accordance with contract.

SHARE-BASED COMPENSATION

On 17 July 2019, Terragen established an employee incentive plan (Employee Incentive Plan) to assist in the motivation, reward and retention of its Directors, executive staff, and other selected employees.

Incentives under the Employee Incentive Plan may be offered to an Eligible Employee which means:

- » an employee of a Group Company;
- » an executive director, a non-executive director, or a company secretary of a Group Company; or
- » a contractor or consultant who provides services to a Group Company.

In selecting Eligible Employees to apply for, or otherwise receive incentives, the Board will have regard to:

- » the position in the Group held or to be held by the Eligible Employee;
- » the Eligible Employee's length of service with the Group;
- » the contribution made by the Eligible Employee to the Group;
- » the potential contribution to be made by the Eligible Employee to the Group; and
- » any other matters which the Board considers relevant.

The following incentives may be issued under the Employee Incentive Plan:

- » a performance right;
- » an option; and
- » a share.

A grant of Incentives under the Employee Incentive Plan is subject to both the rules of the Employee Incentive Plan and the terms of the specific grant.

Options or performance rights granted under the Employee Incentive Plan may only be exercised if, at the time of exercise:

- » the options or performance rights have vested;
- » the options or performance rights have not been forfeited or lapsed; and
- » the exercise price (for option or performance right (as adjusted if applicable)) has been paid.

During the financial year no options were issued under the Employee Incentive Plan.

The Board has rules that contain restrictions on removing the 'at risk' aspect of the options granted to executives. Executives may not enter into any transactions designed to remove the 'at risk' aspect of an instrument before it vests.

There are no vesting conditions attached to options issued in previous years. In the event of termination (specified circumstances) only vested options are entitled to be exercised and must be exercised within thirty days of termination or such other period as may be determined by the Board of Directors.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are determined using an option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

SHARES PROVIDED ON EXERCISE OF REMUNERATION OPTIONS

No shares were issued to Key Management Personnel or Directors as a result of the exercise of options during the year. 600,000 shares were issued, as a result of the exercise of options, to individuals other than Key Management Personnel or Directors.

UNLISTED OPTION HOLDINGS

The numbers of options over ordinary shares in the Group held during the financial year by each director and each key management person of the Group, including their personally related parties, are set out below:

| 2023 | | | | | | | |
|-------------------|--------------------------|-------------------------|-------------------------------------|--------------------|-----------------------------------|------------------------|------------------------|
| Name | Balance at start of year | Granted as remuneration | Acquired other than as remuneration | Lapsed | Held at time of ceasing to be KMP | Balance at end of year | Vested and exercisable |
| Travis Dillon | - | - | - | - | - | - | - |
| Michael Barry | - | - | - | - | - | - | - |
| Sam Brougham | 1,600,000 | - | - | (1,600,000) | - | - | - |
| Ingrid van Dijken | 100,000 | - | - | (100,000) | - | - | - |
| Jim Cooper | 8,000,000 | - | - | - | (8,000,000) | - | - |
| Miles Brennan | - | - | - | - | - | - | - |
| Paul Grave | - | - | - | - | - | - | - |
| Jocelyn West | - | - | - | - | - | - | - |
| Total | 9,700,000 | - | - | (1,700,000) | (8,000,000) | - | - |

| 2022 | | | | | | | |
|-------------------|--------------------------|-------------------------|-------------------------------------|-----------|-----------------------------------|------------------------|------------------------|
| Name | Balance at start of year | Granted as remuneration | Acquired other than as remuneration | Exercised | Held at time of ceasing to be KMP | Balance at end of year | Vested and exercisable |
| Travis Dillon | - | - | - | - | - | - | - |
| Dr Paul Schober | 80,000 | - | - | - | (80,000) | - | - |
| Sam Brougham | 1,600,000 | - | - | - | - | 1,600,000 | 1,600,000 |
| Ingrid van Dijken | 100,000 | - | - | - | - | 100,000 | 100,000 |
| Jim Cooper | 8,000,000 | - | - | - | - | 8,000,000 | 8,000,000 |
| Paul Grave | - | - | - | - | - | - | - |
| Kara King | - | - | - | - | - | - | - |
| Miles Brennan | - | - | - | - | - | - | - |
| Total | 9,780,000 | - | - | - | (80,000) | 9,700,000 | 9,700,000 |

e. SHARE HOLDINGS

The number of shares in the Group held during the financial year by each director of Terragen and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation (2022: nil).

| 2023 | Balance at start of year | Shares held on appointment as KMP | Acquisitions during the year | Disposals during the year | Options converted | Shares held on ceasing to be KMP | Balance at the end of the year |
|-------------------|--------------------------|-----------------------------------|------------------------------|---------------------------|-------------------|----------------------------------|--------------------------------|
| Travis Dillon | 350,000 | - | - | - | - | - | 350,000 |
| Sam Brougham | 15,178,718 | - | - | - | - | - | 15,178,718 |
| Ingrid van Dijken | 970,000 | - | - | - | - | - | 970,000 |
| Jim Cooper | 500,000 | - | - | - | - | (500,000) | - |
| Miles Brennan | - | - | - | - | - | - | - |
| Paul Grave | - | - | - | - | - | - | - |
| Jocelyn West | - | 99,900 | - | - | - | - | 99,900 |
| | 16,998,718 | - | - | - | - | (500,000) | 16,498,718 |

| 2022 | Balance at start of year | Shares held on appointment as KMP | Acquisitions during the year | Disposals during the year | Options converted | Shares held on ceasing to be KMP | Balance at the end of the year |
|-------------------|--------------------------|-----------------------------------|------------------------------|---------------------------|-------------------|----------------------------------|--------------------------------|
| Travis Dillon | - | - | 350,000 | - | - | - | 350,000 |
| Dr Paul Schober | 233,000 | - | - | - | - | (233,000) | - |
| Sam Brougham | 15,178,718 | - | - | - | - | - | 15,178,718 |
| Ingrid van Dijken | 970,000 | - | - | - | - | - | 970,000 |
| Jim Cooper | 400,000 | - | 100,000 | - | - | - | 500,000 |
| Paul Grave | - | - | - | - | - | - | - |
| Kara King | - | - | - | - | - | - | - |
| Miles Brennan | - | - | - | - | - | - | - |
| | 16,781,718 | - | 450,000 | - | - | (233,000) | 16,998,718 |

f. LOANS TO KEY MANAGEMENT PERSONNEL

There were no loans to key management personnel at any time during the financial year.

END OF REMUNERATION REPORT**INSURANCE AND INDEMNIFICATION**

To the extent permitted by law, the Group has indemnified (fully insured) each director and the secretary of the Group. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings (that may be brought) against the officers in their capacity as officers of the Company or a related body, 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 or to cause detriment to the Company. Premiums paid during the year for Directors & Officers liability insurance were \$83,451 (2022: \$135,651).

PROCEEDINGS ON BEHALF OF THE GROUP

The Group is not aware that any person has applied to the court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings in which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group with leave of the court under section 237 of the *Corporations Act 2001*.

NON-AUDIT SERVICES

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important. Details of amounts paid or payable to the auditor for audit and non-audit services provided during the year by the auditor are set out in Note 24 to the Financial Statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are of the opinion that the services, as disclosed in note 24 to the financial statements, do not compromise the external auditor's independence, for the following reasons:

- » all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- » none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Details of the amounts paid or payable to the auditor, SW Audit, for audit services provided during the year are set out in note 24 to the financial report.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is attached to this report.

ROUNDING OFF OF AMOUNTS

The Company is a company of the kind referred to in *ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest dollar unless otherwise indicated.

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

On behalf of the Directors



Miles Brennan | Managing Director and CEO

Melbourne, 30 August 2023

AUDITOR'S INDEPENDENCE DECLARATION



Take the lead

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

As lead auditor, I declare that, to the best of my knowledge and belief, during the year ended 30 June 2023 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit, and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

SW Audit
Chartered Accountants

R Blayney Morgan
Partner

Melbourne, 30 August 2023

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2023

| | Notes | 2023 \$ | 2022 \$ |
|--|-------|--------------------|--------------------|
| Revenue | 3 | 3,275,719 | 2,890,716 |
| Other income | 3 | 113,285 | 95,262 |
| Commissions paid | | (806,463) | (694,786) |
| Direct research | 4 | (314,196) | (840,396) |
| Raw materials and consumables used | | (64,235) | (274,161) |
| Transport | | (345,235) | (257,127) |
| Employee benefits | 5 | (3,616,509) | (4,498,319) |
| Occupancy | | (198,344) | (151,224) |
| Selling costs | | (173,757) | (511,501) |
| Accounting and audit | 25 | (182,938) | (214,171) |
| Travel and accommodation | | (92,565) | (84,063) |
| ASX and share registry | | (63,226) | (84,572) |
| Communications and IT | | (132,585) | (106,220) |
| Consulting | | (342,091) | (314,310) |
| Insurance | | (202,687) | (250,090) |
| Finance costs | 6 | (17,532) | (18,384) |
| Depreciation and amortisation | 7 | (493,364) | (608,923) |
| Other expenses | | (318,987) | (378,291) |
| Loss before income tax expense | | (3,975,710) | (6,300,560) |
| Income tax benefit | 8 | 741,791 | 893,430 |
| Loss for the year after income tax benefit | | (3,233,919) | (5,407,130) |
| Other comprehensive (loss) / income, net of tax | | | |
| Translation of foreign operations | | (2,143) | 3,477 |
| Total comprehensive loss for the year | | (3,236,062) | (5,403,653) |
| Basic and diluted loss per share (cents per share) | 9 | (1.57) | (2.80) |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

| | Notes | 2023 \$ | 2022 \$ |
|--------------------------------------|-------|------------------|------------------|
| Current assets | | | |
| Cash and cash equivalents | 21 | 4,174,116 | 6,669,478 |
| Trade and other receivables | 10 | 254,655 | 230,792 |
| Inventories | 11 | 202,954 | 144,506 |
| Other assets | 12 | 297,018 | 151,551 |
| Current tax assets | 8(c) | 738,586 | 890,223 |
| Total current assets | | 5,667,329 | 8,086,550 |
| Non-current assets | | | |
| Right of use assets | 13 | 105,784 | 336,080 |
| Property, plant, and equipment | 14 | 375,793 | 625,928 |
| Intangible assets | 15 | 196,253 | 166,376 |
| Other assets | | 1,600 | 1,720 |
| Total non-current assets | | 679,430 | 1,130,104 |
| TOTAL ASSETS | | 6,346,759 | 9,216,654 |
| Current liabilities | | | |
| Trade and other payables | 16 | 798,059 | 763,555 |
| Borrowings | 17 | 219,328 | 176,495 |
| Employee provisions | 18 | 187,158 | 314,914 |
| Total current liabilities | | 1,204,545 | 1,254,964 |
| Non-current liabilities | | | |
| Borrowings | 17 | 20,045 | 155,767 |
| Employee provisions | 18 | 45,986 | 44,662 |
| Total non-current liabilities | | 66,031 | 200,429 |
| TOTAL LIABILITIES | | 1,270,576 | 1,455,393 |
| NET ASSETS | | 5,076,183 | 7,761,261 |
| Equity | | | |
| Issued capital | 19 | 43,649,618 | 43,004,870 |
| Reserves | 20 | 1,680,741 | 2,290,440 |
| Accumulated losses | | (40,254,176) | (37,534,049) |
| TOTAL EQUITY | | 5,076,183 | 7,761,261 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2023

| 2023 | Issued Capital \$ | Reserves \$ | Accumulated Losses \$ | Total Equity \$ |
|--|----------------------|------------------|-----------------------------|--------------------|
| Balance as at 1 July 2022 | 43,004,870 | 2,290,440 | (37,534,049) | 7,761,261 |
| Loss for the year | - | - | (3,233,919) | (3,233,919) |
| Translation of foreign operations | - | (2,143) | - | (2,143) |
| Total comprehensive loss for the year | - | (2,143) | (3,233,919) | (3,236,062) |
| Transactions with owners in their capacity as owners: | | | | |
| Issue of share capital | 698,469 | - | - | 698,469 |
| Capital raising costs | (177,485) | - | - | (177,485) |
| Options exercised | 123,764 | (93,764) | - | 30,000 |
| Options lapsed | - | (513,792) | 513,792 | - |
| Balance as at 30 June 2023 | 43,649,618 | 1,680,741 | (40,254,176) | 5,076,183 |

| 2022 | Issued Capital \$ | Reserves \$ | Accumulated Losses \$ | Total Equity \$ |
|--|----------------------|------------------|-----------------------------|--------------------|
| Balance as at 1 July 2021 | 42,438,295 | 2,801,268 | (32,216,275) | 13,023,288 |
| Loss for the year | - | - | (5,407,130) | (5,407,130) |
| Translation of foreign operations | - | 3,477 | - | 3,477 |
| Total comprehensive loss for the year | - | 3,477 | (5,407,130) | (5,403,653) |
| Transactions with owners in their capacity as owners: | | | | |
| Options exercised | 566,575 | (424,949) | - | 141,626 |
| Options lapsed | - | (89,356) | 89,356 | - |
| Balance as at 30 June 2022 | 43,004,870 | 2,290,440 | (37,534,049) | 7,761,261 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2023

| | | 2023 \$ | 2022 \$ |
|--|--------------|--------------------|--------------------|
| Cash flow from operating activities | | | |
| Receipts from customers | | 2,426,631 | 2,400,603 |
| Payments to suppliers and employees | | (6,164,952) | (8,322,083) |
| Interest and other costs of finance paid | | (17,532) | (18,384) |
| Interest received | | 53,400 | 32,893 |
| Research and development tax concessions received | | 893,428 | 1,101,837 |
| Net cash used in operating activities | 21(b) | (2,809,025) | (4,805,134) |
| Cash flow from investing activities | | | |
| Payments for property, plant, and equipment | | (52,038) | (142,596) |
| Proceeds for sale of property, plant, and equipment | | 67,955 | 57,302 |
| Payments for intangible assets | | (51,114) | (32,911) |
| Net cash used in investing activities | | (35,197) | (118,205) |
| Cash flow from financing activities | | | |
| Proceeds from issue of shares | 19 | 728,469 | 141,626 |
| Cost of issuing equity securities | | (109,558) | - |
| Repayments of borrowings | | (79,828) | - |
| Repayment of lease liabilities | | (188,083) | (194,324) |
| Net cash provided by / (used in) financing activities | | 351,000 | (52,698) |
| Cash and cash equivalents at the beginning of the year | | 6,669,478 | 11,641,681 |
| Net decrease in cash and cash equivalents | | (2,493,222) | (4,976,037) |
| Foreign exchange difference on cash and cash equivalents | | (2,140) | 3,834 |
| Cash and cash equivalents at the end of the year | 21(a) | 4,174,116 | 6,669,478 |

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.



NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

The financial report covers Terragen Holdings Limited (the "Company" or "Terragen") and the entity it controlled for the year ended 30 June 2023 (collectively "Group"). For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

The Company is a listed public company limited by shares, incorporated, and domiciled in Australia. The presentation currency and functional currency of the Company is Australian dollars.

The principal activities of the Company during the financial year were research, development, and early market development of biological products in the agriculture sector.

The Registered office and principal place of business address of the Company is Unit 6, 39 Access Crescent, Coolumb Beach, QLD, Australia, 4573.

The financial report was authorised for issue by the Board of Directors of Terragen on the date shown on the Declaration by Directors attached to the Financial Statements.

STATEMENT OF COMPLIANCE

The financial report is a general-purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations, and complies with other requirements of the law.

These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies which have been adopted in the preparation of these financial statements are set out below.

a. BASIS OF PREPARATION

The financial report has been prepared on historical cost basis. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars unless otherwise noted. All values are rounded to the nearest dollar.

b. OPERATING LOSSES

The Group incurred a loss from continuing operations of \$3,233,919 (2022: \$5,407,130) and net operating cash outflows of \$2,809,026 (2022: \$4,805,134) for the year ended 30 June 2023.

In June 2023 the Group commenced a two tranche institutional placement and a share purchase plan. Tranche 1 completed on 15 June 2023, raising \$698,469.

Shortly following year-end, on 6 July 2023, the Share Purchase Plan (SPP) concluded raising a further \$466,000. Tranche 2 is expected to complete in September 2023. If approved by shareholders at General Meeting on 4 September 2023, Tranche 2 is expected to raise a further \$3,037,017 before capital raising costs.

The Directors have ensured that the Group has sufficient cash flows through:

- » the successful execution of management's sales strategy, which includes realising additional benefits from strategic partnerships.
- » reduction of indirect expenses in line with the stated objective of extending the Company's cash runway.
- » receipts from the Federal Government R&D tax incentive programme continue on the basis that the Group continues to qualify for these receipts.
- » the ability to raise additional capital should it be required.

Taking into account the operating losses incurred by the Group and the above factors, the Directors have prepared the financial report on a going concern basis which assumes the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business for a period of at least 12 months from the date of authorisation of the financial report for issue.

c. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

d. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The Group has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current year. None of the new and revised Standards and amendments thereof and Interpretations that became effective for the current year were applicable or material to the Group:

- » AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments
- » AASB 2021-7a Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections

NEW AND REVISED IFRS STANDARDS IN ISSUE BUT NOT YET EFFECTIVE

The Directors do not consider that the adoption of any of the following new Standards and Interpretations in issue but not yet effective at the date of these financial statements will have a material impact on the financial statements of the Group.

- » AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual reporting period beginning on or after 1 January 2023),
- » AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 (effective for annual reporting period beginning on or after 1 January 2023),
- » AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current (effective for annual reporting period beginning on or after 1 January 2023),
- » AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date (effective for annual reporting period beginning on or after 1 January 2024),
- » AASB 2022-6 Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants (effective for annual reporting period beginning on or after 1 January 2024),
- » AASB 2022-5 Amendments to Australian Accounting Standards – Lease Liability in a Sale and Leaseback (effective for annual reporting period beginning on or after 1 January 2024),
- » AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates (effective for annual reporting period beginning on or after 1 January 2023), and
- » AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual reporting period beginning on or after 1 January 2023)

e. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described below, Management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

CRITICAL JUDGEMENTS AND ESTIMATES IN APPLYING THE GROUP'S ACCOUNTING POLICIES

The directors have made the following critical judgements and estimations in the process of applying the Group's accounting policies.

JUDGEMENTS

I. RESEARCH & DEVELOPMENT

With regard to research and development costs incurred during the financial year it has been determined that the Group has not met the criteria for capitalisation as an asset, as outlined in Note 1^o.

The ability to successfully commercialise Terragen's products is dependent on further scientific research as Terragen works to further improve the efficacy, and therefore the market attractiveness of its products.

KEY SOURCES OF ESTIMATION UNCERTAINTY

In the following notes are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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 in the following notes:

I. TAX RECEIVABLES

Management has estimated the amount receivable that can be claimed in respect of Research and Development tax offsets based on application of the rules and requirements of the relevant tax legislation. There may be differences between the initial estimate and actual amounts received which will be accounted for in subsequent periods. Refer also to Note 1^o.

II. RECOVERABILITY OF DEFERRED TAX ASSET

Deferred tax assets have not been recognised as Management and the Directors do not believe that the members of the Group satisfy the recognition criteria set out in paragraph 35 of AASB 112 i.e., "that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity".

There have been no other significant estimates and judgements made in applying accounting policies that the Directors consider would have a significant effect on the amounts recognised in the financial statements. There have been no key assumptions made concerning the future, and there are no other key sources of estimation uncertainty at the reporting date, that the Directors consider would have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

f. SUBSIDIARIES

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

g. BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June each year.

Control is achieved when the Company:

- » Has the power over the investee
- » Is exposed, or has rights, to variable returns from its involvement with the investee, and
- » Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

h. FOREIGN CURRENCY TRANSLATION

In preparing the financial statements of the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other expenses.

The results and financial position of the Group's New Zealand operations are translated into the presentation currency as follows:

- » Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position
- » Income and expenses for each consolidated statement of comprehensive income or loss are translated at average exchange rates for the period of the consolidated statement of comprehensive income or loss
- » All resulting exchange differences are recognised in other comprehensive income.
- » Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement

is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

i. BORROWINGS

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

j. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

k. EMPLOYEE BENEFITS

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required, and they are capable of being measured reliably. Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of long-term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date. Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

l. FINANCIAL INSTRUMENTS

RECOGNITION AND DERECOGNITION

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

CLASSIFICATION OF FINANCIAL ASSETS

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- » The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows
- » The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- » the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- » the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL). Financial assets are classified according to their business model and the characteristics of their contractual cash flows. In the preparation of these financial statements, all financial assets are measured at amortised cost.

IMPAIRMENT OF FINANCIAL ASSETS

The Group makes use of a simplified approach for trade and other receivables as well as contract assets and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators, and forward-looking information to calculate the expected credit losses.

FINANCIAL LIABILITIES

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

FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

m. TRADE PAYABLES

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

n. GOODS AND SERVICES TAX (GST)

Revenues, expenses, and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a net basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

o. IMPAIRMENT OF ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

p. INCOME TAX

CURRENT TAX

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

DEFERRED TAX

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

CURRENT AND DEFERRED TAX FOR THE YEAR

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Management estimates the Research and Development tax refund based on application of the rules and requirements of the legislation. The Group recognises the benefit in the determination of income tax expense/benefit.

TAX CONSOLIDATION

The Company and its wholly owned Australian resident entity are members of a tax-consolidated group under Australian tax law. Terragen is the head entity within the tax-consolidated group. In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group.

Amounts payable or receivable under the tax-funding arrangement between the Company and the entities in the tax consolidated group are determined using a 'separate taxpayer within group' approach to determine the tax contribution amounts payable or receivable by each member of the tax-consolidated group. This approach results in the tax effect of transactions being recognised in the legal entity where that transaction occurred and does not tax effect transactions that have no tax consequences to the group. The same basis is used for tax allocation within the tax-consolidated group.

q. INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

r. LEASES

GROUP AS LESSEE

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant, and equipment with the exception that they factor in lease renewals where relevant. In addition, the right-of-use assets are periodically reduced by impairment losses in accordance with AASB 136 Impairment of Assets, if any, and adjusted for certain remeasurements of the lease liability.

LEASE LIABILITIES

The lease liability is initially measured at present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate as the discount rate. The discount rate is generally calculated using incremental borrowing rates for the specific lease terms and currencies. Lease liabilities are disclosed in the Consolidated Statement of Financial Position.

Lease payments included in the measurement of the lease liability comprise the following:

- » fixed payments, including in substance fixed payments less any lease incentives receivables;
- » variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement rate;
- » amounts expected to be payable under a residual value guarantee;
- » the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
- » payment of penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It will be remeasured when there is a change in index rate for future lease payments, a change in the Group's estimated amount payable under a residual value guarantee or changes in the Group's assessment of probabilities of exercising a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Group did not make any such adjustment during the period presented.

s. PROPERTY, PLANT, AND EQUIPMENT

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and any impairment in value.

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

The depreciable amounts of all fixed assets including buildings, but excluding freehold land, are depreciated over their estimated useful lives to the Group commencing from the time the asset is held ready for use.

The following depreciation rates are used in the calculation of depreciation:

| Class of Fixed Assets | Depreciation Rate | Basis |
|-------------------------|-------------------|---------------|
| Plant and equipment | 10 – 40% | Straight line |
| Furniture & fittings | 10 – 50% | Straight line |
| Motor vehicles | 25% | Straight line |
| Plant and Equipment R&D | 10 – 33% | Straight line |
| Leasehold improvements | 10 – 33% | Straight line |

t. PROVISIONS

Provisions are recognised when the Group has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, considering the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

u. REVENUE RECOGNITION

SALE OF GOODS AND AGENT COMMISSION

Revenue is recognised at the time goods are delivered to the customer as this is the point in time that the Group satisfies its performance obligations.

Sales are generally made via Retail Agents who are engaged to sell Terragen product as agent for Terragen. Retail Agents are eligible for sales commissions which are recognised at the point of sale, as an expense. Where sales are made via a Retail Agent, the sales consideration from the customer is paid to the Retail Agent and then paid to Terragen, net of a Base Sales Commission. Performance-based Sales Commissions are paid by Terragen to the Retail Agent subsequent to year end, subject to the Retail Agent meeting certain criteria. Accordingly, included in the Consolidated Statement of Cash Flows, Base Commissions are deducted in determining the net cash included within *Receipts from Customers* and Bonus Sales Commissions are included in *Payment to Suppliers*. Included in the Consolidated Statement of Financial Position, the Base Sales Commission is offset against their respective Trade Receivables and Performance-based Sales Commissions are included in *Trade & Other Payables*.

GRANT REVENUE

Grant revenue is recognised at fair value when there is reasonable assurance that the grants will be received. Grant revenue is recognised in profit or loss in the same period as the relevant expenses.

INTEREST REVENUE

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income 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 on initial recognition.

v. INTANGIBLE ASSETS

INTERNALLY GENERATED INTANGIBLE ASSETS - RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all the following has been demonstrated:

- » the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- » the intention to complete the intangible asset and use or sell it;
- » the ability to use or sell the intangible asset;
- » how the intangible 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 intangible asset; and
- » the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred. After initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

2. OPERATING SEGMENTS

The Group has identified its operating segments based on the internal reports that were reviewed and used by the Group's Chief Executive (the Chief Operating Decision Maker (CODM)) in assessing performance and determining the allocation of resources during the year.

The Group is managed primarily on a geographic basis, that is, the countries in which products are sold. Operating segments are therefore determined on the same basis. The CODM assesses the performance of the operating segments based on revenue and expenditure that is recognised in the statement of profit or loss in these financial statements. The measurement of gross expenditure does not include non-cash items such as depreciation expense and share based payments expense.

Geographic locations from which reportable segments derive their revenues:

- » Australia
- » New Zealand

Both operating segments generated revenue during the year. Revenue is recognized at the point in time that the Group satisfies its performance obligations by transferring the promised goods to its customers. Commissions are granted to agents who are members of the Retail Agency Partner Network (having signed Retail Agency Partner Agreements).

Assets, liabilities, and cash flows are not allocated to segments in the internal reports that are prepared for the CODM.

The following tables present revenue and loss information for the Group's operating segments for year ended 30 June 2023 and 30 June 2022, respectively.

I. SEGMENT PERFORMANCE

| 30 June 2023 | Australia \$ | New Zealand \$ | TOTAL \$ |
|---------------------------------------|--------------------|-------------------|--------------------|
| Total segment revenue | 2,976,182 | 299,537 | 3,275,719 |
| Segment other income | 112,919 | 367 | 113,286 |
| Segment expenditure | (6,091,140) | (780,211) | (6,871,351) |
| Segment depreciation and amortisation | (466,773) | (26,591) | (493,364) |
| Segment result | (3,468,812) | (506,898) | (3,975,710) |

The Group's income tax benefit of \$741,791 (2022: \$893,429) relates to the Australian segment.

MAJOR CUSTOMERS

Included in revenues arising from the Australian segment, are the following customers where greater than 10% of revenues are generated.

- » Customer A - \$356,545
- » Customer B - \$342,405
- » Customer C - \$316,085

No other single customer contributed 10 per cent or more to the Group's revenue.

| 30 June 2022 | Australia \$ | New Zealand \$ | TOTAL \$ |
|---------------------------------------|--------------------|-------------------|--------------------|
| Total segment revenue | 2,723,723 | 166,993 | 2,890,716 |
| Segment other income | 95,262 | - | 95,262 |
| Segment expenditure | (8,038,007) | (639,620) | (8,677,627) |
| Segment depreciation and amortisation | (601,355) | (7,556) | (608,911) |
| Segment result | (5,820,377) | (480,183) | (6,300,560) |

The Group's income tax benefit of \$893,429 relates to the Australian segment.

II. SEGMENT ASSETS

The following tables present assets, liabilities, and other segment information for the Group's operating segments as at 30 June 2023 and 30 June 2022, respectively.

| 30 June 2023 | Australia \$ | New Zealand \$ | TOTAL \$ |
|----------------|-----------------|-------------------|------------------|
| Segment assets | 6,258,814 | 87,945 | 6,346,759 |

| 30 June 2022 | Australia \$ | New Zealand \$ | TOTAL \$ |
|----------------|-----------------|-------------------|------------------|
| Segment assets | 8,903,586 | 313,068 | 9,216,654 |

III. OTHER SEGMENT INFORMATION

| 30 June 2023 | Australia \$ | New Zealand \$ | TOTAL \$ |
|---------------------------------|-----------------|-------------------|----------------|
| Additions to non-current assets | 103,151 | - | 103,151 |

| 30 June 2022 | Australia \$ | New Zealand \$ | TOTAL \$ |
|---------------------------------|-----------------|-------------------|----------------|
| Additions to non-current assets | 265,544 | 78,602 | 344,146 |

Additions include right-of-use assets, property, plant and equipment and intangible assets.

3. REVENUE AND OTHER INCOME

| Sales by product at a point in time: | 2023 \$ | 2022 \$ |
|--------------------------------------|------------------|------------------|
| Mylo® | 2,521,778 | 2,267,158 |
| Great Land Plus® | 753,941 | 623,558 |
| | 3,275,719 | 2,890,716 |

Other income

| | | |
|---------------------------------------|------------------|------------------|
| Grant income | - | 5,067 |
| Interest received | 53,400 | 32,893 |
| Other income | 59,885 | 57,302 |
| Total Other Income | 113,285 | 95,262 |
| Total revenue and other income | 3,389,004 | 2,985,978 |

4. RESEARCH

| | 2023 \$ | 2022 \$ |
|-------------------------------|------------------|------------------|
| Direct research | 314,196 | 840,396 |
| Employee benefits | 976,092 | 1,192,174 |
| Depreciation and amortisation | 160,035 | 218,725 |
| Other expenses | 159,561 | 213,245 |
| Total research | 1,609,884 | 2,464,540 |

The above note shows total expenditure for the research and development by function contrasting with the Consolidated Statement of Profit or Loss and Other Comprehensive Income which details expenses by nature.

5. EMPLOYEE BENEFITS

| | 2023 \$ | 2022 \$ |
|--------------------------------|------------------|------------------|
| Salaries and wages | 2,915,334 | 3,717,402 |
| Post-employment benefits | 278,183 | 298,141 |
| Termination benefits | 217,127 | 94,808 |
| Employee on-costs | 161,080 | 150,632 |
| Other employee benefits | 44,785 | 237,336 |
| Total employee benefits | 3,616,509 | 4,498,319 |

6. FINANCE COSTS

| | 2023 \$ | 2022 \$ |
|-------------------------------|---------------|---------------|
| Interest on lease liabilities | 7,573 | 12,324 |
| Other finance costs | 9,959 | 6,060 |
| Total finance costs | 17,532 | 18,384 |

7. DEPRECIATION AND AMORTISATION

| | 2023 \$ | 2022 \$ |
|---|----------------|----------------|
| Amortisation of right-of-use assets (refer to note 13) | 186,142 | 181,430 |
| Depreciation of property, plant, and equipment (refer to note 14) | 285,985 | 411,368 |
| Amortisation of intangible assets (refer to note 15) | 21,237 | 16,125 |
| Total depreciation and amortisation | 493,364 | 608,923 |

8. INCOME TAX EXPENSE

The income tax expense/benefit can be reconciled to the accounting profit/loss as follows:

| | 2023 \$ | 2022 \$ |
|---|------------------|------------------|
| a. Components of tax benefit | | |
| Current tax | (741,791) | (1,890,631) |
| Deferred tax | - | 997,201 |
| | (741,791) | (893,430) |
| b. Prima facie tax benefit | | |
| Loss from continuing operations | (3,975,710) | (6,300,560) |
| Income tax benefit calculated at 25% | (993,928) | 1,737,019 |
| Non-deductible expenditure | 670,565 | 633,232 |
| Non-recognition of tax losses and temporary differences | 323,363 | 323,363 |
| Research and Development tax offset | (741,791) | (893,430) |
| Income tax benefit | (741,791) | (893,430) |
| c. Current tax asset | | |
| Opening balance | 890,223 | 1,098,630 |
| R&D Tax concession received | (893,428) | (1,101,837) |
| Over provision of prior year R&D benefit | (3,205) | (59,308) |
| Research and Development tax offset accrual | 741,791 | 890,223 |
| Closing balance | 738,586 | 890,223 |

Deferred tax assets associated with income tax losses have not been recognised due to uncertainty as to the timing of their recoupment from sufficient future taxable income. Deferred tax assets relating to unused tax losses that may potentially be available to the Group, subject to meeting the requirements under tax legislation, at 25% tax rate is \$5,455,663 as at 30 June 2023.

9. LOSS PER SHARE

Both the basic and diluted loss per share have been calculated using the loss for the year. The reconciliation of the weighted average number of shares for the purpose of diluted loss per share to the weighted average number of ordinary shares used in the calculation of basic loss per share is as follows:

| | 2023 \$ | 2022 \$ |
|--|--------------------|---------------|
| Loss attributable to the owners of the Group | (3,233,919) | (5,407,130) |
| | Number | Number |
| Weighted average number of shares used in basic loss per share | 195,149,299 | 192,939,826 |
| Weighted average number of shares used in diluted loss per share (i) | 195,149,299 | 192,939,826 |

- i. There were no potential ordinary shares that are considered dilutive as they did not meet the requirements for inclusion as per *AASB 133 Earnings per share* since the Group generated losses for the year ended 30 June 2023 and the prior year.

10. TRADE AND OTHER RECEIVABLES

| | 2023 \$ | 2022 \$ |
|-------------------|----------------|----------------|
| Trade receivables | 271,389 | 207,859 |
| Loss allowance | (25,567) | (26,567) |
| | 245,822 | 181,292 |
| Other receivables | 8,833 | 49,500 |
| | 254,655 | 230,792 |

The average credit period on sales of goods is 33 days (2022: 33 days). No interest is charged on outstanding trade receivables. The Group measures the loss allowance for trade receivables using the lifetime expected credit loss ("ECL") simplified approach. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group has recognised a loss allowance of 100 per cent against all receivables over 120 days past due.

The ageing of the Group's trade receivables at 30 June 2023 and 30 June 2022 was:

| | 2023 | 2022 |
|-------------------------|----------------|----------------|
| Not past due | 192,539 | 148,897 |
| Past due 1 – 30 days | 70,631 | 54,118 |
| Past due 31 – 150 days | 8,219 | 3,768 |
| Past due 151 – 330 days | - | 1,076 |
| TOTAL | 271,389 | 207,859 |

11. INVENTORIES

| | 2023 \$ | 2022 \$ |
|----------------|----------------|----------------|
| Raw materials | 65,631 | - |
| Finished goods | 137,323 | 144,506 |
| | 202,954 | 144,506 |

Amount of inventory recognised through the statement of profit or loss for the year was \$263,849 (2022: \$140,927). Inventory of \$91,233 was written off throughout the year (2022: \$24,009).

12. OTHER CURRENT ASSETS

| | 2023 \$ | 2022 \$ |
|-------------------------|----------------|----------------|
| Deposits and guarantees | 131,610 | 129,006 |
| Prepayments | 165,408 | 22,545 |
| | 297,018 | 151,551 |

Deposits and guarantees relate principally to Term Deposits held as security against credit card facilities.

13. RIGHT-OF-USE ASSETS

| | Buildings \$ | Motor vehicles \$ | Research equipment \$ | Total \$ |
|--------------------------------|-----------------|-------------------------|-----------------------------|----------------|
| Cost | | | | |
| At 1 July 2021 | 411,244 | 262,520 | 109,289 | 783,053 |
| Additions | - | 168,627 | - | 168,627 |
| Disposals | - | (110,490) | - | (110,490) |
| Balance at 30 June 2022 | 411,244 | 320,657 | 109,289 | 841,190 |
| Disposals | - | (79,596) | - | (79,596) |
| Foreign exchange | - | 2,749 | - | 2,749 |
| Transferred to PPE | - | (49,470) | (109,289) | (158,759) |
| At 30 June 2023 | 411,244 | 194,340 | - | 605,584 |

Accumulated Depreciation

| | | | | |
|--|----------------|----------------|----------------|----------------|
| At 1 July 2021 | 184,700 | 134,483 | 109,289 | 428,472 |
| Depreciation for the year | 99,428 | 82,002 | - | 181,430 |
| Disposals | - | (104,792) | - | (104,792) |
| Balance at 30 June 2022 | 284,128 | 111,693 | 109,289 | 505,110 |
| Depreciation for the year | 99,428 | 86,714 | - | 186,142 |
| Disposals | - | (33,480) | - | (33,480) |
| Foreign exchange difference | - | 787 | - | 787 |
| Transferred to PPE | - | (49,470) | (109,289) | (158,759) |
| At 30 June 2023 | 383,556 | 116,244 | - | 499,800 |
| Carrying amount at 30 June 2023 | 27,688 | 78,096 | - | 105,784 |

The Group leases several assets including buildings, motor vehicles and previously plant and equipment used in manufacturing and research and development activities. Refer note 1 for further information on the Group's accounting policy for leases as a lessee.

During the year the lease contracts on two motor vehicles were terminated early and the vehicles returned to the lessors, resulting in Right-of-use asset disposals of \$79,596.

Right of use assets on which title transferred to the Company, were transferred to PPE.

The maturity analysis of lease liabilities is presented in note 23.

The Group does not sub-lease any right-of-use assets.

14. PROPERTY, PLANT, AND EQUIPMENT

| CARRYING AMOUNTS OF | 2023 \$ | 2022 \$ |
|---------------------------|----------------|----------------|
| Plant and equipment | 195,866 | 197,858 |
| Office equipment | 6,783 | 18,587 |
| Motor Vehicles | - | 34,691 |
| Research equipment | 106,489 | 196,612 |
| Leasehold improvements | 66,655 | 178,180 |
| Written down value | 375,793 | 625,928 |

IMPAIRMENT

In accordance with policy, the Group undertook a formal impairment review for the year ended 30 June 2023. The review was performed at the cash generating unit (CGU) level to which all assets belong.

Based on impairment testing performed, the recoverable amount of the CGU exceeds the carrying amount at 30 June 2023. Accordingly, there is no impairment of property, plant and equipment, right-of-use assets or intangible assets. (30 June 2022: \$NIL).

MOVEMENTS IN CARRYING AMOUNTS

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

| 2023 | Plant & equipment \$ | Office equipment \$ | Motor vehicles \$ | Research equipment \$ | Leasehold improve- ments \$ | Capital WIP | Total \$ |
|-----------------------------|----------------------------|---------------------------|-------------------------|-----------------------------|--------------------------------------|----------------|------------------|
| Cost | | | | | | | |
| Balance 1 July 2022 | 467,930 | 98,289 | 90,939 | 882,088 | 527,125 | - | 2,066,371 |
| Additions | 47,578 | - | - | 4,460 | - | - | 52,038 |
| Disposals | (7,091) | - | (140,409) | - | - | - | (147,500) |
| Transfers | - | - | 49,470 | 109,289 | - | - | 158,759 |
| Foreign exchange | - | 58 | - | - | - | - | 58 |
| Balance 30 June 2023 | 508,417 | 98,347 | - | 995,837 | 527,125 | - | 2,129,726 |

Accumulated depreciation

| | | | | | | | |
|-----------------------------|------------------|-----------------|-----------------|------------------|------------------|----------|--------------------|
| Balance 1 July 2022 | (270,072) | (79,702) | (56,248) | (685,476) | (348,945) | - | (1,440,443) |
| Depreciation | (49,570) | (11,878) | (18,429) | (94,583) | (111,525) | - | (285,985) |
| Disposals | 7,091 | - | 124,147 | - | - | - | 131,238 |
| Transfers | - | - | (49,470) | (109,289) | - | - | (158,759) |
| Foreign exchange | - | 16 | - | - | - | - | 19 |
| Balance 30 June 2023 | (312,551) | (91,564) | - | (889,348) | (460,470) | - | (1,753,933) |
| Written down value | 195,866 | 6,783 | - | 106,489 | 66,655 | - | 375,793 |

| 2022 | Plant & equipment \$ | Office equipment \$ | Motor vehicles \$ | Research equipment \$ | Leasehold improvements \$ | Capital WIP | Total \$ |
|------|----------------------|---------------------|-------------------|-----------------------|---------------------------|-------------|----------|
|------|----------------------|---------------------|-------------------|-----------------------|---------------------------|-------------|----------|

COST

| | | | | | | | |
|-----------------------------|----------------|---------------|---------------|----------------|----------------|---------------|------------------|
| Balance 1 July 2021 | 447,641 | 89,076 | 90,939 | 745,541 | 520,360 | 46,810 | 1,940,367 |
| Additions | 36,881 | 5,413 | - | 93,537 | 6,765 | - | 142,596 |
| Disposals | (16,592) | - | - | - | - | - | (16,592) |
| Transfers | - | 3,800 | - | 43,010 | - | (46,810) | - |
| Balance 30 June 2022 | 467,930 | 98,289 | 90,939 | 882,088 | 527,125 | - | 2,066,371 |

Accumulated depreciation

| | | | | | | | |
|-----------------------------|------------------|-----------------|-----------------|------------------|------------------|----------|--------------------|
| Balance 1 July 2021 | (219,009) | (72,330) | (32,075) | (489,376) | (218,864) | - | (1,031,654) |
| Depreciation | (53,642) | (7,372) | (24,173) | (196,100) | (130,081) | - | (411,368) |
| Disposals | 2,579 | - | - | - | - | - | 2,579 |
| Balance 30 June 2022 | (270,072) | (79,702) | (56,248) | (685,476) | (348,945) | - | (1,440,443) |
| Written down value | 197,858 | 18,587 | 34,691 | 196,612 | 178,180 | - | 625,928 |

15. INTANGIBLE ASSETS

CARRYING AMOUNTS OF

| | 2023 \$ | 2022 \$ |
|---------------------------|----------------|----------------|
| Patents & trademarks | 196,253 | 166,376 |
| Written down value | 196,253 | 166,376 |

Patents and trademarks are amortised over their estimated useful lives, which is on average 20 years.

MOVEMENTS IN CARRYING AMOUNTS

Movement in the carrying amounts for each class of intangible asset between the beginning and the end of the current financial year:

COST

| | 2023 \$ | 2022 \$ |
|--------------------------------------|----------------|----------------|
| Balance 1 July | 224,107 | 191,184 |
| Additions from separate acquisitions | 51,114 | 32,923 |
| Balance 30 June | 275,221 | 224,107 |

Accumulated amortisation

| | | |
|---------------------------------------|-----------------|-----------------|
| Balance 1 July | (57,731) | (41,606) |
| Charge for the year | (21,237) | (16,125) |
| Balance 30 June | (78,968) | (57,731) |
| Written down value at year-end | 196,253 | 166,376 |

16. TRADE AND OTHER PAYABLES

| | 2023 \$ | 2022 \$ |
|------------------|----------------|----------------|
| Trade payables | 304,427 | 189,607 |
| Accrued expenses | 414,450 | 479,882 |
| Other payables | 79,182 | 94,066 |
| | 798,059 | 763,555 |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 20.65 days (2022: 22 days) from invoice date. The carrying values of the trade and other payables are considered to be a reasonable approximation of fair value.

17. BORROWINGS

| | 2023 \$ | 2022 \$ |
|-----------------------------|----------------|----------------|
| Insurance premium funding | 132,314 | - |
| Lease liabilities | 87,014 | 176,495 |
| Current – at amortised cost | 219,328 | 176,495 |

Non-current – at amortised cost

| | | |
|-------------------|---------------|----------------|
| Lease liabilities | 20,045 | 155,767 |
|-------------------|---------------|----------------|

MOVEMENTS IN LEASE LIABILITIES

Movement in the lease liabilities between the beginning and the end of the current financial year:

| | 2023 \$ | 2022 \$ |
|--|----------------|----------------|
| Balance at the beginning of the year | 332,262 | 357,957 |
| New leases entered | - | 168,628 |
| Leases terminated | (45,710) | - |
| Lease payments made | (188,083) | (206,647) |
| Foreign exchange difference on lease liabilities | 1,017 | - |
| Portion of lease payments recognised as finance cost | 7,573 | 13,462 |
| Balance at the end of the year | 107,059 | 332,262 |
| Lease liabilities recognised as: | | |
| Current | 87,014 | 176,495 |
| Non-current | 20,045 | 155,767 |
| | 107,059 | 332,262 |

18. EMPLOYEE PROVISIONS

| CURRENT | 2023 \$ | 2022 \$ |
|--------------------|--------------------|--------------------|
| Employee benefits | 187,158 | 314,914 |
| NON-CURRENT | 2023 \$ | 2022 \$ |
| Employee benefits | 45,986 | 44,662 |

The provision for employee benefits relates to the Group's liability for accumulated long service and annual leave entitlements.

19. ISSUED CAPITAL

| | 2023 \$ | 2022 \$ |
|---|------------|------------|
| Ordinary shares - issued and fully paid | 43,649,618 | 43,004,870 |

At shareholder meetings, each ordinary share has the right to attend and vote, one vote for every share held. Each ordinary share has the right to participate in the dividends (if any) declared on that class of share.

| | 2023 shares | 2022 shares | 2023 \$ | 2022 \$ |
|---|--------------------|--------------------|-------------------|-------------------|
| Beginning of the year | 193,419,235 | 190,814,235 | 43,004,870 | 42,438,295 |
| Issue of shares | 29,102,880 | - | 698,469 | - |
| Shares issued on the exercise of options (refer note 21(a) and (b)) | 600,000 | 2,605,000 | 123,764 | 566,575 |
| Capital raising costs | - | - | (177,485) | - |
| Balance at 30 June | 223,122,115 | 193,419,235 | 43,649,618 | 43,004,870 |

At shareholder meetings, each ordinary share is entitled to attend and vote, one vote for every share held. Shares issued as remuneration are issued at the market value of the shares with reference to recent capital raisings.

Shares issued on the exercise of options consisted of 600,000 employee options (2022: 2,605,000) which had a fair value of \$93,764 (2022: \$424,949) and exercise price proceeds of \$30,000 (2022: \$141,626).

20. RESERVES

| | 2023 \$ | 2022 \$ |
|--------------------------------------|------------------|------------------|
| Share based payments reserve (a) | 1,679,050 | 1,772,814 |
| Equity options reserve (b) | - | 513,792 |
| Foreign currency translation reserve | 1,691 | 3,834 |
| Total reserves | 1,680,741 | 2,290,440 |

a. SHARE BASED PAYMENT RESERVE

| OPTIONS ISSUED | 2023 options | 2022 options | 2023 \$ | 2022 \$ |
|---|------------------|------------------|------------------|------------------|
| Outstanding at the beginning of the year | 8,600,000 | 11,715,000 | 1,772,814 | 2,287,119 |
| Issued during the year | - | - | - | - |
| Exercised during the year (i) | (600,000) | (2,605,000) | (93,764) | (424,949) |
| Lapsed during the year | - | (510,000) | - | (89,356) |
| Outstanding at the end of the year | 8,000,000 | 8,600,000 | 1,679,050 | 1,772,814 |

DETAILS OF THE EMPLOYEE INCENTIVE PLAN (EIP) OF THE GROUP

The Group has an EIP for directors, executives, employees, contractors and consultants of the Group and its subsidiaries (Eligible Participants). As approved by the Board, and in accordance with the terms of the EIP, Eligible Participants may be granted options or performance rights to purchase ordinary shares (Awards). Each Award converts into one ordinary share of the Group on exercise. No amounts are paid or payable by the recipient on receipt of the Award. The Awards carry neither rights to dividends nor voting rights. Awards may be exercised at any time from the date of vesting to the date of their expiry.

The number of Awards granted is calculated in accordance with service and performance-based criteria approved by the Group and is subject to approval by the Board.

(i) During the period 600,000 Tranche 7 options were exercised reducing the Tranche to nil.

EMPLOYEE SHARE OPTIONS ON ISSUE

The following share-based payment arrangements were in existence as at 30 June 2023:

| Option series | Number | Grant date | Vesting date | Expiry date | Exercise price | Fair Value at grant date |
|---------------|-----------|------------|--------------|-------------|----------------|--------------------------|
| Tranche 13 | 1,000,000 | 04/12/2020 | 04/12/2020 | 04/12/2025 | \$0.25 | \$0.2771 |
| Tranche 14 | 2,000,000 | 04/12/2020 | 04/12/2020 | 04/12/2025 | \$0.50 | \$0.2332 |
| Tranche 15 | 5,000,000 | 04/12/2020 | 04/12/2020 | 04/12/2025 | \$1.00 | \$0.1842 |

b. EQUITY OPTIONS RESERVE

| OPTIONS ISSUED | 2023 options | 2022 options | 2023 \$ | 2022 \$ |
|---|-----------------|-------------------|------------|----------------|
| Outstanding at the beginning of the year | 11,245,710 | 11,245,710 | 513,792 | 513,792 |
| Lapsed during the year (ii) | (11,245,710) | - | (513,792) | - |
| Outstanding at the end of the year | - | 11,245,710 | - | 513,792 |

(ii) During the period the remaining options in tranches 10, 11 and 12 lapsed.

21. CASH AND CASH EQUIVALENTS

a. RECONCILIATION OF CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

| | 2023 \$ | 2022 \$ |
|-------------------------------|------------------|------------------|
| Cash and bank balances | 4,174,116 | 6,669,478 |

At 30 June 2023, the Group holds term deposits of \$122,212 (2022: \$119,608) with financial institutions that roll over beyond 90 days of year end, which are restricted for the use of bank guarantees. These have been classified within other assets on the Statement of Financial Position at 30 June 2023.

b. RECONCILIATION OF LOSS FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES:

| | 2023 \$ | 2022 \$ |
|--|--------------------|--------------------|
| Loss for the year | (3,233,919) | (5,407,130) |
| Adjustment for non-cash items | | |
| Depreciation and amortisation | 493,364 | 608,923 |
| Profit on sale of property, plant, and equipment | (51,693) | - |
| Grant income accrual | - | (5,067) |
| | (2,792,248) | (4,836,165) |
| Changes in net assets and liabilities | | |
| Trade and other receivables | (23,863) | 91,286 |
| Inventories | (58,450) | (141,097) |
| Other current assets | 29,556 | 91,607 |
| Current tax assets | 151,639 | 208,407 |
| Other non-current assets | 120 | 840 |
| Trade and other payables | 11,977 | (292,275) |
| Provisions | (127,756) | 72,263 |
| Net cash used in operating activities | (2,809,025) | (4,805,134) |

22. FINANCIAL RISK MANAGEMENT

The Group is exposed to credit risk, liquidity risk and market risk. Overall financial risk management focuses on mitigating the potential financial effects to the Group's financial performance.

The Group manages its capital to ensure that the entity will be able to continue as a going concern whilst maximising the return to shareholders through the optimisation of the debt and equity balances.

The Group's capital includes issued capital less any accumulated losses. The Group policy is to maintain a capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group is not subject to any externally imposed capital requirements.

a. CREDIT RISK

In order to minimise credit risk, the Group has adopted a policy of only dealing with creditworthy counterparties. For all new customers, credit checks are performed, using publicly available financial information and the Group's own trading records to rate its major customers.

Credit approvals and other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. Furthermore, the Group reviews the recoverable amount of each trade debt on an individual basis at the end of the reporting period to ensure that adequate loss allowance is made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Trade receivables consist of a large number of customers, spread across geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

Of the trade receivables balance at the end of the year, \$33,352 (2022: \$42,152) is due from Company A, \$nil (2022: \$nil) is due from Company B and \$61,512 (2022: \$45,628) is due from Company C, the Group's three largest customers disclosed in Note 2. Apart from this, the Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk related to Companies A, B and C did not exceed 35 per cent of trade and other receivables assets at any time during the year.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

OVERVIEW OF THE GROUP'S EXPOSURE TO CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at 30 June 2023, the Group's maximum exposure to credit risk which will cause a financial loss to the Group, due to failure to discharge an obligation by the counterparties, arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The table below details the credit quality of the Group's financial assets, as well as the Group's maximum exposure to credit risk by credit risk rating grades:

| 30 June 2023 | Note | Internal credit rating | 12-month or lifetime ECL? | Gross carrying amount | Loss allowance | Net carrying amount |
|-----------------------------|------|------------------------|------------------------------------|-----------------------|----------------|---------------------|
| Trade and other receivables | 11 | (i) | Lifetime ECL (simplified approach) | \$ 280,222 | \$(25,567) | \$254,655 |
| 30 June 2022 | Note | Internal credit rating | 12-month or lifetime ECL? | Gross carrying amount | Loss allowance | Net carrying amount |
| Trade and other receivables | 11 | (i) | Lifetime ECL (simplified approach) | \$257,359 | \$(26,567) | \$230,792 |

- i. For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Note 10 includes further details on the loss allowance for these assets respectively.

b. LIQUIDITY RISK

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

LIQUIDITY AND INTEREST RISK TABLES

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

| Year ended 30 June 2023 | < 6 months \$ | 6-12 months \$ | 1-5 years \$ | Total contractual cash flows \$ | Carrying amount \$ |
|-------------------------|------------------|-------------------|-----------------|------------------------------------|-----------------------|
| Payables | 798,059 | - | - | 798,059 | 798,059 |
| Lease liability | 191,723 | 29,238 | 21,079 | 242,040 | 239,373 |
| Net maturities | 989,782 | 29,238 | 21,079 | 1,040,099 | 1,037,432 |

| Year ended 30 June 2022 | < 6 months \$ | 6-12 months \$ | 1-5 years \$ | Total contractual cash flows \$ | Carrying amount \$ |
|-------------------------|------------------|-------------------|-----------------|------------------------------------|-----------------------|
| Payables | 763,555 | - | - | 763,555 | 763,555 |
| Lease liability | 96,571 | 96,571 | 150,264 | 343,406 | 332,262* |
| Net maturities | 860,126 | 96,571 | 150,264 | 1,106,961 | 1,095,817 |

- * The difference between total contractual cash flows and carrying amount is interest payable over the lives of the lease agreements.

c. MARKET RISK

Market risk is the risk that the fair value of future cash flows will fluctuate because of changes in market prices. Market risk includes foreign currency risk and interest rate risk.

FOREIGN EXCHANGE RISK

The Group operates a branch in New Zealand and is exposed to foreign exchange risk arising from currency exposure. The Group's policy is to convert its local currency to the foreign currency at the time of the transaction. Foreign exchange risk arises from future commercial transactions and recognised financial liabilities denominated in a currency that is not the Group's functional currency (which is the Australian dollar).

The Group manages foreign exchange risk on an as-needs basis. The risk is measured using sensitivity analysis and cash-flow forecasting. The Group's exposure to foreign currency risk, expressed in Australian dollars at the reporting date, was as follows:

| | 2023 \$ | 2022 \$ |
|---|---------------|----------------|
| NZ DENOMINATED BALANCES CONVERTED TO AUD | | |
| Cash and cash equivalents | 46,544 | 203,785 |
| Trade and other receivables | 4,933 | 18,205 |
| Total other financial assets | 18,379 | 19,852 |
| Total assets | 69,856 | 241,842 |
| Trade and other payables | 33,383 | 19,214 |
| Total lease liabilities | - | 58,096 |
| Net exposure | 36,473 | 164,532 |

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents an assessment of the reasonably possible change in foreign exchange rates. A negative number in the table represents a decrease in the operating profit before tax and reduction in equity where the Australian dollar strengthens against the relevant currency. For a 10% strengthening of the Australian dollar against the relevant currency, there would be a comparable impact on the loss or equity, and the balances below would be positive.

| | | |
|--|---------|----------|
| Profit / (loss) before tax and equity – 10% increase | 3,647 | 16,453 |
| Profit / (loss) before tax and equity – 10% decrease | (3,647) | (16,453) |

INTEREST RATE RISK

The Group's exposure to interest rate risk arises predominantly from cash and cash equivalents bearing variable interest rates, as the Group intends to hold any fixed rate financial assets to maturity. At the end of the reporting period the Group maintained the following variable rate accounts:

| | 30 June 2023 | | 30 June 2022 | |
|---------------------------|----------------------------------|------------|----------------------------------|------------|
| | Weighted average interest rate % | Balance \$ | Weighted average interest rate % | Balance \$ |
| Cash and cash equivalents | 0.108% | 4,174,116 | 0.41% | 6,669,478 |

At the end of the reporting period, if the interest rates had changed, as illustrated in the table below, with all other variables remaining constant, after-tax profit and equity would have been affected as follows:

| | After-tax loss higher / (lower) | | Equity higher / (lower) | |
|--|---------------------------------|------------|-------------------------|------------|
| | 2023 \$ | 2022 \$ | 2023 \$ | 2022 \$ |
| +0.108% (10.8bp) [2022: +0.41% (41bp)] | 44,872 | 27,011 | 44,872 | 27,011 |
| -0.108% (10.8bp) [2022: -0.41% (41bp)] | (44,872) | (27,011) | (44,872) | (27,011) |

23. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

The Group's related parties include key management, post-employment benefit plans for the Group's employees 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.

The aggregate compensation made to key management personnel of the Group is set out below:

| | 2023 \$ | 2022 \$ |
|---|------------------|------------------|
| Salary | 717,250 | 729,208 |
| Superannuation | 63,975 | 53,705 |
| Director fees – cash | 62,499 | 179,333 |
| Director fees – share based payment expenditure | - | 1,664,734 |
| Other | 157,971 | 148,946 |
| TOTAL | 1,001,695 | 1,111,192 |

Director fees for Sam Brougham are invoiced via Crofton Park Developments Pty Ltd atf Sam Brougham Family Trust. Sam Brougham is a director of the trustee and beneficiary of the trust. Fees in 2023 were \$18,333 (2022: \$44,000).

Director fees for Travis Dillon are invoiced via Dillon Consulting Company Pty Ltd. Fees in 2023 were \$25,833 (2022: \$62,000) comprising \$25,500 in Chairman fees and \$3,333 in Committee fees. A further \$6,000 (2022: \$50,000) was paid to Travis Dillon in relation to consulting services provided to the Sales and Marketing Team.

24. REMUNERATION OF AUDITORS

During the year, the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices:

| | 2023 \$ | 2022 \$ |
|--|---------------|----------------|
| SW AUDIT | | |
| Audit and assurance services | | |
| Audit and review of financial reports | 93,500 | - |
| DELOITTE TOUCHE TOHMATSU AND RELATED NETWORK FIRMS | | |
| Audit and assurance services | | |
| Audit and review of financial reports | - | 132,300 |
| Other non-assurance services | | |
| Advice on taxation and other matters and review and lodgement of corporate tax returns | - | 24,435 |
| Professional Research and Development (R&D) taxation services | - | 24,675 |
| TOTAL | 93,500 | 181,410 |

25. COMMITMENTS

There were no capital expenditure commitments at 30 June 2023 (2022: \$nil).

26. CONTINGENT LIABILITIES

There are no contingent liabilities or assets as at 30 June 2023 (2022: nil).

27. SUBSEQUENT EVENTS

Other than the matters listed below, there has been no matter or circumstance which has arisen since the end of the year that has significantly affected, or may significantly affect the Group's operations, the result of those operations or the Group's state of affairs:

- » On 6 July 2023, 19,416,651 shares were issued under the Share Purchase Plan (SPP), offered to retail investors. The shares were issued at \$0.024 per share raising equity of \$466,000.
- » On 4 August 2023 the Company issued the Notice of General Meeting to shareholders, to be held on 4 September 2023. At the General meeting, shareholders approval will be sought for the issue of a further 126,542,360 fully paid ordinary shares under Tranche 2 of the share placement that commenced in June 2023. If approved, a further \$3,037,017 will be raised before capital raising costs.

28. INTERESTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities, and results of the following subsidiaries in accordance with the accounting policy described in note 1(f).

| Name of Subsidiary | Country of incorporation | Principal activity | Equity holding | |
|----------------------------------|--------------------------|----------------------|----------------|--------|
| | | | 2023 % | 2022 % |
| Terragen Biotech Pty Limited (i) | Australia | Agricultural biotech | 100 | 100 |

i. Terragen Biotech Pty Ltd operates in Australia however also operates through a branch in New Zealand.

29. PARENT ENTITY

Information relating to Terragen Holdings Limited ('the Parent Entity'):

Statement of financial position

| | 2023 \$ | 2022 \$ |
|---------------------|------------------|------------------|
| Current assets | 4,126,146 | 6,298,323 |
| Total assets | 4,322,499 | 6,464,800 |
| Current liabilities | 390,863 | (282,450) |
| Total liabilities | 390,863 | (282,450) |
| NET ASSETS | 3,931,636 | 6,182,350 |
| Issued capital | 43,649,618 | 43,004,871 |
| Reserves | 1,679,050 | 2,286,606 |
| Accumulated losses | (41,397,032) | (39,109,127) |
| TOTAL EQUITY | 3,931,636 | 6,182,350 |

Statement of profit or loss and other comprehensive income

| | | |
|-----------------------------------|--------------------|--------------------|
| Loss for the year | (2,801,696) | (4,843,998) |
| Other comprehensive income | - | - |
| TOTAL COMPREHENSIVE INCOME | (2,801,696) | (4,843,998) |

The Parent Entity has no capital commitments at 30 June 2023 (2022: \$Nil).

The Parent Entity had no contingent liabilities at 30 June 2023 (2022: \$Nil).

DIRECTORS' DECLARATION

In the directors' opinion:

- a. the attached financial statements and notes are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - ii. giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date.
- b. the financial report also complies with International Reporting Standards as disclosed in note 1 (a); and
- c. there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
- d. The Directors' have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

 **Miles Brennan** | Managing Director
Melbourne, 30 August 2023

INDEPENDENT AUDITORS' REPORT



Take the lead

Take the lead

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TERRAGEN HOLDINGS LIMITED

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Terragen Holdings Limited (the Company) and its subsidiary (the Group) which comprises the consolidated statement of financial position as at 30 June 2023, 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 Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2023 and of its financial performance for the year then ended, and
- 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 & 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

We have determined that there are no key matters to communicate in our report.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the Operating and Financial Overview, Directors' Report and ASX Announcement – Annual Results Announcement which we obtained prior to the date of our auditors report, and also includes the following information which will be included in the Group's annual report (but does not include the financial report and our auditor's report thereon): Corporate Directory, Corporate Governance Report and Shareholder Information, which is expected to be made available to us after that date.

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

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In connection with our audit of the financial report, our responsibility is to read the other information identified above 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 that we 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.

When we read the Corporate Directory, Corporate Governance Report and Shareholder Information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and 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 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 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 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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, actions taken to eliminate threats or safeguards applied.

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.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the remuneration report included in pages 15 to 23 of the directors' report for the year ended 30 June 2023.

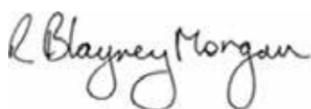
In our opinion, the remuneration report of Terragen Holdings Limited for the year ended 30 June 2023 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.



SW Audit
Chartered Accountants



R Blayney Morgan
Partner

Melbourne, 30 August 2023

SHAREHOLDER INFORMATION

In accordance with ASX Listing Rule 4.10, Terragen Holdings Limited ("Terragen") provides the following information to shareholders not elsewhere disclosed in the Annual Report.

The shareholder information set out below was applicable as of 18 September 2023.

A. CORPORATE GOVERNANCE STATEMENT

The Company has prepared a Corporate Governance Statement which sets out the corporate governance practices that were in operation in the year ended 30 June 2023.

In accordance with ASX Listing Rule 4.10.3, the Corporate Governance Statement will be available for review on Terragen's website www.terragen.com.au and will be lodged with the ASX at the same time that this Annual Report is lodged with the ASX.

B. DISTRIBUTION AND NUMBER OF HOLDERS OF EQUITY SECURITIES

The distribution and number of holders of equity securities on issue in the Company as at 18 September 2023, and the number of holders holding less than a marketable parcel of the company's ordinary shares based on the closing market price as at 18 September 2023 is as follows:

| Range | Listed fully paid ordinary shares | | Unlisted Employee Options | |
|------------------|-----------------------------------|-----------------|---------------------------|-----------------|
| | Number of holders | % of securities | Number of holders | % of securities |
| 1 – 1,000 | 26 | 3.95 | - | - |
| 1,001 – 5,000 | 104 | 15.81 | - | - |
| 5,001 – 10,000 | 84 | 12.77 | - | - |
| 10,001 – 100,000 | 235 | 35.71 | - | - |
| 100,001 and over | 209 | 31.76 | 1 | 100.00 |
| Total | 658 | 100.00 | 1 | 100.00 |

As at 18 September 2023, the number of shareholders holding less than a marketable parcel of \$500 worth of shares, based on the closing market price on that date of \$0.13 per share, is 111.

The total securities on issue in each class of equity securities as at 18 September 2023 are:

| | Listed fully paid ordinary shares | Unlisted Options | Unlisted Employee Options |
|----------------------------------|-----------------------------------|------------------|---------------------------|
| Total securities on issue | 369,081,126 | - | 8,000,000 |

As of 18 September 2023, there were no equity securities that were subject to restrictions.

C. TWENTY LARGEST QUOTED EQUITY SECURITY HOLDERS

Terragen has only one class of quoted equity securities, being fully paid ordinary shares (ASX: TGH). The names of the twenty largest holders of fully paid ordinary shares, the number of fully paid ordinary shares and the percentage of fully paid ordinary shares on issue as of 18 September 2023 was as follows:

| Name | Units | % of Units |
|---|--------------------|---------------|
| MR SCOBIE DICKINSON WARD | 88,335,210 | 23.93 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 44,708,971 | 12.11 |
| CITICORP NOMINEES PTY LIMITED | 35,468,533 | 9.61 |
| UBS NOMINEES PTY LTD | 17,150,003 | 4.65 |
| CROFTON PARK DEVELOPMENTS PTY LTD | 8,333,340 | 2.26 |
| STAMINA PTY LTD | 6,627,616 | 1.80 |
| MARTANNMAR PTY LTD | 5,676,681 | 1.54 |
| HENDERSON INTERNATIONAL PTY LIMITED | 5,000,000 | 1.35 |
| CROFTON PARK DEVELOPMENTS PTY LTD | 4,557,102 | 1.23 |
| MUTUAL TRUST PTY LTD | 4,516,667 | 1.22 |
| MR RODNEY JOHN LOONE & MRS DIANE GAYE LOONE | 4,186,670 | 1.13 |
| MBA INVESTMENTS PTY LTD | 4,166,670 | 1.13 |
| JASFORCE PTY LTD | 4,166,667 | 1.13 |
| P M DESMOND PTY LTD | 4,028,340 | 1.09 |
| WINGADANGEE PTY LTD | 3,615,000 | 0.98 |
| ACTION ALWAYS PTY LTD | 3,547,337 | 0.96 |
| CARRAMELON PTY LTD | 3,376,666 | 0.91 |
| RIVERSDALE CAPITAL FUNDING PTY LTD | 3,102,807 | 0.84 |
| MR EDWARD RICHARDSON PURSEGLOVE | 3,000,000 | 0.81 |
| RUBI HOLDINGS PTY LTD | 2,979,450 | 0.81 |
| Total for top twenty holders | 256,543,730 | 69.51 |
| Balance of register | 112,537,396 | 30.49 |
| Total | 369,081,126 | 100.00 |

D. HOLDERS OF MORE THAN TWENTY PERCENT OF EACH CLASS OF UNQUOTED SECURITIES

Each unlisted employee option entitles the holder to acquire one fully paid ordinary share subject to the holder paying the exercise price on or before the expiry date.

The names of the holders of more than 20% of each class of options or performance shares, other than under an Employee Incentive Scheme, is set out below:

| Holder | Unlisted \$0.25 options expiring 11 December 2022 | |
|--------------|--|------------|
| | Units | % of units |
| James Cooper | 8,000,000 | 100% |

E. VOTING RIGHTS

At a general meeting of the Company, every holder of ordinary shares present in person or by proxy, attorney or representative has one vote on a show of hands, and on a poll, one vote for each ordinary share held.

Options do not carry any voting rights.

F. SUBSTANTIAL SHAREHOLDERS

As of 18 September 2023, the names of the substantial shareholders of the Company and the number of equity securities in which those substantial shareholders and their associates have a relevant interest, as disclosed in substantial shareholding notices given to the Company were as follows:

| Name | Number held | % of issued capital |
|--|-------------|---------------------|
| Mr Scobie Dickinson Ward (under Mr Scobie Dickinson Ward and Citicorp Nominees Pty Limited) | 122,930,420 | 33.31% |
| Mr Sam Brougham (under Crofton Park Developments and Stamina Pty Ltd) | 23,512,058 | 6.37% |
| Thorney Technologies Ltd (under UBS Nominees Pty Ltd and Jasforce Pty Ltd) | 22,481,670 | 6.09% |

G. ON-MARKET BUY-BACK

The Company is not currently conducting an on-market buy-back.

H. ON-MARKET BUY-BACK

The Company did not purchase securities on market during the reporting period.

I. USE OF INITIAL PUBLIC OFFERING PROCEEDS

The Company confirms that in the period since its listing on the Australian Stock Exchange on 11 December 2019 it has used its cash and assets in a form readily convertible into cash that it had at the time of its admission to the ASX in a manner consistent with its business objectives as set out in the Prospectus dated 18 October 2019.

CORPORATE DIRECTORY

BOARD OF DIRECTORS

| | |
|----------------------|-------------------------------|
| Mr Mike Barry | <i>Non-Executive Chairman</i> |
| Ms Ingrid van Dijken | <i>Non-Executive Director</i> |
| Mr Sam Brougham | <i>Non-Executive Director</i> |
| Mr Scobie Ward | <i>Non-Executive Director</i> |
| Mr Miles Brennan | <i>Managing Director</i> |

COMPANY SECRETARY

Mrs Robyn Smith

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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STOCK EXCHANGE

Australian Securities Exchange
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