

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

KEYHOLE TIG LIMITED

A.C.N. 147 805 490

CONTENTS

ANNUAL FINANCIAL REPORT

30 JUNE 2018

	Page
Directors' Report	1
Auditor's Independence Declaration	6
Statement of Profit or Loss and Other Comprehensive Income	7
Statement of Financial Position	8
Statement of Changes in Equity	9
Statement of Cash Flows	10
Notes to the Financial Statements	11
Directors' Declaration	30
Independent Auditor's Report	31

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

DIRECTORS' REPORT

The directors of Keyhole TIG Limited present their report for the financial year ended 30 June 2018.

DIRECTORS

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

Kieran Michael Purcell
Neil Garry Le Quesne
William Graham Wilson
Syed Basar Shueb

PRINCIPAL ACTIVITIES

The principal activity of Keyhole TIG Limited during the financial year was further development and sales of a new keyhole welding technology that allows thick materials to be welded in one tenth of the time of traditional welding processes, providing huge cost savings to a wide range of industries.

No significant changes in the nature of the entity's activity occurred during the financial period.

REVIEW OF OPERATIONS

K-TIG successfully executed against its plan for the financial period to 30th June 2018.

K-TIG's move to a direct sales model continues to be highly positive, and has resulted in the company's highest annual revenues to date, and the highest revenues for any 6-month period to date immediately prior to the close of the 2018 FY.

The theme of this year has been consolidation and expansion of our direct sales model, and an increasing concentration of sales and support activities in the US, which unsurprisingly is proving to be K-TIG's largest market.

K-TIG is no longer reliant on distributors for sales and distribution. The enormous base of knowledge, experience and expertise that exists within the K-TIG team now exceeds that of any distributor by an order-of-magnitude. The level of expertise which the company is now able to bring to bear on the fabrication challenges of our customers results in a much higher percentage of prospect-to-customer conversions, reduced sales cycle times and greatly increased customer satisfaction. K-TIG is now much closer to its customers, and has successfully disintermediated the sales process.

K-TIG surveys all customers after commissioning, and routinely receives 90-100% customer satisfaction, reflecting the customer-centric approach which underpins every aspect of the business.

To facilitate this global direct sales approach while still maintaining a very light operational footprint, we continue to invest in a wide range of cloud-based technologies that allow the company to engage with, demonstrate to and support its customers remotely, including live video demonstrations and live interactive support to customers.

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

DIRECTORS' REPORT

REVIEW OF OPERATIONS (CONT.)

K-TIG is now set up for sustainable long term growth, and in the last 12 months has begun to scale, a trend which we expect will now continue at pace.

K-TIG 's next generation system, the K-TIG 1000 Evolve is now fully operational and has been successfully deployed with customers this year. The new system provides enormous technical and functional advantages over K-TIG's first generation system, and has been extremely well received by customers.

In line with expectations, K-TIG achieved a gross profit of \$1,680,652 and a small operating loss of \$52,960, reflecting continued strong investment in our research and development program, further development of the K-TIG system components, and the purchase of a significant amount of stock just prior to the end of the financial year.

It is noteworthy that the commercial climate for welding equipment has improved significantly over the last year. Lincoln Electric, the world's largest welding equipment manufacturer by market capitalisation has experienced a significant increase in revenue as fabricators have increased investment in line with the prevailing economic outlook. With the resurgence of the US and other major economies we expect this trend to continue over the coming 12 months.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the period K-TIG has made significant advances in the development and commercialisation of its technologies, is now actively engaging the market and has exported to 19 countries.

K-TIG is now a highly sophisticated small company engaging global markets and successfully competing with international welding equipment manufacturers more than 1000X our size.

During the period we have also been able to confirm a higher price point for K-TIG's systems, and are contemplating additional price increases as we believe that we have not yet found the price threshold given the magnitude of the cost savings and productivity gains delivered to customers. To date, price increases have had no perceivable impact on demand from the large fabrication customers who are K-TIG's primary market. The ability to command such a high price for the system has reinforced the company's position as a market leader and has allowed the company to command a premium position and margin.

K-TIG's introduction of its next generation technology, the K-TIG 1000 Evolve, firmly cements the company's position as a technological leader within the welding equipment market, positions us extremely favourably with our customers, and will create opportunities for new recurring revenue streams going forward in addition to the product sale revenues currently being received.

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

DIRECTORS' REPORT

EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

As at the date of this directors' report, the directors are not aware of any matter of circumstance that has arisen that has significantly affected, or may significantly affect, the operations of the company, the results of those operations or the state of affairs of the company in the financial years subsequent to 30 June 2018.

LIKELY DEVELOPMENTS

Likely developments in the operations of the company and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the company.

DIVIDENDS

No dividends were paid or recommended during the year.

ENVIRONMENTAL REGULATION

The company's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory of Australia.

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

DIRECTORS' REPORT

INFORMATION ON DIRECTORS

Name: **Kieran Michael Purcell**
Qualifications: B.Com, Graduate Diploma in Applied Financial Investment, Chartered
Experience: 15+ years in Financial Services
Special responsibilities: Chairman

Name: **Neil Garry Le Quesne**
Qualifications: Masters of Business in Information Innovation, BA Town & Regional Planning, Graduate Diploma in Regional & Urban Planning, Post Graduate Dip in Document Management
Experience: Extensive career focused on international development and commercialization
Special responsibilities: Chief Executive Officer

Name: **William Graham Wilson**
Qualifications: City and Guilds Electrical Engineering, HNC Electrical Engineering
Experience: 7 Years at EJ Stiell as an Electrical Engineer, 6 Years at PCT Group Ltd as R&M Foreman, 4 years at PCT Group Ltd as Engineering/Electrical Manager, 9 years at PCT Group Ltd as R&M Manager
Special responsibilities: Distributor in the Middle East for Keyhole-TIG

Name: **Syed Basar Shueb**
Qualifications: Bachelor of Science in Computer Engineering
Experience: 18 years as Group CEO of PAL Group of Companies managing process, manufacturing, construction and service industries
Special responsibilities: -

COMPANY SECRETARY

Name: **Belinda Latz**
Qualifications: Bachelor of Management, University of South Australia
Experience: 7 years in Business Administration
Date appointed: 27 May 2014

MEETINGS OF DIRECTORS

There was 5 meetings of the board of directors held during the year ended 30 June 2018, and details of the attendance by each director are set out below:

Name	Board Meetings	
	Eligible to Attend	Attended
Kieran Michael Purcell	5	5
Neil Garry Le Quesne	5	5
William Graham Wilson	5	4
Syed Basar Shueb	5	1

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

DIRECTORS' REPORT

OPTIONS

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

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, Keyhole TIG Limited paid a premium in respect of a contract insuring directors, secretaries and executive officers of the company against a liability incurred as director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

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

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

No officer of the company is or has been a partner/director of the auditor.

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



Kieran Michael Purcell
Chairman

Dated this 24 day of September 2018
Adelaide

**DECLARATION OF INDEPENDENCE
BY GEOFF EDWARDS
TO THE DIRECTORS OF KEYHOLE TIG LIMITED**

As lead auditor of Keyhole TIG Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.



Geoff Edwards
Director

BDO Audit (SA) Pty Ltd

Adelaide, 24 September 2018

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 \$	2017 \$
Sales revenue	13	2,236,196	1,239,710
Cost of sales		(555,544)	(506,072)
Gross profit		<u>1,680,652</u>	<u>733,638</u>
Other income	13	352,515	382,760
Marketing expenses		(266,805)	(219,025)
Corporate expense		(231,764)	(332,138)
Service expense		(146,027)	(158,666)
Employee benefits expense		(1,084,933)	(1,251,585)
Office/workshop expense		(153,865)	(136,242)
Travel expense		(98,021)	(108,015)
R&D expense		(75,154)	(51,732)
Other expenses		(29,558)	(58,958)
Profit/(Loss) before income tax		<u>(52,960)</u>	<u>(1,199,963)</u>
Income tax expense	15	<u>-</u>	<u>-</u>
Profit/(Loss) for the year		<u><u>(52,960)</u></u>	<u><u>(1,199,963)</u></u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u><u>(52,960)</u></u>	<u><u>(1,199,963)</u></u>

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	2018 \$	2017 \$
ASSETS			
Current assets			
Cash and cash equivalents	2	926,929	340,170
Trade and other receivables	3	414,687	380,848
Inventories	4	234,542	325,440
Total current assets		<u>1,576,158</u>	<u>1,046,458</u>
Non-current assets			
Property, plant and equipment	5	160,493	205,933
Intangible assets	6	108,825	107,011
Total non-current assets		<u>269,318</u>	<u>312,944</u>
Total assets		<u><u>1,845,476</u></u>	<u><u>1,359,402</u></u>
LIABILITIES			
Current liabilities			
Trade and other payables	7	217,722	168,589
Employee benefits	8	105,510	74,415
Borrowings	9	366,173	-
Revenue received in advance	10	83,567	-
Total current liabilities		<u>772,972</u>	<u>243,004</u>
Non-current liabilities			
Employee benefits	8	32,161	23,095
Total non-current liabilities		<u>32,161</u>	<u>23,095</u>
Total liabilities		<u>805,133</u>	<u>266,099</u>
Net assets		<u><u>1,040,343</u></u>	<u><u>1,093,303</u></u>
EQUITY			
Issued capital	11	5,327,819	5,327,819
Accumulated losses		(4,287,476)	(4,234,516)
Total equity		<u><u>1,040,343</u></u>	<u><u>1,093,303</u></u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018**

	Ordinary Shares \$	Non- Redeemable Series A Preference Shares \$	Accumulated Losses \$	Total \$
<u>2017</u>				
Balance at 1 July 2016	2,348,884	2,478,935	(3,034,553)	1,793,266
Profit or loss for the year	-	-	(1,199,963)	(1,199,963)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	(1,199,963)	(1,199,963)
<i>Transactions with owners in their capacity as owners</i>				
Contributions of equity, net of transaction costs (note 11)	-	500,000	-	500,000
	-	500,000	-	500,000
Balance at 30 June 2017	2,348,884	2,978,935	(4,234,516)	1,093,303
	Ordinary Shares \$	Non- Redeemable Series A Preference Shares \$	Accumulated Losses \$	Total \$
<u>2018</u>				
Balance at 1 July 2017	2,348,884	2,978,935	(4,234,516)	1,093,303
Profit or loss for the year	-	-	(52,960)	(52,960)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	(52,960)	(52,960)
<i>Transactions with owners in their capacity as owners</i>				
Contributions of equity, net of transaction costs (note 11)	-	-	-	-
	-	-	-	-
Balance at 30 June 2018	2,348,884	2,978,935	(4,287,476)	1,040,343

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers		2,468,617	2,054,475
Government grants received		653,404	398,222
Payments to suppliers and employees		(2,889,646)	(3,245,421)
Interest received		1,873	3,163
Income tax paid		-	-
Net cash used in operating activities		<u>234,248</u>	<u>(789,561)</u>
Cash flows from investing activities			
Payment for intangibles		(1,814)	(22,432)
Purchase of property, plant and equipment		(11,848)	(23,397)
Net cash used in investing activities		<u>(13,662)</u>	<u>(45,829)</u>
Cash flows from financing activities			
Proceeds from issue of shares		-	500,000
Proceeds from borrowings		366,173	-
Net cash provided by financing activities		<u>366,173</u>	<u>500,000</u>
Net increase/(decrease) in cash and cash equivalents		586,759	(335,390)
Cash and cash equivalents at beginning of period		340,170	675,560
Cash and cash equivalents at end of the period	2	<u><u>926,929</u></u>	<u><u>340,170</u></u>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

The financial report covers Keyhole TIG Limited as an individual entity. Keyhole TIG Limited is a company limited by shares, incorporated and domiciled in Australia. The financial statements are presented in Australian dollars.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards - Reduced Disclosure Requirements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The company is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The directors have determined that Keyhole TIG Limited is permitted to apply the Tier 2 reporting requirements (Australian Accounting Standards - Reduced Disclosure Requirements) as set out in AASB 1053 Application of Tiers of Australian Accounting Standards because it is a for-profit private sector entity that does not have public accountability. As such, the directors have adopted AASB 2010-2 Amendments to Australian Accounting Standards Arising from Reduced Disclosure Requirements.

The financial statements, except for the cash flow information, have been prepared on an accrual basis and are based on historical costs. The amounts presented in the financial statements have been rounded to the nearest dollar.

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

The financial report has been prepared on the going concern basis which presumes the realisation of assets and payment of liabilities in the normal course of business over the foreseeable future.

The directors remain confident that the potential sales of the product, together with Keyhole TIG Limited's historic proven ability to raise investment or debt as required, will provide sufficient funds to fully finance the company's working capital requirements beyond the period of twelve months of the date of this report.

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(c) Property, plant & equipment

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

Plant and equipment

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

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant & equipment (continued)

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

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the Company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. Depreciation is recognised in profit or loss.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Assets	Depreciation Rate
Leasehold Improvements	33.33%
Plant & Equipment	5%-40%
Computer Equipment	66.67%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains and losses are included in the profit or loss and when the item is derecognised.

(d) Intangible assets

Trademarks

Trademarks are carried at cost less accumulated impairment losses. The trademarks have been determined to have indefinite useful lives as there is no expiry and no foreseeable limit on the period of time over which these assets are expected to contribute to the cash flows of the company. For impairment purposes the trademarks are tested at an overall cash generating unit level.

Research and Development

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

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments

Initial recognition and measurement

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

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method, or cost. Fair Value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in arm's length transaction. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- (a) the amount at which the financial asset or financial liability is measured at initial recognition;
- (b) less principle repayments;
- (c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
- (d) less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(ii) Financial liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

(iii) Borrowings with related parties

Borrowings with related parties constitute a mix of interest and non interest bearing loans. All loans are current as they are repayable within 12 months of reporting date and the option to extend the loan is at the discretion of the lender.

Impairment

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset has been impaired. A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment of non-financial assets

At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use, to the asset's carrying value. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss.

Value in use is calculated by discounting the estimated future cash flows of the asset or cash-generating unit (CGU) at a pre-tax discount rate reflecting the specific risks in the asset/CGU. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for intangible assets with indefinite lives.

(g) Cash and cash equivalents

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

(h) Trade and other receivables

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

Trade and other receivables are initially recognised at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for impairment. Collectability of trade receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms. On confirmation the trade receivable will not be collectible the gross carrying value of the asset is written off against the associated provision.

(i) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the company prior to the year end and which are unpaid. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. The balance is recognised as a current liability with the amounts normally paid within 30-60 days of recognition of the liability.

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Employee Benefits

Short-term employee benefits

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

Other long-term employee benefits

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures, and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Upon the remeasurement of obligations for other long-term employee benefits, the net change in the obligation is recognised in profit or loss as part of employee benefits expense.

The Company's obligations for employee benefits are presented as current liabilities in its statement of financial position, except where the Company has an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as non-current provisions.

Defined contribution superannuation benefits

All employees of the Company receive defined contribution superannuation entitlements, for which the Company pays the fixed superannuation guarantee contribution (currently 9.5% of the employee's average ordinary salary) to the employee's superannuation fund of choice. All contributions in respect of employees' defined contribution entitlements are recognised as an expense when they become payable. The Company's obligation with respect to employees' defined contribution entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the Company's statement of financial position.

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Income Tax

The income tax expenses (revenue) for the period comprises current income tax expenses (income) and deferred tax expenses (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income for the current period. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside the profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur.

(l) Leases

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Revenue and other income

Revenue is recognised at the fair value of consideration received or receivable after taking into account any trade discounts and volume rebates allowed. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer and can be reliably measured.

Interest revenue

Interest revenue is recognised using the effective interest rate method, which for floating rate financial assets is the rate inherent in the instrument.

Government Grants

Grants from the government are recognised at their fair value where there is reasonable assurance the grant will be received and the Company will comply with all the attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and credited to profit or loss on a straight line basis over the expected lives of the related assets.

(n) Foreign Currency Translation

Functional and presentation currency

The functional and presentation currency of Keyhole TIG Limited and is Australian dollars (A\$).

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Foreign Currency Translation (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Foreign currency monetary items are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange gains and losses arising from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in profit or loss, except when they are deferred in other comprehensive income as qualifying cash flow hedges or where they relate to differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity.

Foreign exchange gains and losses are presented in profit or loss on a net basis within other income or other expenses.

(o) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

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

(p) Critical accounting estimates and judgments

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

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

	2018	2017
	\$	\$
NOTE 2 Cash and Cash Equivalents		
Cash at bank	926,929	340,170
	<u>926,929</u>	<u>340,170</u>
NOTE 3 Trade and other receivables		
Trade receivables	58,881	4,444
GST receivable	36,172	25,665
Other receivables and prepayments	16,827	10,841
Research & Development tax incentive	302,807	339,898
	<u>414,687</u>	<u>380,848</u>
NOTE 4 Inventories		
Materials and components at cost	234,542	325,440
	<u>234,542</u>	<u>325,440</u>
NOTE 5 Property, Plant and Equipment		
<i>Leasehold Improvements</i>		
At cost	89,695	89,695
Accumulated depreciation	(37,869)	(3,764)
	<u>51,826</u>	<u>85,931</u>
<i>Plant & Equipment</i>		
At cost	213,891	202,043
Accumulated depreciation	(107,183)	(86,838)
	<u>106,708</u>	<u>115,205</u>
<i>Computer Equipment</i>		
At cost	20,527	20,527
Accumulated depreciation	(18,568)	(15,730)
	<u>1,959</u>	<u>4,797</u>
Total non-current property, plant and equipment	<u>160,493</u>	<u>205,933</u>

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 5 Property, Plant and Equipment (Continued)

Reconciliations

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

	Leasehold Improvements	Plant & Equipment	Computer Equipment	Total
Carrying amount at beginning of financial year	85,931	115,205	4,797	205,933
Additions	-	11,848	-	11,848
Disposals	-	-	-	-
Depreciation expense	(34,105)	(20,345)	(2,838)	(57,288)
Carrying amount at end of financial year	51,826	106,708	1,959	160,493

2018
\$
2017
\$

NOTE 6 Intangible assets

Trademarks

Cost - Trademarks

Net carrying value

108,825	107,011
<u>108,825</u>	<u>107,011</u>
<u>108,825</u>	<u>107,011</u>

Total Intangibles

Reconciliations

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

	Trademarks	Total
Carrying amount at beginning of financial year	107,011	107,011
Additions	1,814	1,814
Carrying amount at end of financial year	<u>108,825</u>	<u>108,825</u>

NOTE 7 Trade and Other Payables

Current

Trade payables

Other payables

Credit cards

Accrued expenses

97,318	38,331
85,108	72,342
7,458	8,317
27,838	49,599
<u>217,722</u>	<u>168,589</u>

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

		2018 \$	2017 \$
NOTE 8	Employee benefits		
	Current		
	Provision for employee benefits	105,510	74,415
	Non-Current		
	Provision for employee benefits	32,161	23,095
NOTE 9	Borrowings		
	Current		
	Loans with related parties	366,173	-
NOTE 10	Revenue received in advance		
	Revenue received in advance	83,567	-
NOTE 11	Issued Capital		
	96,395,839 Fully paid ordinary shares (2017: 96,395,839)	2,348,884	2,348,884
	41,322,314 Non-redeemable Series A preference shares (2017: 41,322,314)	2,978,935	2,978,935
		5,327,819	5,327,819
	Movements in ordinary share capital		
		Number of shares	Issue price \$
	1 Jul 2017 Opening balance	96,395,839	2,348,884
	30 Jun 2017 Closing balance	96,395,839	2,348,884
	30 Jun 2018 Closing balance	96,395,839	2,348,884
	Movements in non-redeemable Series A preference share capital		
		Number of shares	Issue price \$
	1 Jul 2017 Opening balance	41,322,314	2,978,935
	30 Jun 2017 Closing balance	41,322,314	2,978,935
	30 Jun 2018 Closing balance	41,322,314	2,978,935

KEYHOLE TIG LIMITED

A.C.N. 147 805 490

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018****NOTE 11 Issued Capital (continued)**

The holders of ordinary shares are entitled to participate in dividends and the proceeds on winding up of the company. On a show of hands at meetings of the company, each holder of ordinary shares has one vote in person or by proxy, and upon a poll each share is entitled to one vote. The holders of non-redeemable Series A preference shares are entitled to receive payment of dividends and proceeds on winding up of the company before and in preference to the holders of ordinary shares. The holders of Series A preference shares are entitled to vote at all meetings of the company, each Series A preference share entitles the holder upon a poll to that number of votes equal to the number of ordinary shares into which the Series A preference shares would be converted if the conversion occurred at the time of that vote. The company does not have authorised capital or par value in respect of its shares.

NOTE 12 Financial Instruments

The company's financial instruments consist mainly of deposits with banks, accounts receivable and payable.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	2018 \$	2017 \$
Financial Assets		
Cash and cash equivalents	926,929	340,170
Trade and other receivables	414,687	380,848
Total financial assets	<u>1,341,616</u>	<u>721,018</u>
Financial Liabilities		
Trade and other payables	217,722	168,589
Borrowings	366,173	-
Total financial liabilities	<u>583,895</u>	<u>168,589</u>

NOTE 13 Revenue and Other Income**Revenue from continuing operations**

Sales revenue		
- Sale of goods	2,190,883	1,141,484
- Rendering of services	19,045	94,800
- Other trading revenue	26,268	3,426
	<u>2,236,196</u>	<u>1,239,710</u>

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

	2018	2017
	\$	\$
NOTE 13 Revenue and Other Income		
Other Income		
- Interest received	1,873	3,163
- Government grants	47,790	39,699
- Research & Development tax incentive	302,807	339,898
- Net gain/(loss) on disposal of property, plant and equipment	45	-
	<u>352,515</u>	<u>382,760</u>

NOTE 14 Result for the Year

The result for the year includes the following specific expenses

Depreciation of plant & equipment	57,288	33,706
Rental expenses relating to operating leases	107,395	128,797
Defined contribution superannuation expense	88,538	110,737
Foreign exchange loss	17,875	19,931

NOTE 15 Income Tax Expense

(a) The prima facie tax on profit/(loss) from ordinary activities before income tax is reconciled to the income tax expense as follows:

Prima facie tax payable on profit/(loss) from ordinary activities before income tax at 27.5% (2017: 27.5%)	(14,564)	(329,990)
Non-deductible expenses:		
- entertainment	1,065	6,747
Effect of tax concessions (Research & Development tax incentive)	108,158	121,406
Deferred tax asset not recognised	(94,659)	201,836
Income tax expense	<u>-</u>	<u>-</u>

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in the statement of financial position for the following items:

Unused tax losses	2,192,782	2,656,738
Deductible temporary differences	137,472	89,158
	<u>2,330,254</u>	<u>2,745,896</u>

Potential benefit at 27.5% (2017: 27.5%)	<u>640,820</u>	<u>755,121</u>
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There is no expiry date on the future deductibility of unused tax losses.

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 16 Related Party Transactions

(a) Key management personnel

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity is considered key management personnel.

The totals of remuneration paid to the key management personnel of Keyhole TIG Limited during the period are as follows:

	2018	2017
	\$	\$
Short-term benefits	497,896	421,860
Post-employment benefits	27,292	40,077
	<u>525,188</u>	<u>461,936</u>

(b) Other related parties

Other related parties include immediate family members of key management personnel and entities that are controlled or significantly influenced by those key management personnel, individually or collectively with their immediate family members.

(c) Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:	2018	2017
	\$	\$
<i>Sale of goods and services to other related parties:</i>		
- WB Alloy Welding Products Ltd	225,946	332,580
<i>Purchases of goods and services from other related parties:</i>	-	-

(d) Outstanding balances with related parties

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	2018	2017
	\$	\$
<i>Current receivables (sale of goods and services)</i>		
- WB Alloy Welding Products Ltd	-	2,648
<i>Current payables (borrowings)</i>		
- Royal Group	249,975	-
- Kieran Purcell	56,223	-
- WB Alloy	49,975	-
- Neil Le Quesne	10,000	-

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 16 Related Party Transactions (continued)

WB Alloy Welding Products Ltd is a related entities of William Graham Wilson. This company is a distributor of the K-TIG keyhole welding technology. The Royal Group is a non-redeemable Series A preference shareholder. Syed Basar Shueb is a director of the Royal Group and Keyhole Tig Limited.

All loans from the above related parties are interest free, except for the loan from Kieran Purcell. The loans are unsecured and repayable at the earlier of 12 months from the date of the loan agreement unless extended at the discretion of the lender.

NOTE 17 Dividends

There were no dividends paid during the year (2017: Nil).

NOTE 18 Commitments

	2018	2017
	\$	\$
<i>Lease commitments</i>		
Non-cancellable operating leases - future minimum lease payments payable:		
Within one year	87,827	88,559
Later than one year but not later than 5 years	73,189	-
Later than 5 years	-	-
	<u>161,016</u>	<u>88,559</u>

The company leases its office warehouse premises under a non-cancellable operating lease with a 2 year term expiring in May 2020. The lease agreement includes an annual CPI escalation clause. The above commitments do not include any renewal options on the lease. Lease conditions do not impose any restrictions on the ability of Keyhole-TIG Limited from borrowing funds or paying dividends.

NOTE 19 Contingent Liabilities and Contingent Assets

In the opinion of the Directors, other than for the matters referred to below the company did not have any contingencies at 30 June 2018 (2017: nil).

The Board is exploring a sale or IPO of the company with several parties and has resolved that a number of fees are to be payable on the successful completion of such a sale or IPO. Board remuneration has been on hold since March 2015. The following amounts will become payable on sale or IPOs:

Board fees

- Chairman \$160,000 at 1/4/2018 plus \$40,000 pa thereafter (pro rata)
- Directors \$80,000 at 1/4/2018 plus \$20,000 pa thereafter (pro rata)
- Secretary \$60,000 at 1/4/2018 plus \$15,000 pa thereafter (pro rata)

KEYHOLE TIG LIMITED
A.C.N. 147 805 490

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 19 Contingent Liabilities and Contingent Assets (Continued)

CEO incentive for sale over \$20M

1.25% Success Fee payable to the CEO upon the successful sale or IPO of the company for \$20m or greater.

CEO remuneration

An amount equivalent to 3% of the sale proceeds payable to the CEO in the event of an Exit Event including the sale or IPO of the company, as stated in Neil Le Quesne's employment contract, executed in 2012.

Intermediary & Service Fees

All allowance is being made for intermediary and service fees of between 3% and 6% of the total investment value in K-TIG should a sale or IPO be completed.

In the event of an IPO these fees are to be payable from the proceeds of capital raised. In the event of the sale of the company, the fees will either be paid from the proceeds of the sale or by the purchaser. At the date of this financial report no sale or IPO arrangement has been concluded.

At the date of this financial report no sale or IPO arrangement has been concluded.

NOTE 20 Events after the end of the Reporting Period

The financial report was authorised for issue on 24 September 2018 by the board of directors.

No matter or circumstance has arisen since 30 June 2018 that has significantly affected or may significantly affect the entity's operations, or the entity's state of affairs in future financial years.

NOTE 21 Company Details

The registered office of and principal place of business of the company is:
Keyhole TIG Limited
Unit 5, 9-11 William Street
Mile End SA 5031

KEYHOLE TIG LIMITED


A.C.N. 147 805 490

DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2018

The directors of the company declare that:

1. The financial statements, comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, and accompanying notes, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Australian Accounting Standards - Reduced Disclosure Requirements, and the *Corporations Regulations 2001* ;
 - b. give a true and fair view of the company's financial position as at 30 June 2018 and of its performance for the year ended on that date.
2. In the directors opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Kieran Michael Purcell
Chairman

Dated this 24 day of September 2018
Adelaide

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KEYHOLE TIG LIMITED

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Keyhole TIG Limited (the Company), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) Giving a true and fair view of the Company's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the directors' report, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of 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 - Reduced Disclosure Requirements 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf

This description forms part of our auditor's report.



BDO Audit (SA) Pty Ltd



Geoff Edwards
Director

Adelaide, 26 September 2018