

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

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2019

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

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30 JUNE 2019

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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 2019.

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 activities of Keyhole TIG Limited during the financial year were essentially divided into 2 distinct chapters. The early part of the year was focussed on K-TIG's conventional sales model, refining its K-TIG 1000 Evolve control system, further development of K-TIG's technology and industrial applications and continuing to exceed the expectations of both new and existing customers. The bulk of the year however was focussed on preparing the company to transition its revenue model from a unit sales approach to a licencing model, and preparing the company for a listing on the Australian Stock Exchange (ASX).

REVIEW OF OPERATIONS

K-TIG successfully executed against its plan for the financial period to 30 June 2019. The conversion of K-TIG from unit sales to a licence based Welding-as-a-Service (WaaS) business model is the final stage in K-TIG's commercialisation strategy and the pre-cursor to its planned growth stage as an ASX-listed public company. The WaaS model involves K-TIG utilising its cloud-linked controller to deliver services to fabricators on a subscription basis. This new model will facilitate K-TIG becoming a long-term partner to our customers, with revenue generated through licencing based on the linear metres welded.

Once the WaaS model is fully implemented, K-TIG is expected to generate long-term recurring revenues linked to the production of its customers. K-TIG will, to the best of its knowledge, be the first welding equipment manufacturer to implement such a model therefore has an opportunity to open up and capture an entirely new and uncontested market space. The decision to convert from unit sales to licensing required K-TIG to stop sales to prevent further K-TIG units entering the market on a fully-owned basis. This reduction in revenue is temporary, and the unsatisfied demand will subsequently be met through systems being made available via long-term licences. This decision resulted in a significant and expected reduction in revenue relative to last year.

The move to high-margin, long-term licencing is expected to deliver significantly higher revenues and margins going forward. The US remains K-TIG's largest market. 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.

K-TIG's next-generation system, the K-TIG 1000 Evolve is in full service and provides enormous technical and functional advantages over K-TIG's first generation system. The new cloud-linked control system has been extremely well received by customers, and will form the technical backbone of the 'Welding-as-a-Service' model going forward. In line with expectations K-TIG achieved revenues of \$1,069,198, a gross profit of \$588,446 and an operating loss of \$1,690,187 reflecting the strategic decision to stop sales, significant costs associated with the preparation of the company for public listing on the ASX, continued investment in our research and development program, further development of the K-TIG system components, and the purchase of a significant amount of stock prior to the end of the financial year in preparation for execution of K-TIG's new Welding-as-a-Service business model.

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DIRECTORS' REPORT

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the period K-TIG has made significant advances in the development and commercialisation of its technologies, and has exported to 20 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 the company has developed the Welding-as-a-Service business model, and prepared the company for a public listing on the ASX. The company has decided that the significant growth trajectory which is ahead of it is best facilitated by transitioning to becoming a publically listed company. In addition to the obvious liquidity benefits to shareholders, being an ASX-listed company will dramatically elevate the company's profile and provide ready access to capital markets as the company grows.

As a first step in this process, A \$1.3M investment into the company was raised via a convertible note, which was heavily over-subscribed. It was subsequently announced on 14 March 2019, that K-TIG had entered into a non-binding term sheet with Serpentine Technologies Limited, an Australian incorporated company listed on the ASX. Subject to the satisfaction of certain conditions precedent including shareholder approval by both companies, Serpentine is to acquire 100% of the issued capital of Keyhole TIG Limited. Post-transaction, the company will be renamed 'K-TIG Limited' (proposed ASX code: KTG). Further to the Term Sheet, a binding share sale agreement between the Company, K-TIG and its majority vendors was entered into and announced on 29 April 2019, whereby Serpentine agreed to acquire 100% of the fully paid issued capital of K-TIG. The Company has agreed to issue to the vendors of K-TIG (or their nominees) a total of up to 80,200,501 Consideration Shares and up to 30,075,135 Deferred Consideration Shares (on a post-Consolidation basis) in consideration for the Acquisition. Prior to the listing the new merged entity (K-TIG Limited) will raise up to \$7,000,000 through a Public Offer by the issue of up to 35,000,000 Shares at an issue price of \$0.20 each.

EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

Subsequent to reporting date, Keyhole TIG Ltd and its major shareholders executed a binding agreement with Serpentine Technologies Ltd, that subject to a number of conditions precedent including shareholder approval, will result in Serpentine Technologies Ltd acquiring 100% of the issued capital of Keyhole TIG Ltd. This transaction has not completed at the date of these financial statements. Furthermore, the directors of the company have resolved to issue shares as disclosed in Note 21 to the financial statements.

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 Accountant
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 2019, 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	4

KEYHOLE TIG LIMITED
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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 27th day of July 2019
Adelaide

DECLARATION OF INDEPENDENCE
BY GEOFFREY K EDWARDS
TO THE DIRECTORS OF KEYHOLE TIG LIMITED

As lead auditor of Keyhole TIG Limited for the year ended 30 June 2019, 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.



GK Edwards
Director

BDO Audit (SA) Pty Ltd
Adelaide, 27 July 2019

KEYHOLE TIG LIMITED
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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

		2019	2018
	Note	\$	(Restated) \$
Sales revenue	14	1,069,198	2,236,196
Cost of sales		(480,752)	(555,544)
Gross profit		<u>588,446</u>	<u>1,680,652</u>
Other income	14	42,237	352,515
Marketing expenses		(151,489)	(266,805)
Corporate expense		(403,778)	(231,764)
Service expense		(50,957)	(146,027)
Employee benefits expense		(1,358,232)	(1,126,877)
Office/workshop expense		(141,558)	(153,865)
Travel expense		(117,826)	(98,021)
R&D expense		(76,492)	(86,037)
Other expenses		(20,538)	(29,558)
Profit/(Loss) before income tax		<u>(1,690,187)</u>	<u>(105,787)</u>
Income tax expense	16	-	-
Profit/(Loss) for the year		<u><u>(1,690,187)</u></u>	<u><u>(105,787)</u></u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u><u>(1,690,187)</u></u>	<u><u>(105,787)</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
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STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Note	2019 \$	2018 (Restated) \$	2017 (Restated) \$
ASSETS				
Current assets				
Cash and cash equivalents	2	943,820	926,929	340,170
Trade and other receivables	3	72,685	414,687	380,848
Inventories	4	373,117	234,542	325,440
Total current assets		<u>1,389,622</u>	<u>1,576,158</u>	<u>1,046,458</u>
Non-current assets				
Property, plant and equipment	5	129,050	160,493	205,933
Intangible assets	6	64,045	73,358	82,427
Investment in dormant entity	10	-	-	-
Total non-current assets		<u>193,105</u>	<u>233,851</u>	<u>288,360</u>
Total assets		<u>1,582,727</u>	<u>1,810,009</u>	<u>1,334,818</u>
LIABILITIES				
Current liabilities				
Trade and other payables	7	202,407	217,722	168,589
Employee benefits	8	106,231	105,510	74,415
Borrowings	9	1,610,780	366,173	-
Revenue received in advance	10	7,300	83,567	-
Total current liabilities		<u>1,926,718</u>	<u>772,972</u>	<u>243,004</u>
Non-current liabilities				
Employee benefits	8	84,716	32,161	23,095
Total non-current liabilities		<u>84,716</u>	<u>32,161</u>	<u>23,095</u>
Total liabilities		<u>2,011,434</u>	<u>805,133</u>	<u>266,099</u>
Net assets		<u>(428,707)</u>	<u>1,004,876</u>	<u>1,068,719</u>
EQUITY				
Issued capital	11	5,327,819	5,327,819	5,327,819
Share based payment reserve	12	603,925	347,321	305,377
Accumulated losses		(6,360,451)	(4,670,264)	(4,564,477)
Total equity		<u>(428,707)</u>	<u>1,004,876</u>	<u>1,068,719</u>

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

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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

	Ordinary Shares \$	Non- Redeemable Series A Preference Shares \$	Share based payments reserve \$	Accumulated Losses \$	Total \$
2018					
Balance at 1 July 2017	2,348,884	2,978,935	-	(4,234,516)	1,093,303
Opening adjustment (Note 1(r))	-	-	305,377	(329,961)	(24,584)
Restated balance at 1 July 2017	2,348,884	2,978,935	305,377	(4,564,477)	1,068,719
Profit or loss for the year	-	-	-	(105,787)	(105,787)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(105,787)	(105,787)
<i>Transactions with owners in their capacity as owners</i>					
Share based payments for the period	-	-	41,944	-	41,944
	-	-	41,944	-	41,944
Balance at 30 June 2018	2,348,884	2,978,935	347,321	(4,670,264)	1,004,876
2019					
Balance at 1 July 2018	2,348,884	2,978,935	347,321	(4,670,264)	1,004,876
Profit or loss for the year	-	-	-	(1,690,187)	(1,690,187)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(1,690,187)	(1,690,187)
<i>Transactions with owners in their capacity as owners</i>					
Share based payments for the period	-	-	256,604	-	256,604
	-	-	256,604	-	256,604
Balance at 30 June 2019	2,348,884	2,978,935	603,925	(6,360,451)	(428,707)

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

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 \$	2018 \$
Cash flows from operating activities			
Receipts from customers		1,133,987	2,468,617
Government grants received		59,502	653,404
Payments to suppliers and employees		(2,415,538)	(2,885,048)
Interest received		2,166	1,873
Interest paid		(3,570)	(4,598)
Income tax paid		-	-
Net cash used/(provided) in operating activities	23	<u>(1,223,453)</u>	<u>234,248</u>
Cash flows from investing activities			
Payment for intangibles		(1,744)	(1,814)
Purchase of property, plant and equipment		(2,519)	(11,848)
Net cash used in investing activities		<u>(4,263)</u>	<u>(13,662)</u>
Cash flows from financing activities			
Proceeds from issue of shares		-	-
Proceeds from borrowings		1,244,607	366,173
Net cash provided by financing activities		<u>1,244,607</u>	<u>366,173</u>
Net increase in cash and cash equivalents		16,891	586,759
Cash and cash equivalents at beginning of period		926,929	340,170
Cash and cash equivalents at end of the period	2	<u><u>943,820</u></u>	<u><u>926,929</u></u>

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

KEYHOLE TIG LIMITED

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019**

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 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 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 transaction with Serpentine Technologies will proceed as per the binding Share Sale agreement. The agreement is founded on the acquiring party raising five million dollars which will ensure the new entity has working capital well beyond the requirements of the coming year. Should the Company not proceed with the Serpentine transaction, and if further equity capital or debt funding not be garnered, a material uncertainty would exist over the ability of the Company to continue as a going concern, and therefore, it may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and at amounts different from those stated in the financial report.

(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.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

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	14.00%
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 amortisation. Trademarks are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

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.

(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) Convertible notes

The conversion option of the convertible notes issued during the period will not be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the company's own shares. As a result, the convertible notes are classified as a financial liability.

(iv) 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)***Impairment***

The company recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost. All the company's financial assets are determined to have a low credit risk at the initial reporting date, and so the company uses the low credit risk operational simplification approach to impairment. The company assesses that the credit risk has not increased significantly since initial recognition and, accordingly, recognises a loss allowance of 12-month expected credit loss. In order to make such determination that the financial asset has low credit risk, the company applies its internal credit risk ratings or other methodologies using a globally comparable definition of low credit risk. A financial asset is considered to have low credit risk if:

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

At each reporting date, the entity recognised the movement in the loss allowance as an impairment gain or loss in the statement of profit or loss and other comprehensive income. The carrying amount of financial assets measured at amortised cost includes the loss allowance relating to that asset.

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.

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days. The entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

(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.

(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 corporate 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

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees. Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. The cost of equity-settled transactions are measured at fair value on grant date. The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation.

KEYHOLE TIG LIMITED

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019**

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. 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.

(m) Revenue and other income

The company manufactures and sells welding equipment. Revenue is recognised when control of the products has transferred to the customer. For such transactions, this is when the products are delivered to the customer. Revenue from these sales is based on the price stipulated in the contract. Revenue is then only recognised to the extent that there is a high probability that a significant reversal of revenue will not occur.

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.

KEYHOLE TIG LIMITED

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Foreign Currency Translation

Functional and presentation currency

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

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.

(q) New and amended accounting policies adopted by the company

The Group has adopted AASB 9: *Financial Instruments* and AASB 15: *Revenue from contracts with customers* with a date of initial application of 1 July 2018. There is no material impact from the application of these accounting standards.

(r) Prior period adjustment

As set out in Note 21, subsequent to reporting date the directors resolved to issue shares in relation to a number of matters. These included consulting fees and board and advisor fees that related to periods prior to 1 July 2017. The amount of these consulting fees and board and advisor fees that related to periods prior to 1 July 2017 have been dealt with as a prior period adjustment in the Statement of Changes in Equity. Amounts related to the year ended 30 June 2018 have been reflected with the profit and loss for the year then ended.

There was a change in accounting policy during the year in relation to amortisation period for trademarks. In prior periods, trademarks have been considered to be an indefinite useful life intangible asset. The policy has changed to amortising capitalised trademark costs over a 10 year period from the year the costs are incurred. Amortisation expenses related to periods prior to 1 July 2017 have been recorded in opening retained losses in the statement of changes in equity.

KEYHOLE TIG LIMITED

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Prior period adjustment (continued)

The table below provides a summary of the amounts of the adjustments for each financial statement line item affected by the change in accounting policy related to amortisation of trademarks and the prior period error in relation to resolution of matters described in Note 21 for annual reporting period ending 30 June 2019, as well as the comparative periods ending 30 June 2018 and 30 June 2017.

Adjustments to the statement of financial position

	As at 30 June 2018			
	Under previous accounting policy & previously reported	Effect of change due to error	Effect of change in accounting policy	As presented
Intangible Assets	108,825	-	(35,467)	73,358
Total non-current assets	269,318	-	(35,467)	233,851
Total assets	1,845,476	-	(35,467)	1,810,009
Net assets	1,040,343	-	(35,467)	1,004,876
Accumulated losses	(4,287,476)	(347,321)	(35,467)	(4,670,264)
Share based payment reserve	-	347,321	-	347,321
Total equity	1,040,343	-	(35,467)	1,004,876
	As at 1 July 2017			
	Under previous accounting policy & previously reported	Effect of change due to error	Effect of change in accounting policy	Restated
Intangible Assets	107,011	-	(24,584)	82,427
Total non-current assets	312,944	-	(24,584)	288,360
Total assets	1,359,402	-	(24,584)	1,334,818
Net assets	1,093,303	-	(24,584)	1,068,719
Accumulated losses	(4,234,516)	(305,377)	(24,584)	(4,564,477)
Share based payment reserve	-	305,377	-	305,377
Total equity	1,093,303	-	(24,584)	1,068,719

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Prior period adjustment (continued)

Adjustments to the statement of profit or loss and other comprehensive income

	For the year ended 30 June 2019			
	Under previous accounting policy & previously reported	Effect of change due to error	Effect of change in accounting policy	As presented
R&D expense	(65,435)	-	(11,057)	(76,492)
Employee benefits expense	(1,101,628)	(256,604)	-	(1,358,232)
Profit/(Loss) for the year	(1,422,526)	(256,604)	(11,057)	(1,690,187)

	For the year ended 30 June 2018			
	Under previous accounting policy & previously reported	Effect of change due to error	Effect of change in accounting policy	Restated
R&D expense	(75,154)	-	(10,883)	(86,037)
Employee benefits expense	(1,084,933)	(41,944)	-	(1,126,877)
Profit/(Loss) for the year	(1,637,360)	(41,944)	(10,883)	(1,690,187)

There was no changes in the annual reporting year ended 30 June 2019 or 30 June 2018 in relation to statement of cash flows.

(t) Investment in dormant entity

The entity holds a \$10 investment in a dormant wholly owned subsidiary. Given the dormant nature of the entity, consolidated group financial statements is not considered appropriate. The \$10 investment approximates fair value.

(u) New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the entity for the annual reporting period ended 30 June 2019. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. The entity currently in the last year of their current lease, and no decisions have been finalised regarding a lease extension. Given the current state, the entity has not completed their assessment on the impact of application for the year ended 30 June 2020. Further analysis will be undertaken over the course of the coming year to determine the impact on the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018 (Restated)
	\$	\$
NOTE 2 Cash and Cash Equivalents		
Cash at bank	943,820	926,929
	<u>943,820</u>	<u>926,929</u>
NOTE 3 Trade and other receivables		
Trade receivables	15,025	58,881
GST receivable	38,229	36,172
Research & Development tax incentive	19,431	319,634
	<u>72,685</u>	<u>414,687</u>
NOTE 4 Inventories		
Materials and components	373,117	234,542
	<u>373,117</u>	<u>234,542</u>
NOTE 5 Property, Plant and Equipment		
<i>Leasehold Improvements</i>		
At cost	89,695	89,695
Accumulated depreciation	(50,826)	(37,869)
	<u>38,869</u>	<u>51,826</u>
<i>Plant & Equipment</i>		
At cost	213,891	213,891
Accumulated depreciation	(127,052)	(107,183)
	<u>86,839</u>	<u>106,708</u>
<i>Computer Equipment</i>		
At cost	23,046	20,527
Accumulated depreciation	(19,704)	(18,568)
	<u>3,342</u>	<u>1,959</u>
Total non-current property, plant and equipment	<u>129,050</u>	<u>160,493</u>

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	51,826	106,708	1,959	160,493
Additions	-	-	2,519	2,519
Disposals	-	-	-	-
Depreciation expense	(12,957)	(19,869)	(1,136)	(33,962)
Carrying amount at end of financial year	<u>38,869</u>	<u>86,839</u>	<u>3,342</u>	<u>129,050</u>

KEYHOLE TIG LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018 (Restated)
	\$	\$
NOTE 6 Intangible assets		
Trademarks	110,569	108,825
Accumulated amortisation	(46,524)	(35,467)
Net carrying value	<u>64,045</u>	<u>73,358</u>
Total Intangibles	<u>64,045</u>	<u>73,358</u>
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	73,358	73,358
Additions	1,744	1,744
Amortisation	(11,057)	(11,057)
Carrying amount at end of financial year	<u>64,045</u>	<u>64,045</u>
NOTE 7 Trade and Other Payables		
Current		
Trade payables	81,003	97,318
Other payables	74,171	85,108
Credit cards	13,470	7,458
Accrued expenses	33,763	27,838
	<u>202,407</u>	<u>217,722</u>
NOTE 8 Employee benefits		
Current		
Provision for employee benefits	<u>106,231</u>	<u>105,510</u>
Non-Current		
Provision for employee benefits	<u>84,716</u>	<u>32,161</u>
NOTE 9 Borrowings		
Current		
Loans with related parties	359,740	366,173
Convertible notes	1,251,040	-
	<u>1,610,780</u>	<u>366,173</u>

The convertible notes were issued at a face value of \$1,000 per note. The notes are convertible into ordinary shares of the company at any time between the date of issue and their maturity date 24 months after the issue date, on the event of a company sale, change of control, or funding event. The notes are convertible on the basis of the share price at conversion date. The redemption price at maturity is the face value multiplied by 1.2.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018 (Restated)
	\$	\$
NOTE 10 Revenue received in advance		
Revenue received in advance	<u>7,300</u>	<u>83,567</u>

NOTE 11 Issued Capital

96,395,839 Fully paid ordinary shares (2018: 96,395,839)	2,348,884	2,348,884
41,322,314 Non-redeemable Series A preference shares (2018: 41,322,314)	<u>2,978,935</u>	<u>2,978,935</u>
	<u>5,327,819</u>	<u>5,327,819</u>

Movements in ordinary share capital

Date	Details	Number of shares	\$
1 Jul 2018	Opening balance	<u>96,395,839</u>	<u>2,348,884</u>
30 Jun 2019	Closing balance	<u>96,395,839</u>	<u>2,348,884</u>

Movements in non-redeemable Series A preference share capital

Date	Details	Number of shares	\$
1 Jul 2018	Opening balance	<u>41,322,314</u>	<u>2,978,935</u>
30 Jun 2019	Closing balance	<u>41,322,314</u>	<u>2,978,935</u>

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.

Capital risk management

The entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital. Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents. In order to maintain or adjust the capital structure, the entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018 (Restated)
	\$	\$
NOTE 12 Reserves		
Share based payment reserve	603,925	347,321

The reserve is used to recognise share based transactions. Amounts will be transferred into share capital upon share options being exercised.

NOTE 13 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 9 as detailed in the accounting policies to these financial statements, are as follows:

Financial Assets

Cash and cash equivalents	943,820	926,929
Trade and other receivables	72,685	414,687
Total financial assets	<u>1,016,505</u>	<u>1,341,616</u>

Financial Liabilities

Trade and other payables	202,407	217,722
Borrowings	1,610,780	366,173
Total financial liabilities	<u>1,813,187</u>	<u>583,895</u>

Financial risk management objectives

The entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The entity's overall risk management program seeks to minimise potential adverse effects on the financial performance of the entity.

Foreign currency risk

All sales are in \$AUD, eliminating foreign currency risk.

Price risk

The consolidated entity is not exposed to any significant price risk

Interest rate risk

The entities exposure to interest rate risks is limited as liabilities with associated interest rates are with directors of the entity. The entity has entered into an agreement where loans with directors will convert to shares subsequent to reporting date. Refer Note 21.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the entity. Obtaining credit information and setting appropriate credit limits assists in mitigating these risks.

Liquidity risk

The entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

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NOTES TO THE FINANCIAL STATEMENTS
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	2019	2018 (Restated)
	\$	\$
NOTE 14 Revenue and Other Income		
Revenue from contracts with customers		
- Sale of goods	950,307	2,190,883
- Rendering of services	97,090	19,045
- Other trading revenue	21,801	26,268
	<u>1,069,198</u>	<u>2,236,196</u>
Other Income		
- Interest received	2,166	1,873
- Government grants	40,071	47,790
- Research & Development tax incentive	-	302,807
- Net gain/(loss) on disposal of property, plant and equipment	-	45
	<u>42,237</u>	<u>352,515</u>
NOTE 15 Result for the Year		
The result for the year includes the following specific expenses:		
Depreciation of plant & equipment	33,961	57,288
Amortisation of trademarks	11,057	10,883
Rental expenses relating to operating leases	102,713	107,395
Defined contribution superannuation expense	88,224	88,538
Foreign exchange loss	11,393	17,875
Finance costs	3,570	4,598
 During the financial year the following fees were paid or payable for services provided by BDO, the auditor of the company;		
Audit services		
- Audit of the financial statements	24,300	10,000
 Other services		
- Preparation of financial statements	5,400	2,000
- Compliance	10,645	8,945
- Business Advice & Consulting	53,550	8,535

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018 (Restated)
	\$	\$
NOTE 16 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% (2018: 27.5%)	(464,801)	(29,091)
Non-deductible expenses:		
- entertainment	2,158	1,065
- share based payments	70,566	-
Effect of tax concessions (Research & Development tax incentive)	-	108,158
Deferred tax asset not recognised	392,077	(80,132)
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	3,498,818	2,204,945
Deductible temporary differences	396,544	246,297
	<u>3,895,362</u>	<u>2,451,242</u>
Potential benefit at 27.5% (2018: 27.5%)	<u>1,071,225</u>	<u>674,092</u>
There is no expiry date on the future deductibility of unused tax losses.		

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 17 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 aggregate compensation made to directors and other members of key management personnel of the entity is set out below:	2019	2018 (Restated)
	\$	\$
Short-term employee benefits	361,591	497,896
Post-employment benefits	25,000	27,292
Long-term benefits	-	-
Share-based payments	171,490	24,673
	<u>558,081</u>	<u>549,861</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:	2019	2018
	\$	\$
<i>Sale of goods and services to other related parties:</i>		
- WB Alloy Welding Products Ltd	-	225,946
<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:

	2019	2018
	\$	\$
<i>Current receivables (sale of goods and services)</i>		
- WB Alloy Welding Products Ltd	4,895	-
<i>Current payables (borrowings)</i>		
- Royal Group	249,975	249,975
- Kieran Purcell	49,790	56,223
- WB Alloy	49,975	49,975
- Neil Le Quesne	10,000	10,000

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 17 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. As detailed in in Note 21, the directors have resolved to convert these loans into shares subsequent to reporting date.

NOTE 18 Dividends

There were no dividends paid during the year (2018: Nil).

Franking credits available for subsequent years based on a 27.5% tax rate is \$0 (2018: \$0)

NOTE 19 Commitments

	2019 \$	2018 \$
<i>Lease commitments</i>		
Non-cancellable operating leases - future minimum lease payments payable:		
Within one year	83,592	87,827
Later than one year but not later than 5 years	6,460	73,189
Later than 5 years	-	-
	<u>90,052</u>	<u>161,016</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 20 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 2019 (2018: nil).

R&D Tax Examination

The Department of Industry, Innovation and Science is undertaking an examination of the company's 2017-2018 financial year R&D Tax Incentive registration. The examination may result in the registered activities being ineligible for the R&D Tax Incentive, and the company having to repay claims it has received. The total amount claimed and received for the 2017-2018 financial year was \$302,807.

CEO incentive for sale over \$20M

A 1.25% Success Fee is payable to the Chief Executive Officer Neil Le Quesne upon the successful sale or IPO of the company for \$20m or greater.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 21 Events after the end of the Reporting Period

The financial report was authorised for issue by the board of directors as dated in the directors' report. Subsequent to reporting date, Keyhole TIG Ltd and its major shareholders executed a binding agreement with Serpentine Technologies Ltd, that subject to a number of conditions precedent including shareholder approval, will result in Serpentine Technologies Ltd acquiring 100% of the issued capital of Keyhole TIG Ltd. This transaction has not completed at the date of these financial statements.

Subsequent to reporting date, the directors of the company have resolved to issue shares as follows:

1. Conversion of director loans

Director	No. of shares issued	Loan balance at 30/6/19 \$
Shueb	3,954,041	250,000
Purcell	774,935	48,996
Le Quesne	158,162	10,000
Wilson	790,808	50,000
	<u>5,677,946</u>	

No adjustment has been recorded at 30 June 2019 in relation to this share issue.

2. Issue of shares to consultant

No. of shares issued	Value of services provided \$
<u>2,637,500</u>	<u>211,000</u>

The consulting services that this issue of shares relates to were received by the company prior to 1 July 2017. An adjustment has been recorded to opening accumulated losses, and opening share based payment reserve for the value of the services provided.

3. Issue of employee share scheme shares

	No. of shares issued	Value of employee benefit recognised \$
Poole	913,269	28,494
Latz	848,035	26,459
Lai	130,467	4,071
Purcell	1,449,633	22,614
Le Quesne	3,624,083	56,536
Sanghani	141,339	4,410
Kelly	141,339	4,410
	<u>7,248,165</u>	<u>146,993</u>

The employee benefit expense that this issue of shares relates to has been recorded in the 12 months to 30 June 2019 at an independently assessed current value per share.

KEYHOLE TIG LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 21 Events after the end of the Reporting Period (continued)

4. Conversion of board fees to equity

	No. of shares issued	Value of employee benefit recognised \$
Purcell	2,688,748	41,944
Wilson	1,344,374	20,972
Shueb	1,344,374	20,972
Le Quesne	1,344,374	20,972
Latz	1,008,280	31,458
Lantzke	672,187	20,972
Abraam	672,187	20,972
	<u>9,074,524</u>	<u>178,264</u>

The employee benefit expense that this issue of shares relates to includes services provided prior to 1 July 2017. An adjustment has been recorded to opening accumulated losses, and opening share based payment reserve for the value of the services provided prior to 1 July 2017, and in the 12 months to 30 June 2018 and 30 June 2019 for services provided in each respective period. The employee benefit expense and opening adjustment as been recorded at an independently assessed current fair value per share.

5. Le Quesne executive service entitlement

	No. of shares issued	Value of employee benefit recognised \$
Le Quesne	4,337,610	67,667

The employee benefit expense that this issue of shares relates to has been recorded in the 12 months to 30 June 2019 at an independently assessed current value per share. Le Quesne is eligible for subsequent tranches of the Le Quesne executive service entitlement based on 3% of any Deferred Consideration Shares (as defined in the Share Sale Agreement) if and when they may be issued by Serpentine Technologies Ltd.

Other than for the matters set out above, no other matter or circumstance has arisen since 30 June 2019 that has significantly affected or may significantly affect the entity's operations, or the entity's state of affairs in future financial years.

NOTE 22 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

A description of the nature of the entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 23 Reconciliation of loss after income tax to net cash from operating activities

	2019 \$	2018 \$
Loss after income tax expense for the year	(1,690,187)	(105,787)
Adjustments for:		
- Depreciation	33,962	57,288
- Amortisation of trademarks	11,057	10,883
- Share based payment expenses	256,604	41,944
Change in operating assets and liabilities:		
- (Increase)/decrease in trade receivables	43,856	(54,437)
- (Increase)/decrease in other receivables and prepayments	298,146	20,598
- (Increase)/decrease in inventories	(138,575)	90,898
- Increase/(decrease) in Trade Payables	(15,325)	49,133
- Increase/(decrease) in income in advance	(76,267)	83,567
- Increase/(Decrease) in Employee benefits	53,276	40,161
Net cash to/(from) operating activities	<u>(1,223,453)</u>	<u>234,248</u>

NOTE 24 Operating segments

The entity is considered to be one operating segment based on products delivered. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. The information presented in the financial statements approximates the information of the operating segment.

KEYHOLE TIG LIMITED
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DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2019

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 and the *Corporations Regulations 2001*;
 - b. comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
 - c. give a true and fair view of the company's financial position as at 30 June 2019 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 27th day of July 2019
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 2019, 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 2019 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern and therefore the entity may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

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 Director's 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 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.

A stylized, handwritten signature of 'BDO' in blue ink.

BDO Audit (SA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'G K Edwards'.

G K Edwards
Director

Adelaide, 27 July 2019