



Announcement to ASX

ASX Code: HTG

August 31, 2020

## Appendix 4E Preliminary Final Report to ASX in accordance with Listing Rule 4.3A

**August 31, 2020:** Harvest Technology Group Limited (ASX:HTG) (Company) is pleased to provide to the market its Appendix 4E Preliminary Final Report for the year ended June 30, 2020, in accordance with Listing Rule 4.3A.

### I. DETAILS OF THE REPORTING PERIODS

This report covers the financial year ended 30 June 2020. Corresponding comparative information covers the financial year ended 30 June 2019.

### II. RESULTS FOR ANNOUNCEMENT TO THE MARKET

				30 June 2020	30 June 2019
				\$	\$
			%		
(i)	Revenue	Up by	1,001	11,765,947	11,747
(ii)	Net profit (loss) for the year from ordinary activities attributable to members (NPAT)	Up by	423	(6,148,327)	(1,453,925)
(iii)	Net profit (loss) for the year attributable to members (NPAT)	Up by	423	(6,148,327)	(1,453,925)
(iv)	Dividends			Nil	Nil
(v)	Record date for determining entitlements for dividend			n/a	n/a

Brief explanation of figures (i) to (iv) necessary to enable figures to be understood.

#### Revenue

FY2020 was highlighted by a significant increase in revenue as a result of the commencement of offshore operations and increased deployment of Infinity technology.



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### Profitability

During the financial year, the following significant expenses were included in the net loss:

Description	Nature	Value
Write off Goodwill on the Harvest Technology Acquisition of April 2019	Non Recurring and Non Cash	\$533,153
Amortisation of the Harvest Infinity intellectual property	Non Cash	\$470,764
Amortisation and write-off of Shark Attack Mitigation/Smart Marine assets and intangible assets (discontinued operations)	Non Recurring and Non Cash	\$106,757
Share based payments – issued to employees and directors as remuneration based on KPI's and the significant increase in market capitalisation and share price	Non cash	\$2,816,043
Initial delivery of the Voss Shine into Australia from the Netherlands (the estimated cost of re-delivery at the end of the lease terms is being recognised on a progressive basis via Amortisation of Right of Use Assets)	Non recurring	\$1,461,503

The Group reported a net loss for the year ended 30 June 2020 of \$6,148,327. The result reflects a period of substantial transition.

### Cashflow and Balance Sheet

The Cash balances as at 30 June 2020 were \$11.3 million. This provides a strong solvency and cash position which provides the necessary resources to develop further applications for our cutting edge technology.

The Balance Sheet reflects the acquisition of technology (in intangible assets) and the associated commitments required for the acquisition in deferred consideration and derivative financial instruments (convertible notes). It also reflects the lease of the vessel being used for subsea activities which forms a significant portion of the right of use assets with associated liabilities shown as lease liabilities.

In comparison to the loss, the operational cashflows for the year were a net outflow of \$1.060M. This reflects a large portion of the expenses included in the loss being non-cash in nature. The cashflow also highlights the Company's success in raising funds to fund both the acquisition of Harvest Infinity Pty Ltd (formerly *Advanced Offshore Streaming Pty Ltd*) and acceleration of technology development into 2020/21.

### III. DIVIDENDS

The Board did not declare nor pay any dividends for the financial year ended 30 June 2020 and it is not proposed to pay any dividends in relation to the financial year end.



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#### IV. ANNUAL FINANCIAL INFORMATION

This report includes the following statements:

- Consolidated Statement of Comprehensive Income for the financial year ended 30 June 2020;
- Consolidated Statement of Financial Position as at 30 June 2020;
- Consolidated Statement of Cash Flows for the financial year ended 30 June 2020; and
- Consolidated Statement of Changes in Equity for the financial year ended 30 June 2020.

As at the date of issue of this report, Consolidated Financial Statements for the year ended 30 June 2020 are in the process of being audited.

#### V. NET TANGIBLE ASSETS PER SECURITY

Net tangible assets are defined as the net assets of the Group less intangible assets. Assets classified as intangible assets include goodwill, software and intellectual property.

	30 June 2020	30 June 2019
Net tangible assets / (liabilities) per ordinary share (cents per share)	1.11	0.91

#### VI. CONTROL GAINED OVER ENTITIES HAVING MATERIAL EFFECT

##### **Acquisition of Harvest Infinity Pty Ltd (formerly Advanced Offshore Streaming Pty Ltd)**

On 6 December 2019, the Company successfully completed the acquisition of Advanced Offshore Streaming Pty Ltd. The acquisition investment of \$6.5M was completed via an initial cash payment of \$3.5M plus two further tranches of \$750,000 after 12 months and 24 months. In addition, two tranches of shares calculated as \$750,000 each divided by the 3 day VWAP for the 3 days prior to acquisition are due 12 months and 36 months after acquisition. The initial purchase price was funded by way of \$4M convertible notes with \$500,000 of the funds allocated to working capital

Reference is made to the Preliminary Final Report - June 30, 2020 following this announcement.

*This announcement was authorised for release by Paul Guilfoyle, Managing Director.*

Mr. Paul Guilfoyle

Managing Director – Harvest Technology Group Limited

Tel: +61 8 6370 6370



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# **HARVEST TECHNOLOGY GROUP LIMITED**

**ABN 77 149 970 445**

## **PRELIMINARY FINAL REPORT**

**June 30, 2020**



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## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020 \$	2019 \$
<b>Continuing operations</b>			
Sales		11,563,315	11,747
Other income		184,184	75,128
Cost of Goods Sold		(6,935,837)	-
Other operating expenses		-	(6,615)
Marketing and business development		(15,991)	(56,009)
Personnel expenses		(5,536,736)	(714,578)
General and administration		(1,000,927)	(330,590)
Professional fees		(964,818)	(336,772)
Depreciation and amortisation		(3,360,490)	(210,725)
Impairment of Goodwill		(533,153)	-
Research and development		-	(213,773)
Finance expenses		(589,030)	(3,040)
Revaluation of Financial Assets held at FVTPL		-	300,000
Other losses		(4,094)	(59,083)
<b>Loss before income tax</b>		<b>(7,193,577)</b>	<b>(1,544,310)</b>
Income tax benefit		1,177,249	179,098
<b>Net loss for the year from continuing operations</b>		<b>(6,016,328)</b>	<b>(1,365,212)</b>
<b>Loss after tax from discontinued operations</b>		<b>(133,399)</b>	<b>(89,219)</b>
<b>Loss attributable to owners of the Company</b>		<b>(6,149,727)</b>	<b>(1,454,431)</b>
<b>Other comprehensive income</b>			
Foreign currency translation differences on foreign operations		1,400	506
<b>Total comprehensive loss for the year</b>		<b>(6,148,327)</b>	<b>(1,453,925)</b>
<b>Total comprehensive loss attributable to owners of the Company</b>		<b>(6,148,327)</b>	<b>(1,453,925)</b>
<b>Loss per share</b>			
Basic and diluted loss per share (cents per share)	4	(1.86)	(1.06)
Basic and diluted loss per share (cents per share) from continuing operations	4	(1.82)	(1.00)
Basic and diluted loss per share (cents per share) from discontinued operations	4	(0.04)	(0.06)

*The accompanying notes form part of these financial statements*



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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020 \$	2019 \$
<b>Assets</b>			
Cash and cash equivalents		11,306,298	2,172,384
Trade and other receivables		877,873	25,642
Inventory		79,135	-
Prepayments		108,802	95,183
Financial Assets held at FVTPL		17,590	300,000
Other receivables		132,914	-
<b>Total current assets</b>		<b>12,522,612</b>	<b>2,593,209</b>
Intangible assets		7,791,092	41,527
Property, plant and equipment		161,634	174,942
Right of Use Assets		3,241,596	-
Goodwill		-	533,153
Other bonds and deposits		608,251	54,362
<b>Total non-current assets</b>		<b>11,802,573</b>	<b>803,984</b>
<b>Total assets</b>		<b>24,325,185</b>	<b>3,397,193</b>
<b>Liabilities</b>			
Trade and other payables		1,142,699	159,923
Borrowings		115,520	30,543
Employee entitlements		232,668	103,723
Lease liabilities		2,509,282	-
Deferred consideration		727,256	-
Provision for tax		12,846	-
Other liabilities		84	455,000
<b>Total current liabilities</b>		<b>4,740,355</b>	<b>749,189</b>
Lease liabilities		622,169	-
Deferred consideration		672,761	-
Derivative financial instruments		3,535,717	-
Provisions		1,244,678	-
Deferred tax liabilities		867,334	-
<b>Total non-current liabilities</b>		<b>6,942,659</b>	<b>-</b>
<b>Total liabilities</b>		<b>11,683,014</b>	<b>749,189</b>
<b>Net assets</b>		<b>12,642,171</b>	<b>2,648,004</b>
<b>Equity</b>			
Issued capital	2	20,666,186	9,379,698
Unissued capital	2	1,738,628	-
Reserves	2	3,301,006	432,391
Accumulated losses		(13,063,649)	(7,164,085)
<b>Total equity attributable to equity holders of the Company</b>		<b>12,642,171</b>	<b>2,648,004</b>

*The accompanying notes form part of these financial statements*

Ground Floor, 16 Ord Street West Perth WA 6005 P: +61 8 9482 0500

ABN: 77 149 970 445



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

	2020 \$	2019 \$
<b>Cash flows from operating activities</b>		
Receipts from customers	12,042,226	69,927
Cash paid to suppliers and employees	(12,463,190)	(1,461,512)
Interest paid	(489,735)	(3,041)
Interest received	3,184	1,406
Payments for research and development	-	(265,464)
Income taxes received(paid)	(152,800)	369,923
<b>Net cash used in operating activities</b>	<b>(1,060,315)</b>	<b>(1,288,761)</b>
<b>Cash flows from investing activities</b>		
Payments for plant and equipment	(96,214)	(44,906)
Proceeds from sale of plant and equipment	7,500	50,584
Payment for subsidiary	(3,500,000)	-
Loan to subsidiary pre-acquisition	-	(143,925)
Acquisition of cash in business combination	257,392	25,087
Payments for security deposits	(553,889)	-
<b>Net cash used in investing activities</b>	<b>(3,885,211)</b>	<b>(113,160)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital and options exercise	11,438,310	3,442,847
Proceeds from sale of investment in an associate	300,000	-
Payment of capital raising costs	(38,707)	(245,424)
Proceeds from issue of convertible notes	4,000,000	-
Payments of right of use asset leases	(1,694,756)	-
Repayment of loans from related parties	(10,386)	(7,223)
Proceeds from borrowings	1,342,864	-
Repayment of borrowings and premium funding facility	(1,257,885)	(82,663)
<b>Net cash from financing activities</b>	<b>14,079,440</b>	<b>3,107,537</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>9,133,914</b>	<b>1,705,616</b>
Cash and cash equivalents at 1 July	2,172,384	466,642
Effect of exchange rate fluctuations on cash held	-	126
<b>Cash and cash equivalents at 30 June</b>	<b>11,306,298</b>	<b>2,172,384</b>

*The accompanying notes form part of these financial statements*



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

	Issued capital	Unissued capital	Share-based payment reserve	Equity Component of Convertible Note	Other reserves	Accumulated losses	Total equity
<b>Balance at 1 July 2018</b>	6,214,775	-	956,274	-	894	(6,239,067)	932,876
Net loss for the year	-	-	-	-	-	(1,454,431)	(1,454,431)
Foreign exchange translation	-	-	-	-	506	-	506
Other comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	506	(1,454,431)	(1,453,925)
Shares issued during the period	3,017,847	-	-	-	-	-	3,017,847
Share issue costs	(290,924)	-	-	-	-	-	(290,924)
Share-based payments	438,000	-	-	-	-	-	438,000
Share-based payment expense on vested share options	-	-	26,298	-	-	-	26,298
Expiry and vesting of options	-	-	(551,581)	-	-	529,413	(22,168)
<b>Balance at 30 June 2019</b>	<b>9,379,698</b>	<b>-</b>	<b>430,991</b>	<b>-</b>	<b>1,400</b>	<b>(7,164,085)</b>	<b>2,648,004</b>
<b>Balance at 1 July 2019</b>	9,379,698	-	430,991	-	1,400	-	2,648,004
Net profit(loss) for the period	-	-	-	-	-	(6,149,727)	(6,149,727)
Other comprehensive income for the period	-	-	-	-	-	-	-
Foreign exchange translation	-	-	-	-	(1,400)	1,400	-
Total comprehensive income for the period	-	-	-	-	(1,400)	(6,148,327)	(6,149,727)
Shares issued during the period	11,883,432	-	-	-	-	-	11,883,432
Share issue costs (net of tax benefit)	(596,944)	-	-	-	-	-	(596,944)
Equity portion of convertible notes	-	-	-	499,385	-	-	499,385
Deferred consideration on acquisition of subsidiary	-	1,500,000	-	-	-	-	1,500,000
Funds received for options yet to be issued	-	41,978	-	-	-	-	41,978
Expiry and vesting of options	-	-	(248,763)	-	-	248,763	-
Share issued in lieu of bonus	-	196,650	-	-	-	-	196,650
Share-based payments	-	-	2,619,393	-	-	-	2,619,393
<b>Balance at 30 June 2020</b>	<b>20,666,186</b>	<b>1,738,628</b>	<b>2,801,621</b>	<b>499,385</b>	<b>-</b>	<b>(13,063,649)</b>	<b>12,642,171</b>

*The accompanying notes form part of these financial statements*





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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

### NOTE 1: BASIS OF PREPARATION

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The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and are prepared on an accruals basis based on historical costs.

The consolidated financial statements are presented in Australian Dollars (AUD), which is the functional and presentation currency of the Group.

The consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, and consolidated statement of changes in equity provide comparative information as at and for the year ended 30 June 2020. Where necessary, the comparatives have been reclassified to be consistent with the current period disclosures.

#### Significant Accounting Judgements and Key Estimates

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

- **Goodwill and other intangible assets**

Goodwill was acquired as part of the investment in subsidiaries and assessed for impairment annually, with accumulated impairment losses not being reversible.

- **Property and equipment**

Property and equipment are depreciated over their estimated useful lives, which is based on expected usage of the asset and expected physical wear and tear which depends on operational factors. The management has not considered any residual value as it is deemed immaterial. Any changes in the accounting estimate on depreciation will be recorded in the consolidated statement of comprehensive income for the period of change.

- **Recovery of deferred tax assets**

Deferred tax assets are recognised for deductible temporary differences and unused tax losses as management considers that it is probable that sufficient taxable temporary differences are expected to reverse in a future period or future taxable profits will be available to utilize those temporary differences. Management judgement is required to determine the amount of deferred tax assets that



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can be recognised, based upon the likely timing and the level of future taxable profits over the next two years together with future tax planning strategies.

- ***Share-based payment reserves***

The Group measures the cost of equity-settled transactions with directors and employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black-Scholes model.

### **Application of New Standards**

As a result of this review, the Group has initially applied AASB 16 and Interpretation 23 from 1 July 2019.

Due to the transition method chosen by the Group in applying AASB 16, comparative information throughout the interim financial statements has not been restated to reflect the requirements of the new standards.

### **AASB 16 Leases**

AASB 16 replaces AASB 117 *Leases* and eliminates the operating and finance lease classifications for lessees.

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

### **Impact on operating leases**

AASB 16 changes how the Group accounts for leases previously classified as operating leases under AASB 117, which were off-balance sheet. On initial application of AASB 16, for all leases (except as noted below), the Group will:

- Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;
- Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of comprehensive income; and
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and an interest portion (presented in operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free periods) will be recognised as part of the measurement of the right-of-use assets and lease liabilities, whereas under AASB 117 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under AASB 16, right-of-use assets will be tested for impairment in accordance with AASB 136 *Impairment of Assets*. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12-months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by AASB 16.



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### Impact on Finance Leases

The main differences between AASB 16 and AASB 117 with respect to assets formerly held under a finance lease is the measurement of the residual guarantees provided by the lessee or lessor.

AASB 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by AASB 117.

On initial application, the Group has present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowings, will be presented in a separate line for lease liabilities.

The Group has adopted AASB 16 retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application, being 1 April 2019.

### Application as at 1 July 2019

	\$
Operating lease commitments disclosed as at 30 June 2019	326,812
	<hr/>
Discounted using the lessee's incremental borrowing rate at the date of initial application	294,854
	<hr/>
<b>Lease liability recognised as at 1 July 2019</b>	<b>294,854</b>
	<hr/>

The recognised right-of-use assets relate to the following types of assets:

	\$
Property, plant and equipment leases	9,144
Building leases	285,710
	<hr/>
<b>Right-of-use assets recognised as at 1 July 2019</b>	<b>294,854</b>
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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 *CONT'D*

### NOTE 2: ISSUED CAPITAL

<i>Ordinary shares</i>	<b>30-Jun-20</b>		<b>30-Jun-19</b>	
Issued and fully paid	<b>436,378,203</b>		<b>257,856,438</b>	
	<b>Year to 30 June 2020</b>		<b>Year to 30 June 2019</b>	
	<b>No.</b>	<b>\$</b>	<b>No.</b>	<b>\$</b>
<i>Movements in ordinary shares</i>				
Balance at beginning of year	<b>257,856,438</b>	<b>9,379,698</b>	106,505,929	6,214,775
Issued of fully paid shares for cash	<b>124,074,074</b>	<b>11,100,000</b>	134,400,509	3,017,847
Issued on conversion of performance rights	<b>25,000,000</b>	-	-	-
Issued on conversion of options	<b>5,541,669</b>	<b>257,500</b>	-	-
Issued via rights issue	<b>23,906,022</b>	<b>525,932</b>	-	-
Issue of fully paid shares in business acquisition	-	-	15,000,000	390,000
Issue of fully paid shares in lieu of capital raising costs	-	-	750,000	18,000
Issue of fully paid shares in lieu of consultancy fees	-	-	1,200,000	30,000
Share issue costs incurred (net of tax benefit)	-	<b>(596,944)</b>	-	<b>(290,924)</b>
<b>Balance at end of year</b>	<b>436,378,203</b>	<b>20,666,186</b>	<b>257,856,438</b>	<b>9,379,698</b>



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 *CONT'D*

### NOTE 3: SEGMENTED REPORTING

The Group's operating segments have been determined with reference to the management accounts used by the Chief Operating Decision Maker to make decisions regarding the Group's operations and allocation of working capital. Due to the size and nature of the Group, the Board as a whole, has been determined as the Chief Operating Decision Maker.

The Group currently operates in two distinct segments:

- Subsea and asset integrity risk mitigation technology-based solutions within the energy, resources and renewables sectors; and
- Remote communications and remote-control technology;.

The offering of bespoke subsea and asset integrity risk mitigation technology-based solutions segment generates income from subsea infrastructure and assets in the energy, resources and renewables sectors.

The remote communications technology segment generates income from the provision of data encryption and compression services to clients operating in offshore and remote environments.

#### Segment Assets and Liabilities

The following is an analysis of the Group's assets and liabilities by reportable operating segment as at the end of the reporting period:

	Assets		Liabilities	
	30 Jun 2020 \$	30 Jun 2019 \$	30 Jun 2020 \$	30 Jun 2020 \$
Clever Buoy marine monitoring technology	-	197,155	-	(41,974)
Subsea and asset integrity risk mitigation	5,594,766	5,575,589	(4,838,728)	(143,194)
Remote communications technology	8,672,912	-	(242,012)	-
<b>Total segment assets and liabilities</b>	<b>14,267,678</b>	<b>772,744</b>	<b>(5,080,740)</b>	<b>(185,168)</b>
Corporate and other segment assets/liabilities	10,057,507	2,624,449	(6,602,274)	(564,021)
<b>Total</b>	<b>24,325,185</b>	<b>3,397,193</b>	<b>(11,683,014)</b>	<b>(749,189)</b>



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### Segment Revenue and Results

The following is an analysis of the Group's revenue and results from continuing operations by reportable operating segment.

	Revenue		Segment profit / (loss)	
	30 Jun 2020 \$	30 Jun 2019 \$	30 Jun 2020 \$	30 Jun 2019 \$
Subsea and asset integrity risk mitigation	10,355,705	-	(2,434,133)	(275,143)
Remote communications technology	1,388,610	-	(220,146)	-
<b>Total for continuing operations</b>	<b>11,744,315</b>	<b>-</b>	<b>(2,654,279)</b>	<b>(275,143)</b>
Clever Buoy shark detection technology	21,632	11,747	(133,399)	(649,356)
SAMS visual technology (discontinued operation)	-	37,768	-	(89,219)
<b>Total for continuing and discontinued operations</b>	<b>11,765,947</b>	<b>49,515</b>	<b>(2,787,678)</b>	<b>(1,013,718)</b>
Finance income			3,185	1,406
Central and administration expenses			(3,953,184)	(918,177)
Finance expense			(589,299)	(3,040)
<b>Loss before tax</b>			<b>(7,326,976)</b>	<b>(891,065)</b>
Income tax benefit			1,177,249	179,098
<b>Loss after tax</b>			<b>(6,149,727)</b>	<b>(1,454,431)</b>

Segment revenues represent revenue generated from external customers. There were no inter-segment revenues in the current period.

Remote communications technology segment result includes an expense of \$470,764 for amortisation of intellectual property.



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 *CONT'D*

### NOTE 4: EARNINGS (LOSS) PER SHARE

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	30-Jun-20	30-Jun-19
Basic earnings (loss) per share (cents per share)	(1.86)	(1.06)
Weighted average number of ordinary shares	<u>383,822,721</u>	<u>136,678,041</u>

Options, performance rights and convertible notes are considered to be potential ordinary shares and are included in the determination of diluted earnings per share to the extent to which they are dilutive. In this period, the addition of these amounts would have been anti-dilutive and therefore, have not been included.



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 *CONT'D*

### NOTE 5: BUSINESS COMBINATION

In December 2019, the Group acquired 100% of the voting equity instruments of Advanced Offshore Streaming Pty Ltd (AOS), (renamed to Harvest Infinity during the year) a company that has developed proprietary algorithms and computing hardware enabling the transfer of secure, encrypted high-definition video, data and audio from remote or satellite locations to a single point to point or global multi-cast locations with dedication to ultra-low bandwidth consumption and quality of service. This technology is currently deployed in remote control, communication, automation and monitoring applications across the global oil and gas and marine industries, and has capacities that extend to mining, defence and agricultural sectors, both on land and at sea. The principal reason for the acquisition was to expand the portfolio of technology services that the Group offers and to enhance and improve the capabilities of existing technologies within the Company's portfolio.

#### Assets Acquired and Liabilities Assumed at Date of Acquisition

The fair value of identifiable assets and liabilities acquired in the business combination are as follows:

	Fair Value \$	Acquisition Adjustments \$	Closing Value \$
Cash and Cash Equivalents	257,392	-	257,392
Trade Receivables and Contract Assets	307,152	-	307,152
Property, Plant and Equipment	75,043	-	75,043
Right-of-use Assets	34,667	-	34,667
Intangible Assets (Intellectual Property) <sup>1</sup>	-	8,261,006	8,261,006
Financial Assets at FVTPL	19,630	-	19,630
Trade and Other Payables	(94,143)	-	(94,143)
Borrowings	(10,386)	-	(10,386)
Income Tax Payable	(165,684)	-	(165,684)
Employee Entitlements	(100,261)	-	(100,261)
Deferred Tax Liability <sup>2</sup>	-	(2,213,346)	(2,213,346)
Lease Liabilities	(35,453)	-	(35,453)
<b>Net assets acquired</b>	<b>287,957</b>	<b>6,047,660</b>	<b>6,335,617</b>

- 1) The difference arising between the fair value of net assets on acquisition and consideration paid has been identified as intellectual property and recorded as an identifiable intangible asset.

An external valuation was performed on the AOS business as a separate component of the due diligence and negotiation process for the acquisition. The valuation was based upon discounted cash flows for the forecast operations of the business unit. As this provided a basis for the fair value of the consideration in the transaction, it predicates the existence of an intangible asset, being the intellectual property, when assessed against the net assets of the business at acquisition date.





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The main factor reinforcing the recognition of an intangible asset of intellectual property is that the business has developed proprietary algorithms that enable the provision of the specific telecommunications services that AOS provides, and as such qualified for separate recognition as an intangible asset. These algorithms are the differentiator that enable AOS to provide the profitable service that it currently performs, rather than any particular finished product or service capable of performance by other parties.

- 2) A deferred tax liability has been recognised in respect of the taxable temporary difference arising from the valuation of Intellectual Property. The adjustment in value of the assets in AOS has resulted in a taxable temporary difference between the fair value recognised in the financial statements and the tax base of the asset, and as such, a deferred tax liability has been recognised. The deferred tax liability has been calculated at the Company's current tax rate of 27.5%.

### Fair Value of Consideration Transferred

	Consideration \$
<b>Initial consideration</b>	
Cash consideration on acquisition	3,500,000
<b>Deferred consideration</b>	
Present value of deferred cash consideration – 12 months <sup>1</sup>	693,802
Present value of deferred share consideration – 12 months <sup>2</sup>	641,815
Deferred share consideration – 12 months <sup>2</sup>	750,000
Deferred share consideration – 36 months <sup>2</sup>	750,000
<b>Total consideration paid and payable</b>	<b>6,335,617</b>

- 1) Deferred cash consideration payments have been discounted to present value, taking into account a weighted average cost of capital of 8.1%.
- 2) A total of 18,156,499 shares will be issued in each deferred consideration settlement, totalling 36,312,998 shares to be issued. The price that the consideration shares will be allotted at, calculated per terms of the acquisition agreement as disclosed in the notice of AGM dated 25 October 2019, is \$0.0413 per share.

### Acquisition Costs

Acquisition costs of \$40,150 arose as a result of the transaction. These have been recognised as part of administrative expenses in the statement of comprehensive income.

Included in the consolidated net loss for the year is a loss of \$223,540 for this business unit. This loss is inclusive of amortisation of intellectual property of \$470,764.



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020 *CONT'D*

### NOTE 6: INTERESTS IN SUBSIDIARIES

The consolidated financial statements include the financial statements of Harvest Technology Limited and its subsidiaries listed in the table below:

Name of subsidiary	Registration & Operation	% Equity Interest	
		2020	2019
Harvest Technology Pty Ltd	Australia	100%	100%
Harvest Infinity Pty Ltd ( <i>formerly Advanced Offshore Streaming Pty Ltd</i> )	Australia	100%	-
Shark Attack Mitigation Systems Pty Ltd	Australia	100%	100%
Clever Buoy Australia Pty Ltd	Australia	100%	100%
Clever Buoy LLC	USA	-	100%