



Consolidated Interim Financial Report

For the Half Year Ended 30 June 2019

SAPEX Group Limited

ACN 619 195 283

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For the Half Year Ended 30 June 2019

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Directors' Report

30 June 2019

The directors submit the consolidated financial report of the the Group for the half year ended 30 June 2019.

1. General information

Information on directors

The names of each person who has been a director during the whole of the half year and to the date of this report are:

Peter Chambers	Non Executive Chairman
Kyle Roy Kenneth Larson	Executive Director
Dan Powell	Non Executive Director
Peter van Ratingen	Non Executive Director
James Midgley	Non Executive Director

Principal activities and significant changes in nature of activities

The Group's primary business is the sale, distribution, rental and operations of the Dura-Base® Composite Mat System and the provision of logistics and infrastructure services to various industries including oil and gas, mining, civil construction, heavy lifting operations, infrastructure and agriculture industries.

The Dura-Base® Composite Mat System is the world's leading composite mat system; originally developed in conjunction with the US Army, the mat system is patent protected in the USA. Dura-Base Mats have been extensively used in the establishment of heavy-duty, engineered working platforms and road infrastructure support platforms for the military, oil and gas, mining and civil construction industries. It is a durable, all-weather, interlocking composite product, which permits flexible implementation to suit the particular needs of the user, and is designed to enable heavy vehicles, cranes and dynamic loading assets to perform in the most extreme environmental conditions.

There were no significant changes in the nature of the Group's principal activities during the financial half year.

2. Operating results and review of operations for the year

Review of operations

A review of the operations of the Group during the half year and the results of those operations show that the Group incurred a net loss for the period of \$3,486,886 and was in a net liability position as at 30 June 2019 of \$2,294,828. The following summarises the Group's activities during the year:

Sales and growth strategy

- SAPEX holds the exclusive distribution license in Indonesia, awarded by the Dura-Base® Composite Mat System manufacturer, Newpark Mats and Integrated Services LLC (a division of NYSE listed Newpark Resources, NYSE:NR), a license that has been held exclusively by SAPEX since 2006.
- Under the terms of this license, SAPEX derives revenue from selling and renting Dura-Base Composite Mats to major international mining, oil and gas, EPC, heavy lift and construction companies, such as Saka Indonesia Pangkah Limited (SAKA), PT Pertamina EP (Pertamina), Ophir Indonesia (Banganai) Limited (Ophir), PT. Chevron Pacific Indonesia, Talisman / Repsol Indonesia, Newcrest Mining, PT Bukit Makmur Mandiri Utami (BUMA) and ALE Heavy Lift (amongst others)

Rounding out 2018, SAPEX was able to secure it's first Foundation Customer since listing on the NSX with the SAKA Indonesia Pangkah Limited (SAKA) West Pangkah project. The contract total was for USD 3.66M for the initial 6 months of operation (with an additional 12 months, or longer, estimated to be required). This contract consists of two components:

Directors' Report

30 June 2019

2. Operating results and review of operations for the year (continued)

Review of operations (continued)

the provision of 950 new Dura-Base® Composite Mats through direct Sale, and 1,300 Dura-Base® Composite Mats on a rental basis. The project was expected to commence in December 2018.

Securing this contract was in line with SAPEX's strategy of having Foundation Customers (also known as "anchor contracts") filled by major energy industry clients; ensuring strong base revenue, whilst allowing SAPEX to capitalise on new opportunities in other sectors and markets. Due to circumstances unrelated to SAPEX or Dura-Base, however, SAKA experienced significant delays in their initial contract roll-out for non-SAPEX related contractor service provisions. These delays resulted in an anticipated 10 month delay to the commencement of SAPEX's rental component. As such, SAPEX was able to secure extensions and contractual commitments through first half 2019 from SAKA, to ensure full utilisation of the SAPEX rental mats are realised once contract operations commence properly in October 2019.

During this half year period, SAPEX undertook a strategic initiative to expand into non-Oil & Gas market segments to ensure the business' viability and cash flow requirements could be met until this major Foundation Customer comes online operationally. SAPEX's efforts to strategically mitigate the delayed deployment of assets to SAKA by diversifying has enabled new growth markets being penetrated; specifically the Logistics and Heavy-Lift & Haul markets.

Acquisition of mat business

In 2018, SAPEX, through its Indonesian subsidiary PT. SAPEX Servis Indonesia (SSI), acquired the Dura-Base Mats division of SAPEX agent in Indonesia, SAS, ("SAS Business Acquisition").

Completion of the SAS Business Acquisition was announced on 18 January 2019, pursuant to which SSI purchased 4,525 Dura-Base Mats and required SAS to cease carrying on its business of renting Dura-Base Mats to industrial customers in Indonesia, except as the business pertains to oil and gas customers. SAPEX raised AUD \$6.8 million by way of unsecured convertible notes to finance the SAS Business Acquisition and to meet other working capital and expense requirements. Further, the Company's shareholders approved the issue of 2,954,545 Shares in the Company to SAS as part of the consideration for the SAS Business Acquisition on 30 January 2019.

SSI and SAS also entered into an exclusive agency agreement, under which SAS agreed to act as SSI's Indonesian agent for 20% of the gross profit obtained from the provision of mats to customers by either SSI or SAS in Indonesia and the rental of mats owned by SSI in Indonesia. The gross profit obtained from the rental of mats in Indonesia owned by third parties is divided equally between SSI and SAS.

This acquisition has expanded SAPEX's inventory of Dura-Base Mats, allowed for the acquisition of fixed assets within Indonesia and ensured SAPEX is a well-positioned local partner. This acquisition has consolidated the Group's core business across Indonesia, and has facilitated SAPEX's shift from a third-party management model to that of a full-service owner and operator of the Dura-Base Mats (under the licence from Newpark) through its own inventory of Dura-Base Mats and through greater control over its customer relationships in Indonesia.

3. Other items

Events after the reporting date

The Company has lodged its Application for In-Principle Advice to the ASX foreshadowing the upcoming lodgement of a Prospectus with ASIC in the next few weeks. Without any unforeseen circumstances this would result in an expected ASX listing date in November 2019 raising approximately \$7.5 million.

On 2 August 2019, \$2.786m of convertible notes reached maturity. Of these, \$1.7m were converted into equity on 13 September 2019. The remaining balance is made up of a) \$820k held by Quarterback and related parties which is earmarked to be rolled up into the new FG Agri Pty Ltd (FGC) Convertible Note Deed (see further); b) \$177k held by Directors to be converted to equity once the required shareholder approval is obtained; and c) \$65,000 to be redeemed for cash.

Directors' Report

30 June 2019

3. Other items (continued)

Events after the reporting date (continued)

On 20 August 2019, the Company agreed terms with FGC, the majority holder of the remaining convertible notes at 30 June 2019, to convert their entire position to shares. In total, notes held by FGC and its related entities will have a face value of \$5.2 million and will be converted to shares. Shareholder approval will be required prior to any conversion of the notes. In the event shareholder approval is not obtained, the terms will trigger a default and the notes must be repaid. Under the terms of the agreement, FGC will also underwrite \$5 million of equity at IPO and a further \$5m in senior debt post-IPO.

The Company and First Guardian Secured Convertible Bond Fund have entered into an agreement to provide additional funding of up to \$1 million at an interest rate of 8% per year. These funds have been made available at call, for drawdown no earlier than 1 September 2019 and will not be called upon within 12 months. This funding will be structured as a second-ranking facility, with terms approved by the Board of Directors. This funding is for the purpose of supporting the Group to meet its operational requirements and cover cost leading up to its proposed ASX listing.

The Group has secured a Corporate Guarantee between First Guardian Secured Convertible Bond Fund (First Guardian) and Athos Asia Event Driven Masterfund (Athos) in respect of its loan from Athos of US\$3 million and the US\$450,000 charge which is due and payable on 5 October 2019. If the guarantee is used to settle the liabilities with Athos, First Guardian will not call upon the subsequent debt against the Group within 12 months.

Except for the above, no other matters or circumstances have arisen since the end of the financial half year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the half year ended 30 June 2019 has been received and can be found on page 4 of the consolidated financial report.

This report is signed in accordance with a resolution of the Board of Directors.

Director: 
Peter Chambers

Director: 
Kyle Roy Kenneth Larson

Dated 17 September 2019

Auditors' Independence Declaration under Section 307C of the Corporations Act 2001 to the Directors of SAPEX Group Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2019 there have been:

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



PKF



PAUL PEARMAN
PARTNER

17 SEPTEMBER 2019
SYDNEY, NSW

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Half Year Ended 30 June 2019

		30 June 2019 \$	30 June 2018 \$
	Note		
Revenue		2,430,875	781,005
Other income		12,539	63,944
Raw materials and consumables used		(1,953,896)	-
Employee benefits expense		(538,530)	(161,781)
Depreciation and amortisation expense		(568,010)	(161)
Other expenses		(1,445,579)	(1,056,001)
Finance costs	3	(1,407,458)	(19,941)
Loss before income tax	3	(3,470,059)	(392,935)
Income tax expense		(16,827)	-
Loss for the half year		(3,486,886)	(392,935)
Other comprehensive income, net of income tax			
Exchange differences on translating foreign controlled entities		(70,124)	-
Other comprehensive income for the year, net of tax		(70,124)	-
Total comprehensive income for the year		(3,557,010)	(392,935)
Loss attributable to:			
Members of the parent entity		(3,466,377)	(392,935)
Non-controlling interest		(20,509)	-
		(3,486,886)	(392,935)
Total comprehensive income attributable to:			
Members of the parent entity		(3,536,501)	(392,935)
Non-controlling interest		(20,509)	-
		(3,557,010)	(392,935)
Earnings per share			
Basic earnings per share (cents)	12	(0.01)	(0.02)
Diluted earnings per share (cents)	12	(0.01)	(0.02)

The accompanying notes form part of these financial statements.

SAPEX Group Limited

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Consolidated Statement of Financial Position As At 30 June 2019

		30 June 2019	31 December 2018
	Note	\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		15,806	87,048
Trade and other receivables	6	1,101,492	1,312,093
Loans and advances		23,207	22,522
Other assets		102,068	18,166
TOTAL CURRENT ASSETS		1,242,573	1,439,829
NON-CURRENT ASSETS			
Property, plant and equipment	7	5,783,958	6,177,394
Intangible assets	8	5,740,506	5,915,089
TOTAL NON-CURRENT ASSETS		11,524,464	12,092,483
TOTAL ASSETS		12,767,037	13,532,312
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	9	2,011,225	585,284
Borrowings	10	12,840,640	14,680,118
Derivative financial instruments	10	-	222,000
TOTAL CURRENT LIABILITIES		14,851,865	15,487,402
NON-CURRENT LIABILITIES			
Deferred tax liabilities	4	210,000	210,000
TOTAL NON-CURRENT LIABILITIES		210,000	210,000
TOTAL LIABILITIES		15,061,865	15,697,402
NET ASSETS		(2,294,828)	(2,165,090)
EQUITY			
Issued capital	11	11,239,262	7,811,990
Reserves		571,737	641,861
Retained earnings		(14,105,827)	(10,639,450)
Total equity attributable to equity holders of the Company		(2,294,828)	(2,185,599)
Non-controlling interest		-	20,509
TOTAL EQUITY		(2,294,828)	(2,165,090)

The accompanying notes form part of these financial statements.

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Consolidated Statement of Changes in Equity For the Half Year Ended 30 June 2019

	Note	Ordinary Shares \$	Accumulated Losses \$	Foreign Currency Translation Reserve \$	Convertible Instruments Reserve \$	Total Attributable to Members of the Company \$	Non- controlling Interests \$	Total \$
Balance at 1 January 2019		7,811,990	(10,639,450)	295,657	346,204	(2,185,599)	20,509	(2,165,090)
Loss attributable to members of the parent entity			(3,466,377)	-	-	(3,466,377)	(20,509)	(3,486,886)
Other comprehensive income for the half-year			-	(70,124)	-	(70,124)	-	(70,124)
Total comprehensive loss for the half-year			(3,466,377)	(70,124)	-	(3,536,501)	(20,509)	(3,557,010)
Transactions with owners in their capacity as owners								
Contribution of equity, net of transaction costs	11(a)	3,427,272	-	-	-	3,427,272	-	3,427,272
Balance at 30 June 2019		11,239,262	(14,105,827)	225,533	346,204	(2,294,828)	-	(2,294,828)

	Note	Ordinary Shares \$	Accumulated Losses \$	Foreign Currency Translation Reserve \$	Convertible Instruments Reserve \$	Total Attributable to Members of the Company \$	Non- controlling Interests \$	Total \$
Balance at 1 January 2018		7,811,990	(8,560,209)	-	-	(748,219)	-	(748,219)
Loss attributable to members of the parent entity			(392,935)	-	-	(392,935)	-	(392,935)
Other comprehensive income for the half-year			-	-	-	-	-	-
Total comprehensive loss for the half-year			(392,935)	-	-	(392,935)	-	(392,935)
Transactions with owners in their capacity as owners		-	-	-	-	-	-	-
Balance at 30 June 2018		7,811,990	(8,953,144)	-	-	(1,141,154)	-	(1,141,154)

The accompanying notes form part of these financial statements.

SAPEX Group Limited

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Consolidated Statement of Cash Flows For the Half Year Ended 30 June 2019

	Note	30 June 2019 \$	30 June 2018 \$
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers		2,653,017	18,926
Payments to suppliers and employees		(3,433,863)	(175,701)
Interest received		322	-
Interest paid		(434,511)	(16,409)
Net cash used in operating activities		(1,215,035)	(173,184)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		-	(1,630)
Net cash used in investing activities		-	(1,630)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings		1,143,793	165,675
Net cash provided by financing activities		1,143,793	165,675
Effects of exchange rate changes on cash and cash equivalents		-	16
Net decrease in cash and cash equivalents held		(71,242)	(9,123)
Cash and cash equivalents at beginning of half year		87,048	13,142
Cash and cash equivalents at end of the half year		15,806	4,019

The accompanying notes form part of these financial statements.

SAPEX Group Limited

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Notes to the Financial Statements For the Half Year Ended 30 June 2019

The consolidated financial report covers SAPEX Group Limited and its controlled entities ('the Group'). SAPEX Group Limited is a for-profit Company limited by shares, incorporated and domiciled in Australia.

Each of the entities within the Group prepare their financial statements based on the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

The financial report was authorised for issue by the Directors on 17 September 2019.

Comparatives are consistent with prior years, unless otherwise stated.

1 Basis of Preparation

This condensed consolidated interim financial report for the reporting period ending 30 June 2019 has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: *Interim Financial Reporting*.

The interim financial report is intended to provide users with an update on the latest annual financial statements of SAPEX Group Limited and controlled entities (the Group). As such it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. This condensed consolidated financial report does not include all the notes normally included in an annual financial report. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2018, together with any public announcements made during the half year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

The financial statements have been prepared on an accruals basis and are based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Significant accounting policies adopted in the preparation of these financial statements are presented below and are consistent with prior reporting periods unless otherwise stated.

2 Summary of Significant Accounting Policies

(a) Going concern

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

As at 30 June 2019, SAPEX Group Limited was in a net liability position of \$2,294,828 (31 Dec 2018: \$2,165,090) and incurred net losses after tax of \$3,486,886 (30 June 2018: \$392,935) and net operating cash outflows of \$1,215,035 for the half year ended 30 June 2019. These circumstances indicate there is a material uncertainty as to the Groups ability to continue as a going concern.

The directors have prepared cash flow forecasts which are underpinned by a strong pipeline of customers representing advanced discussions with those customers as well as contracts coming to fruition. These forecasts further include the following arrangements in respect of the Group's financial liabilities:

- The Group has lodged its Application for In-Principle Advice to the ASX foreshadowing the upcoming lodgement of a Prospectus with ASIC in the next few weeks. Without any unforeseen circumstances this would result in an expected ASX listing date in November 2019 raising approximately \$7.5 million;

Notes to the Financial Statements

For the Half Year Ended 30 June 2019

2 Summary of Significant Accounting Policies (continued)

(a) Going concern (continued)

- As announced on 20 August 2019, the Group agreed terms with FG Agri Pty Ltd (FGC), the majority holder of the remaining convertible notes at 30 June 2019, to convert their entire position to shares. In total, notes held by FGC and its related entities will have a face value of \$5.2 million and will be converted to shares. Shareholder approval will be required prior to any conversion of the notes. In the event shareholder approval is not obtained, the terms will trigger a default and the notes must be repaid. Under the terms of the agreement, FGC will also underwrite \$5 million of equity at IPO and a further \$5m in senior debt post-IPO;
- \$1.7 million of convertible notes as at 30 June 2019, that reached maturity on 2 August 2019, have converted to fully paid ordinary shares;
- The Group has secured a Corporate Guarantee between First Guardian Secured Convertible Bond Fund (First Guardian) and Athos Asia Event Driven Masterfund (Athos) in respect of its loan from Athos of US\$3 million and the US\$450k charge which is due and payable on 5 October 2019. The guarantee will ensure payment of the Athos loan is settled in full. If the guarantee is used to settle the liabilities with Athos, First Guardian will not call upon the subsequent debt against the Group within 12 months;
- The Group and First Guardian have entered into an agreement to provide additional funding of up to \$1 million at an interest rate of 8% per year. These funds have been made available at call, for drawdown no earlier than 1 September 2019 and will not be called upon within 12 months. This funding will be structured as a second-ranking facility, with terms approved by the Board of Directors. This funding is for the purpose of supporting the Group to meet its operational requirements and cover cost leading up to its proposed ASX listing.

Based on these cash flow forecasts, the Directors are confident that the Group will be able to continue as a going concern.

Should the Group be unable to raise capital or realise the objectives set out in the forecasts and funding arrangements set out above, there is a material uncertainty whether the Group will be able to continue as a going concern and therefore, whether it will be able to realise its assets and discharge its liabilities in the normal course of business.

The half-year financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

(b) Change in accounting policy

The Group changed its accounting policy further to the adoption of AASB 16 *Leases* which has been applied from 1 January 2019.

The group has adopted AASB 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

The aggregate effect of the change in accounting policy on the financial statements for the half year ended 30 June 2019 is not material.

Notes to the Financial Statements

For the Half Year Ended 30 June 2019

2 Summary of Significant Accounting Policies (continued)

(c) Adoption of new and revised accounting standards

The Group has adopted all standards which became effective for the first time at 1 January 2019, the adoption of these standards has not caused any material adjustments to the reported financial position, performance or cash flow of the Group.

3 Result for the Year

The result for the half year was derived after charging / (crediting) the following items:

	30 June 2019 \$	30 June 2018 \$
Finance Costs		
- net effects of finance costs on Athos loan	10(c) 419,665	-
- interest on borrowings	987,792	19,957
Total finance costs	1,407,457	19,957

The result for the year includes the following specific expenses:

Cost of sales	1,953,896	-
Other expenses:		
Employee benefits expense	538,530	161,781
Amortisation expense	393,427	161
Impairment of receivables:		
- Bad and doubtful debts expense (included in other expenses)	-	827,811
Rental expense on operating leases:		
- Minimum lease payments	82,349	-

4 Business Combinations

Completion of the Initial Accounting of Acquisition

On 31 December 2018, the Group acquired all Dura-Base assets and Dura-Base business from PT SAS International ("SAS"). This was acquired by SSI and completed through cash consideration of AUD\$8,861,064 (USD \$6.425 million) and the transfer of fully paid ordinary shares in SAPEX Group Limited of AUD\$3,427,272 (USD\$2.275 million) by a company shareholder (the Shareholder Group). On 30 January 2019, the issue of the 2,954,545 shares was approved at a Shareholders Meeting in favour of SAS.

As part of the arrangement for the business combination, SAPEX Group Limited has entered into a three year agency agreement with SAS. SAS will be entitled to a share of 20% of the gross profit obtained from the provision of mats to customers by either SSI or SAS in Indonesia and the rental of mats owned by SSI in Indonesia. The gross profit obtained from the rental of mats in Indonesia owned by third parties is divided equally between SSI and SAS.

On 19 August 2019, the Group received a final independent valuation of the purchase price allocation of its

Notes to the Financial Statements

For the Half Year Ended 30 June 2019

4 Business Combinations (continued)

Completion of the Initial Accounting of Acquisition (continued)

acquisition of the Dura-Base assets and business. This included reflecting an adjustment to the final consideration to \$8,451,342. In accordance with the Accounting Standards, the provisional amounts recognised at acquisition date have been retrospectively adjusted to reflect the information obtained about facts and circumstances that existed as of the acquisition date which have affected the measurement of the amounts recognised as of that date.

The following table shows the adjustments to the assets acquired, liabilities assumed and the purchase consideration arising from the completion of the accounting for the acquisition.

	Provisional amount \$	Final accounting \$
Purchase consideration:		
- Cash	8,861,064	8,451,342
- Fair value of shares issued	3,427,272	3,427,272
	<hr/>	<hr/>
Total purchase consideration	12,288,336	11,878,614
Assets or liabilities acquired:		
Plant and equipment	6,173,525	6,173,525
Intangible assets	-	838,000
Deferred tax liabilities	-	(210,000)
	<hr/>	<hr/>
Identifiable assets acquired and liabilities assumed	6,173,525	6,801,525
	<hr/>	<hr/>
Goodwill		5,077,089

5 Operating Segments

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision maker) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Accordingly, management currently identified the Group as having only one reportable segment, being the sale, distribution and rental of industrial mats, being the Dura-Base® Composite Mat System.

The financial results from this segment are equivalent to the financial statements for the Group.

Notes to the Financial Statements
For the Half Year Ended 30 June 2019

6 Trade and Other Receivables

	30 June 2019 \$	31 December 2018 \$
CURRENT		
Trade receivables	55,658	451,056
	55,658	451,056
Deposits	17,948	3,876
GST receivable	1,002,986	447,439
Other receivables	24,900	409,722
Total current trade and other receivables	1,101,492	1,312,093

7 Property, plant and equipment

	30 June 2019 \$	31 December 2018 \$
Plant and equipment leased to external parties pursuant to operating leases		
At cost	6,173,525	6,173,525
Accumulated depreciation	(393,000)	-
Total plant and equipment leased to external parties pursuant to operating leases	5,780,525	6,173,525
Office equipment		
At cost	3,000	3,000
Accumulated depreciation	(580)	(187)
Total office equipment	2,420	2,813
Computer equipment		
At cost	1,630	1,630
Accumulated depreciation	(617)	(573)
Total computer equipment	1,013	1,057
Total property, plant and equipment	5,783,958	6,177,395

Notes to the Financial Statements

For the Half Year Ended 30 June 2019

7 Property, plant and equipment (continued)

(a) Movements in carrying amounts of property, plant and equipment

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

	Plant & Equipment Leased to External Parties \$	Office Equipment \$	Computer Equipment \$	Total \$
Half Year ended 30 June 2019				
Balance at the beginning of year	6,173,525	2,813	1,057	6,177,395
Depreciation expense	(393,000)	(393)	(44)	(393,437)
Balance at the end of the half year	5,780,525	2,420	1,013	5,783,958

	Plant & Equipment Leased to External Parties \$	Office Equipment \$	Computer Equipment \$	Total \$
Year ended 31 December 2018				
Balance at the beginning of year	-	-	-	-
Additions	-	3,000	1,629	4,629
Additions through acquisition of entity	6,173,525	-	-	6,173,525
Depreciation expense	-	(187)	(572)	(759)
Balance at the end of the year	6,173,525	2,813	1,057	6,177,395

8 Intangible Assets

	30 June 2019 \$	31 December 2018 \$
Goodwill		
Cost	5,077,089	5,077,089
Customer list		
Cost	838,000	838,000
Accumulated amortisation and impairment	(174,583)	-
Net carrying value	663,417	838,000
Total Intangibles	5,740,506	5,915,089

Notes to the Financial Statements

For the Half Year Ended 30 June 2019

8 Intangible Assets (continued)

(a) Movements in carrying amounts of intangible assets

	Note	Customer list \$	Goodwill \$	Total \$
Half Year ended 30 June 2019				
Balance at the beginning of the period		838,000	5,077,089	5,915,089
Amortisation		(174,583)	-	(174,583)
Closing value at 30 June 2019		663,417	5,077,089	5,740,506

	Note	Customer list \$	Goodwill \$	Total \$
Year ended 31 December 2018				
Balance at the beginning of the year		-	-	-
Additions through business combinations	4			
- provisionally accounted for at date of acquisition		-	6,114,811	6,114,811
- restatement on completion of provisional accounting		838,000	(1,037,722)	(199,722)
Additions		838,000	5,077,089	5,915,089
Closing value at 31 December 2018		838,000	5,077,089	5,915,089

(b) Impairment assessment

Management has undertaken an impairment assessment of the carrying value of Goodwill and the associated Dura Base Cash Generating Unit. Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate and using a terminal value to incorporate expectations of growth thereafter.

Based on Management's assessment, the carrying value of goodwill and associated assets in the Dura Base Cash Generating Unit were adequately supported as recoverable.

Notes to the Financial Statements

For the Half Year Ended 30 June 2019

9 Trade and Other Payables

	30 June 2019	31 December 2018
Note	\$	\$
Current		
Trade payables	1,110,863	399,939
Employee benefits	148,957	921
Sundry payables and accrued expenses	300,277	101,907
Provision for tax	22,739	39,847
Other payables	428,389	42,669
	2,011,225	585,283

Trade and other payables are unsecured, non-interest bearing and are normally settled within 30 days. The carrying value of trade and other payables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

10 Borrowings

	30 June 2019	31 December 2018
	\$	\$
CURRENT		
Unsecured liabilities:		
Compound instruments	10(a) 6,347,067	6,347,067
Related party payables	10(b) 1,208,416	3,812,261
Other loans	10(c) 5,285,158	4,520,791
Total current borrowings	12,840,641	14,680,119

(a) Convertible notes

During the 2018 financial year, the Company issued convertible debt securities as follows:

6,084,792 convertible loan notes were issued for at a face value of AUD\$1.10, with a 10% coupon rate, and a maturity term of 12 months with a 20 business day conversion period after maturity. Conversion is at the holders' discretion, except for an automatic conversion upon the Group successfully listing on the ASX. During the conversion period, the noteholder may elect to convert the face value of the notes into fully paid Ordinary Shares.

In accordance with the Accounting Standards, the convertible notes were deemed a compound financial instrument and therefore having a debt and an equity component. The fair value of the debt component of the convertible notes is recorded in short term borrowings. The remaining portion is recorded as Equity in Reserves, which represents the value of conversion rights of the convertible notes.

\$1,724,000 of the convertible notes which were maturing on 2 August 2019 converted to ordinary shares on 13 September 2019.

On 20 August 2019, the Company agreed terms with FG Agri Pty Ltd (FGC), the majority holder of the remaining convertible notes, to convert their entire position to shares. In total, notes held by FGC and its

Notes to the Financial Statements

For the Half Year Ended 30 June 2019

10 Borrowings (continued)

(a) Convertible notes (continued)

related entities will have a face value of \$5.2 million and will be converted to shares. Shareholder approval will be required prior to any conversion of the notes. In the event shareholder approval is not obtained, the terms will trigger a default and the notes must be repaid.

(b) Related party payables

On 31 December 2018, in order to complete the acquisition of the business and assets from PT. SAS International, a company shareholder (the Shareholder Group) transferred 2,954,545 fully paid ordinary shares to PT SAS International by way of an off-market share transfer for a fair value of \$3,427,272 as full and final settlement of the acquisition.

On 30 January 2019, it was resolved at a meeting of the Shareholders to issue 2,952,545 fully paid ordinary shares (Transferred Shares) to PT. SAS International. PT. SAS International subsequently transferred 2,954,545 fully paid ordinary shares back to the Shareholder Group by way of off market transfer.

As at 30 June 2019, related party payables includes \$1,090,430 owing to FGC which is to be rolled up as part of the \$5.2 million new notes as detailed in 10(a) above.

(c) Loan facility

In the 2018 financial year, the Group obtained a loan for an amount of USD\$3,000,000 (AUD\$4,165,862) from Athos Asia Event Driven Master Fund ("Athos"), to assist with the Indonesian acquisitions. The term of the loan was 12 months, with interest charged at 16% per annum, payable monthly in arrears. The loan was secured by way of 3.7 million detachable warrants, exercisable at AUD\$1.10 which were also to expire in 12 months (in-line with the loan termination date).

During the half-year to 30 June 2019, the Group entered into a Deed of Forbearance with Athos whereby a fee of USD\$450,000 (AU\$641,665) would be payable to extinguish the detachable warrants. This fee and the loan is due for full repayment by 5 October 2019. The Group has further secured a Corporate Guarantee between First Guardian Secured Convertible Bond Fund and Athos in respect of this loan. The guarantee will ensure payment of the Athos loan is settled in full. First Guardian Secured Convertible Bond Fund will not call upon a capital repayment from the Group within 12 months of settlement.

The net finance cost of \$419,665, represented by the forbearance fee of \$641,665 offset by the gain on extinguishing the derivative liability relating to the detachable warrants, has been recognised as finance costs in the Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 30 June 2019.

11 Issued Capital

	30 June 2019 \$	31 December 2018 \$
222,409,510 (2018: 19,286,406) Ordinary shares	11(a) 11,239,262	7,811,990

Notes to the Financial Statements

For the Half Year Ended 30 June 2019

11 Issued Capital (continued)

(a) Ordinary shares

	No.	\$
At the beginning of the reporting period	19,286,406	7,811,990
Shares issued during the year		
4 Feb 2019: Issue of shares to complete acquisition	4 2,954,545	3,427,272
26 Apr 2019: 1:10 Share split	200,168,559	-
At the end of the reporting period	222,409,510	11,239,262

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 Company does not have authorised capital or par value in respect of its shares.

12 Earnings per Share

(a) Reconciliation of earnings to profit or loss from continuing operations

	30 June 2019 \$	30 June 2018 \$
Loss from continuing operations	(3,466,377)	(392,935)
Earnings used in the calculation of dilutive EPS from continuing operations	(3,466,377)	(392,935)

(b) Earnings used to calculate overall earnings per share

	30 June 2019 \$	30 June 2018 \$
Earnings used to calculate overall earnings per share	(3,466,377)	(392,935)

(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS

	30 June 2019 No.	30 June 2018 No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	216,133,918	192,864,060
Weighted average number of dilutive convertible instruments on issue	60,848,440	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	276,982,358	192,864,060

Notes to the Financial Statements

For the Half Year Ended 30 June 2019

13 Contingencies

In the opinion of the Directors, the Company did not have any contingencies at 30 June 2019 (31 December 2018:None).

14 Events Occurring After the Reporting Date

The consolidated financial report was authorised for issue on 17 September 2019 by the board of directors.

The Company has lodged its Application for In-Principle Advice to the ASX foreshadowing the upcoming lodgement of a Prospectus with ASIC in the next few weeks. Without any unforeseen circumstances this would result in an expected ASX listing date in November 2019 raising approximately \$7.5 million.

On 2 August 2019, \$2.786m of convertible notes reached maturity. Of these, \$1.7m were converted into equity on 13 September 2019. The remaining balance is made up of: a) \$820k held by Quarterback and related parties which is earmarked to be rolled up into the new FG Agri Pty Ltd (FGC) Convertible Note Deed (see further); b) \$177k held by Directors to be converted to equity once the required shareholder approval is obtained; and c) \$65,000 to be redeemed for cash.

On 20 August 2019, the Company agreed terms with FG Agri Pty Ltd (FGC), the majority holder of the remaining convertible notes at 30 June 2019, to convert their entire position to shares. In total, notes held by FGC and its related entities will have a face value of \$5.2 million and will be converted to shares. Shareholder approval will be required prior to any conversion of the notes. In the event shareholder approval is not obtained, the terms will trigger a default and the notes must be repaid. Under the terms of the agreement, FGC will also underwrite \$5 million of equity at IPO and a further \$5m in senior debt post-IPO.

The Company and First Guardian Secured Convertible Bond Fund have entered into an agreement to provide additional funding of up to \$1 million at an interest rate of 8% per year. These funds have been made available at call, for drawdown no earlier than 1 September 2019 and will not be called upon within 12 months. This funding will be structured as a second-ranking facility, with terms approved by the Board of Directors. This funding is for the purpose of supporting the Group to meet its operational requirements and cover cost leading up to its proposed ASX listing.

The Group has secured a Corporate Guarantee between First Guardian Secured Convertible Bond Fund (First Guardian) and Athos Asia Event Driven Masterfund (Athos) in respect of its loan from Athos of US\$3 million and the US\$450,000 charge which is due and payable on 5 October 2019. If the guarantee is used to settle the liabilities with Athos, First Guardian will not call upon the subsequent debt against the Group within 12 months.

Except for the above, no other matters or circumstances have arisen since the end of the financial half year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

15 Statutory Information

The registered office of the company is:

126 Phillip Street
Sydney NSW 2000

The principal place of business is:


Level 28
1 Market Street
Sydney NSW 2000

Directors' Declaration

The directors of the Company declare that:

1. The consolidated financial statements and notes, as set out on pages 5 to 19 are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with Accounting Standard AASB 134: Interim Financial Reporting; and
 - (b) give a true and fair view of the consolidated group's financial position as at 30 June 2019 and of its performance for the half-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 with the continuing support of creditors.

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

Director

Peter Chambers

Director

Kyle Roy Kenneth Larson

Dated 17 September 2019

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF SAPEX GROUP LIMITED

Report on the Half-Year Financial Report Conclusion

We have reviewed the accompanying half-year financial report of SAPEX Group Limited (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of SAPEX Group Limited is not in accordance with the Corporations Act 2001 including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2019, and of its financial performance for the half-year ended on that date; and
- (b) complying with the Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Emphasis of Matter – Material Uncertainty Regarding Going Concern

We draw our attention to Note 2(a) of the financial report, which describes management's assessment of the Group's ability to continue as a going concern. As at 30 June 2019, the Group was in a net liability position of \$2,294,828 and incurred net losses after tax of \$3,486,886. These circumstances indicate that a material uncertainty exist that may cast doubt on the Groups ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. In accordance with the Corporations Act 2001, we have given the directors' of the Group a written Auditor's Independence Declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors' of the Group are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with the Australian Accounting Standards and the Corporations Regulations 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's financial position as at 30 June 2018 and its performance for the half year ended on that date, and complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of SAPEX Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



PKF



PAUL PEARMAN
PARTNER

17 SEPTEMBER 2019
SYDNEY, NSW