



## **Consolidated Financial Statements**

**For the Year Ended 31 December 2019**

# **SAPEX Group Limited**

ACN 619 195 283

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**For the Year Ended 31 December 2019**

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## **Letter from the Chairman**

**31 December 2019**

Dear Shareholder,

The fundamentals of the SAPEX business remain strong. The Company has held the exclusive distribution license in Indonesia for Dura-Base® Composite Mat Systems since 2006.

Upon listing on the NSX, the focus was to establish SAPEX as a business with the scale required to enable material growth within the Indonesian market, and across the South East Asian Region. This initiative has been hamstrung by the 6 month delay in mat rental revenue from its first Foundation Customer since listing with the SAKA Indonesia Pangkah Limited (SAKA) West Pangkah project. Since then, SAPEX have been able to secure further customer contracts of lesser value, gradually coming online to support revenue towards the end of 2019 and extending into 2020.

The lower sales than expected have hampered the companies ability to fund its operations through working capital and we have instead had to rely heavily on debt sources, namely: \$USD3 million facility provided by Athos; working capital funding from First Guardian Capital; and our convertible note holders.

Throughout 2019, the Company had worked towards an ASX Listing as had been flagged to Shareholders previously. This had been somewhat delayed to allow the appropriate actions to meet the regulatory requirements, allow management to effectively integrate the SAS business and provide a solid first half 2019 performance. Everything had been on track with the lodgement of an Application for In-Principle Advice to the ASX in September 2019 foreshadowing the lodgement of a Prospectus with ASIC. Due to the disappointing operational half year performance combined with weakened capital markets, the prospect of a successful listing was significantly reduced by the end of 2019. The Board needed to consider its options given the limited operating cash flows, additional fees linked to the attempted ASX listing and the prospect of convertible notes maturing. This combined with the USD\$3m Athos loan facility in default already left the Board evaluating options for the Company future.

A consortium of investors (the "Consortium") consisting of a core group of current Sapex shareholders and in partnership with LBN (a logistics and property development company) and SAS (a company acting as an agent in Indonesia for Sapex renting dura based mats) presented the Company with a proposed takeover bid ("Offer"). The Offer involved merging the Consortium's Indonesian based Property Development and Construction Company with Sapex, in an all-equity swap. A component of the offer would also see the Consortium refinance and recapitalise Sapex's balance sheet. This included the refinancing and extension of the Company's existing debt facility currently due. If the proposed transaction were not to complete, in the absence of an alternative proposal, the Company would need to negotiate an extension of its debt with its debt financiers to continue operating in its current form.

With few available options, the Board deliberated on the offer and after appropriate due diligence, we recently signed a binding a Heads of Agreement ("HoA"), Share Purchase Agreement ("SPA") and supporting transaction documents to acquire 99.9% of the issued shares in the capital of PT Lombok Bau Nyale ("LBN"), an Indonesian based Property Development and Construction Company and to the refinancing of existing debt obligations ("The Transaction"). The rationale for the transaction is to stabilise and improve the Company's financial performance, and to extend, simplify and stabilise the Company's financing structure. The Board supports this Transaction as the Company is currently in default under several debt agreements, and may avoid a potential receivership scenario, or a more punitive alternative restructuring transaction, by approving the proposed Transaction.

The Transaction will be funded via the issue of SAPEX shares to LPG (or its nominees), which currently holds 99.8% of LBN and the payment of IDR22,000,000 (circa AUD\$2,300) to Febryanti Kharisma who currently holds the remaining 0.2% of LBN. Further details of the proposed transaction will be provided to shareholders in the Notice of Shareholder Meeting ("NoM") along with an accompanying Independent Expert Report ("IER"). The NoM and IER will be despatched to shareholders in the coming weeks so that the non-associated shareholders can make an informed decision about whether to approve the Transaction.

This has been a tumultuous year with plenty of challenges. In that context, the Board, would like to thank the management team, led by our CEO Kyle Larson, for their dedication and hard work to date. We would also like to recognize and thank the financiers who have supported the Company through to this point.

## **SAPEX Group Limited**

ACN 619 195 283

### **Letter from the Chairman**

**31 December 2019**

The Board would also like to thank our Shareholders for their continued support. The Board remains committed to making decisions in the best interests of the Company and all of its Shareholders.

Sincerely,

A handwritten signature in black ink, appearing to read 'Peter Chambers', with a stylized flourish above the name.

Peter Chambers  
Chairman  
SAPEX Group Limited

28 April 2020

# SAPEX Group Limited

ACN 619 195 283

## Directors' Report

31 December 2019

The directors present their report, together with the consolidated financial statements of the Group, being SAPEX Group Limited (the Company) and its controlled entities, for the financial year ended 31 December 2019.

### 1. General information

#### Information on directors

The names, qualifications, experience and special responsibilities of each person who has been a director during the year and to the date of this report are:

Peter Chambers	Non Executive Chairman
Qualifications	Mr Chambers holds a Bachelor of Business, majoring in finance and accounting from the Royal Melbourne Institute of Technology (Melbourne, Australia)
Experience	Mr Chambers has over 20 years' experience in the mining, finance and telecommunications industries. He has extensive experience in the development of mining and resource assets in Indonesia and has corporate experience in Asia. Previous positions include Head of the South East Asia Communication Practice of Coopers and Lybrand (Hong Kong) and Managing Director - Strategy and Governance with the Rajawali Group (Indonesian based conglomerate). He is a current member of the Board of Commissioners and member of the Remuneration Committee of Indonesia's PT Excelcomindo Pratama (XL) which is a significant mobile phone operator and was key person in the establishment of the company whilst holding the position of managing director at Rajawali Group.
Other current directorships in listed entities	None
Kyle Roy Kenneth Larson	Executive Director and CEO
Qualifications	Mr Larson holds a Bachelor of Arts from University of Alberta
Experience	Mr Larson is the co-founder of SAPEX Oilfield Services Limited and was also responsible for the implementation of the company's business development strategy to increase market penetration of the Dura-Base product. He has over 20 years management and business development experience in South East Asia and has held the following positions during that time: General Manager at Marsol International Limited (Far East Division), Business Development Manager at Zicom Equipment Pte Ltd, Business Development Manager at PT SAS International.
Other current directorships in listed entities	None

## 1. General information (continued)

### Information on directors (continued)

Dan Powell	Non Executive Director (resigned 3 April 2020)
Qualifications	Mr Powell holds a Bachelor of Business from Curtin University, Western Australia
Experience	Mr Powell has 30 years of extensive management experience in the banking and finance industry, from retail to institutional markets, covering distribution, sales, marketing, strategy, product development. He was a director of ASCALON Capital Managers, a member of the board with Oasis Asset Management (ING Australia Limited) and a member of the executive board at ING Australia Limited and SEALCORP Holdings Limited. At Onevue Group, Mr Powell was the Head of Platform Sales and Relationship Management. Prior to Onevue Group, Mr Powell was Head of SFG Alliance Service, Director of Corporate & IFA Distribution at AMP, Executive Director of Sales & Marketing at ING Australia, Director of Distribution & Sales at St George Bank (SEALCORP Holdings Ltd) and Senior Vice President of BT Portfolio Services at BT Financial Group. Mr Powell is currently the Head of Distribution at Nanuk Asset Management.
Other current directorships in listed entities	None
Peter van Ratingen	Non Executive Director
Qualifications	Mr van Ratingen holds a Bachelor of Science from Murdoch University and Post Graduate Computer Science from Curtin University
Experience	Mr van Ratingen's extensive career over a 25 year period has focused on business management and has involved holding numerous regional and global positions in the consulting, insurance and financial services industries. His unique Asian managerial experience in a number of Fortune 500 companies also provides the Company's board with the expertise to enhance the Dura-Base product with the networks to expand its reach within South East Asia. His roles included the Asia Pacific Regional head of Bancassurance; European COO for CIGNA Insurance; Country President for Chubb Insurance, Indonesia & Philippines; and Regional General Manager for PPG International Ltd.
Other current directorships in listed entities	None
James Midgley	Non Executive Director
Experience	Mr Midgley's significant background and experience will bring value to the Board and in shaping the future of the Company. Mr Midgley is a qualified and experienced business manager specialising in shipping, facilities, project logistics and supply chains. This is proven through a strong track record in dealing with multifaceted businesses and large work forces in both developed and undeveloped countries. His 14 years' experience across South East Asia, Australia and the South Pacific in the Mining, Oil and Gas, Government and Defence, Infrastructure and Industrial sectors has developed a unique skill set which makes him a valuable member within complex, project management teams.
Other current directorships in listed entities	None

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

## 1. General information (continued)

### 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 year.

## 2. Operating results and review of operations for the year

A review of the operations of the Group during the financial year and the results of those operations show that the Group incurred a net loss for the year of \$14,169,488 (2018: \$2,084,809) and was in a net liability position as at 31 December 2019 of \$9,660,585 (2018: \$2,165,090). 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 (Bangkanai) Limited (Ophir), Talisman / Repsol Indonesia, Newcrest Mining, PT Bukit Makmur Mandiri Utami (BUMA) and ALE Heavy Lift (amongst others)

During 2019 the Group entered into an exclusive Memorandum of Understanding ("MOU") with PT Agility International ("Agility"), a wholly owned subsidiary of global logistics services provider Agility Global Integrated Logistics. Agility has a vast range of international clients whose focus on Heavy Lift and staging area support platforms in Indonesia. The 12 month contract is expected to generate a minimum of USD\$552,000.

This confirmation is key for Management's revenue planning for 2020 and beyond, whilst also 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.

### Completion of acquisition of mat business

In early 2019, SAPEX, through its Indonesian subsidiary PT. SAPEX Servis Indonesia (SSI), completed the acquisition of the Dura-Base Mats division of SAPEX agent in Indonesia, SAS, ("SAS Business Acquisition"). The 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. For further details, refer to Note 3(c).

### **3. Financial review**

#### **Financial position**

At 31 December 2019, the net liabilities of the Group exceeded its net assets by \$9,660,585 (2018: \$2,165,090 net liability), this is largely due to the following:

- impairment of unusable mats amounting to \$1,667,532;
- impairment of goodwill amounting to \$5,077,089

#### **4. Other items**

##### **Significant changes in state of affairs**

The following significant changes in the state of affairs of the Group occurred during the financial year:

##### **Debt**

Athos loan defaulted twice during the year whereby the FGC guarantee was used to cover interest repayments owing and USD\$450k to settle the extinguishment of warrants under the deed of forbearance.

On 28 August 2019, convertible notes of \$2.1m previously issued plus \$3.1m of additional funding provided was rolled into new convertible notes of \$5.2m via a Deed of Variation of the Convertible Note Deed dated 5 July 2019, entered into between the Company and FG Agri Pty Ltd. Subject to shareholder approval at the next General Meeting of the Company, these notes will be redeemed and cancelled. To refinance these amounts, FGSC Bond Fund will provide additional new loan funding on the same terms (12% interest pa maturing on 13 March 2021). Any further working capital drawn down from the First Guardian Secured Convertible Bond Fund facility will be on the same terms. These funds will not be called upon for repayment within 12 months.

Other convertible note holders elected to convert their notes to shares on 2 August (\$1.7m notes) and on 13 September 2019 (\$1.66m notes).

The remaining convertible notes still outstanding at year end will be redeemed for cash by the Company (\$788.5k notes) or converted to equity (\$403k notes) in 2020.

##### **Proposed Acquisition**

On 9 December 2019, a consortium of investors (the "Consortium") presented the Company with a proposed takeover bid ("Offer"). The Group has agreed to acquire 99.9% of the issued shares in the capital of PT Lombok Bau Nyale ("LBN"), an Indonesian based Property Development and Construction Company, subject to shareholder approval.

Except for the above, no other matters or circumstances have arisen since the end of the financial 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.

##### **Dividends paid or recommended**

No dividends have been paid or recommended during the financial period.

##### **Events after the reporting date**

The Group has signed a binding a Heads of Agreement ("HoA"), Share Purchase Agreement ("SPA") and supporting transaction documents (together the "Transaction Documents") in relation to the Consortium Offer which was disclosed in the NSX announcements dated 9 December 2019 and 7 February 2020 to the NSX. The completion of this transaction is subject to the approval of SAPEX's non-associated shareholders.



#### **4. Other items (continued)**

##### **Events after the reporting date (continued)**

Under the terms of the HoA and SPA (and supported by the remainder of the Transaction Documents), The Group has agreed to acquire 99.9% of the issued shares in the capital of PT Lombok Bau Nyale ("LBN"), an Indonesian based Property Development and Construction Company and to the refinancing of existing debt obligations, some of which are currently in default.

It is proposed that, upon completion of the acquisition of LBN, SAPEX's existing wholly owned Indonesian operating entity, PT Sapex Servis Indonesia ("SSI") and LBN will be merged such that LBN's Property Development and Construction services are added to and complement SAPEX's existing business of supplying Dura Base composite mats to the oil & gas, infrastructure and construction industries in Indonesia.

The transaction will be funded via the issue of SAPEX shares to the existing LBN shareholders and members of the Consortium. Following the issue of the shares the Consortium will hold more than half of the shares on issue in SAPEX.

Having signed the Transaction Documents, SAPEX has now finalised the Notice of Shareholder Meeting ("NoM") and submitted it to ASIC for review along with an accompanying Independent Expert Report ("IER"). Pending any comments from ASIC the NoM and IER will then be despatched to shareholders so that the non-associated shareholders can make an informed decision whether to approve the transaction. It is expected that relevant information is to be provided to shareholders in April 2020 for a meeting of Sapex shareholders planned to be held in May 2020.

As at the date of this financial report, the Directors and Management have made a considered assessment of the impact of COVID-19 (Coronavirus), having been determined a major global risk, on the Group's affairs and this financial report. The full effects of the pandemic are not practicable to assess comprehensively. Therefore, in assessing the impact on SAA from COVID-19, the directors and management has considered and effected the factors as outlined in Note 4(c).

Except for the above, no other matters or circumstances have arisen since the end of the financial 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.

##### **Environmental issues**

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

##### **Company secretary**

Mr Lee Tamplin held the position of Company secretary during the financial year.

Mr Tamplin has almost 20 years' experience in a variety of roles covering investment management, financial services and corporate governance in both Australia and the UK. Mr Tamplin is currently Company Secretary for a number of ASX listed, NSX listed and unlisted public and private companies across a range of industries and has a Degree in Financial Services, a diploma in Financial Planning and is a Graduate of the Australian Institute of Company Directors Course. He is also a member of the Governance Institute of Australia.

## Meetings of directors

During the financial year, 19 meetings of directors were held. Attendances by each director during the year were as follows:

	Directors' Meetings	
	Number eligible to attend	Number attended
Peter Chambers	19	19
Kyle Roy Kenneth Larson	19	19
Peter van Ratingen	19	17
Dan Powell	19	18
James Midgley	19	11

## Indemnification and insurance of officers and auditor

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of SAPEX Group Limited.

## Options

At the date of this report, there are no unissued ordinary shares of SAPEX Group Limited under option.

## Proceedings on behalf of company

No person has 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 purposes 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*.

## Non-audit services

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to the external auditors for non-audit services provided during the year ended 31 December 2019:

	2019	2018
	\$	\$
Tax and corporate finance services	82,500	111,125
<b>Total</b>	<b>82,500</b>	<b>111,125</b>

## **Auditor's independence declaration**

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* for the year ended 31 December 2019 has been received and can be found on page 21 of the consolidated financial report.

## **5. Remuneration report (audited)**

### **Remuneration policy**

The remuneration policy of SAPEX Group Limited has been designed to align key management personnel (KMP) objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Board of SAPEX Group Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the Group is as follows:

- Consultants are engaged as required pursuant to service agreements.
- The Group ensures that fees, salaries and emoluments are in line with general standards for publicly listed companies of the size and type of the Group.
- The Group has a policy to remunerate its directors and officers based on fixed and incentive component salary packages to reflect the short and long term objectives of the Group.
- The salary component of non-executive and executive directors is made up of:
- fixed remuneration; and
- equity based remuneration when invited to participate by the Board in the executive share option plan of the Company
- All key management personnel receive a base salary (which is based on factors such as length of service and experience).
- The Board reviews key management personnel packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

All remuneration paid to key management personnel is valued at the cost to the Group and expensed.

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting (AGM), the current maximum is \$ 300,000. The Board determined \$300,000 to be allocated as available for the period which was subsequently approved at the AGM held on 28 December 2018.

### **Performance conditions linked to remuneration**

The key performance indicators (KPIs) are set annually, with a certain level of consultation with key management personnel to ensure support. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greatest potential for the Group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards.

Performance in relation to the KPIs is assessed annually. Following the assessment, the KPIs are reviewed by the Board in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

## 5. Remuneration report (audited) (continued)

### Performance conditions linked to remuneration (continued)

The satisfaction of the financial performance conditions are based on a review of the audited consolidated financial statements of the Group, as such figures reduce any risk of contention relating to payment eligibility. The Board does not believe that performance conditions should include a comparison with factors external to the Group at this time.

### Employment details of members of key management personnel

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the Group.

<b>Directors</b>	<b>Position</b>
Peter Chambers	Non Executive Director and Chairman
Kyle Roy Kenneth Larson	Executive Director and CEO
Dan Powell	Non-Executive Director (until 3 April 2020)
Peter van Ratingen	Non Executive Director
James Midgley	Non Executive Director
<b>KMP</b>	
David Anderson	Chief Financial Officer (until 31 July 2019)
Alison Crealy	Chief Financial Officer (from 1 August 2019)
Simon Ford	Country Head for Indonesia (until 1 October 2019)

Mr David Anderson was appointed Chief Financial Officer on 6 April 2018 and resigned 31 July 2019. Mr Anderson's remuneration and shareholding have been included in this report for the period he acted as the Group's CFO. Prior to his appointment and post appointment, Mr David Anderson acted as an external consultant. Remuneration earned before his and after his role as CFO is not in his capacity as KMP and is not required to be disclosed. Mr Anderson is the sole director and 100% shareholder of FG Agri Pty Ltd and a director of First Guardian Holdings Pty Ltd, therefore as they are his associates, are included in this report for the respective period of service.

Ms Alison Crealy is employed by Automic Finance Pty Ltd who were appointed as the Group's CFO on 1 August 2019. Remuneration and shareholding held by Automic Finance Pty Ltd has been included in this report from the date of appointment. Ms Crealy has not received remuneration and does not hold shares in a personal capacity.

### Service Agreements

On appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including remuneration, relevant to the office of director.

In summary, each Non-Executive Director Service Agreement contains the following key terms:

- The Director is appointed subject to the Company's Corporate Governance Principles, Corporations Act and NSX Listing Rules;
- In the case of each Non-Executive Director may receive remuneration as annual fees of up to \$48,000 (exclusive of GST and superannuation entitlements);
- If the Company terminates the Service Agreement with the Director, it must provide two weeks written notice or payment in lieu of the notice period;

## 5. Remuneration report (audited) (continued)

### Service Agreements (continued)

- The Director is subject to a 12 month non-competition covenant from the date of the termination of their Service Agreement; and
- The Service Agreement is subject to the laws of New South Wales.

The remuneration for the CEO is summarised in the table below. There are no other terms of employment as there is no formal service agreement in place at the time of this report.

### Remuneration details for the year ended 31 December 2019

The following table of benefits and payment details, in respect to the financial year, the components of remuneration for each member of the key management personnel of the Group.

Table of benefits and payments

	cash salary fees	short term non monetary	other	post employment pension and superannuation	share based payments options and rights	shares and units	
2019	\$	\$	\$	\$	\$	\$	\$
<b>Directors</b>							
Peter Chambers	48,000	-	-	-	-	-	48,000
Kyle Roy Kenneth Larson	160,000	-	-	-	-	-	160,000
Dan Powell	48,000	-	-	-	-	-	48,000
Peter van Ratingen	48,000	-	-	-	-	-	48,000
James Midgley	48,000	-	-	-	-	-	48,000
<b>KMP</b>							
David Anderson	254,545	-	-	-	-	-	254,545
Alison Crealy*	62,700	-	-	-	-	-	62,700
Simon Ford	96,091	-	-	-	-	-	96,091
	<b>765,336</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>765,336</b>

	cash salary fees	short term non monetary	other	post employment pension and superannuation	share based payments options and rights	shares and units	
2018	\$	\$	\$	\$	\$	\$	\$
<b>Directors</b>							
Peter Chambers	28,000	16,000	-	-	-	-	44,000
Ronald Kenneth Larson	80,622	42,991	-	-	-	-	123,613
Kyle Roy Kenneth Larson #	72,622	42,378	-	-	-	-	115,000
Peter van Ratingen	24,000	16,000	-	-	-	-	40,000
Dan Powell	-	8,000	-	-	-	-	8,000
James Midgley	1,749	23,000	-	-	-	-	24,749
<b>KMP</b>							
David Anderson	15,255	74,200	-	-	-	-	89,455
Conrad Warren	7,644	86,356	-	-	-	-	94,000
Simon Ford	82,464	-	-	-	-	-	82,464
	<b>312,356</b>	<b>308,925</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>621,281</b>

\* Remuneration for Ms Alison Crealy is paid to her employer Automic Finance Pty Ltd.

## 5. Remuneration report (audited) (continued)

### Securities received that are not performance related

No members of key management personnel are entitled to receive securities which are not performance-based as part of their remuneration package.

### Key management personnel shareholdings

The number of ordinary shares in SAPEX Group Limited held by each key management person of the Group during the financial year is as follows:

	Balance at beginning of year	Acquired during the year *	Other changes during the year **	Balance at end of year
31 December 2019	No	No.	No.	
<b>Directors</b>				
Peter Chambers	50,000	450,000	-	500,000
Kyle Roy Kenneth Larson	2,892,691	26,036,649	-	28,929,340
Dan Powell	80,000	720,000	-	800,000
Peter van Ratingen	450,000	4,050,000	-	4,500,000
James Midgley	400,000	3,600,000	-	4,000,000
<b>KMP</b>				
David Anderson	902,876	-	(902,876)	-
Alison Crealy	-	-	-	-
Simon Ford	-	-	-	-
	<u>4,775,567</u>	<u>34,856,649</u>	<u>(902,876)</u>	<u>38,729,340</u>
	Balance at beginning of year	Acquired during the year *	Other changes during the year **	Balance at end of year
31 December 2018				
<b>Directors</b>				
Peter Chambers	50,000	-	-	50,000
Kyle Roy Kenneth Larson	2,892,691	-	-	2,892,691
Ronald Kenneth Larson	2,892,961	-	(2,892,961)	-
Peter van Ratingen	450,000	-	-	450,000
Arran Marshall	50,000	-	(50,000)	-
Dan Powell	-	80,000	-	80,000
Guy Markham	-	-	-	-
James Midgley	400,000	-	-	400,000
<b>KMP</b>				
David Anderson	-	902,876	-	902,876
Conrad Warren	-	2,759,246	(2,759,246)	-
Simon Ford	-	-	-	-
	<u>6,735,652</u>	<u>3,742,122</u>	<u>(5,702,207)</u>	<u>4,775,567</u>

\* Includes balance adjustments for persons joining as a KMP.

\*\* Includes balance adjustments for persons leaving as a KMP.

## 5. Remuneration report (audited) (continued)

### KMP related party transactions

The Group undertook the following transactions with:

- Key management personnel (KMP)
- A close member of the family of that person, or
- An entity over which the key management person or family member has, directly or indirectly, control, joint control or significant influence,

during the reporting period.

Information regarding share-based payment transactions with these persons or entities are included elsewhere in the remuneration report.

### Transactions (excluding loans)

#### *Income and expenses related to KMP transactions*

Transaction type	Revenue recognised	Amount of revenue relating to:		Expense recognised	Amount of expenses relating to:	
		Interest	Dividends		Interest	Bad debts
	\$	\$	\$	\$	\$	\$
FGC charge for guarantee on Athos loan - 1st default	-	-	-	272,727	-	-
FGC charge for guarantee on Athos loan - 2nd default	-	-	-	136,364	-	-
Underwriting and arranger fee on PT SAS loan and Athos loan	-	-	-	313,636	-	-

### Loans made to KMP

The following information relates to KMP loans made, guaranteed or secured during the reporting period on an aggregate basis.

	Balance at beginning of the year	Balance at the end of the year	Provision for bad debts	
			Expense	Balance at the end of the year
	\$	\$	\$	\$
Peter Chambers	22,500	23,665	-	-

The loan to Mr Peter Chambers was provided on 26 September 2018. The loan is repayable on demand, unsecured, with no terms of interest attached. The movement in Mr Chambers loan represents fluctuations in the foreign exchange rate at 31 December 2019, compared to 31 December 2018.

If the interest was at market interest rate in an arms length transaction, then difference in the interest charge would have been \$ 355.

**End of Audited Remuneration Report**

This director's report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.

Director:  .....  
Peter Chambers

Director:  .....  
Kyle Roy Kenneth Larson

Dated 28 April 2020



## Corporate Governance Statement

31 December 2019

The Board of Directors of the Company 'the Board' is committed to developing a logistic services business in Indonesia, specialising in the sale and rental of the Dura-Base® Composite Mat System. It will seek to achieve this through strong relationships with our project partners, employees, customers, shareholders, local communities and other stakeholders. The relationships are based on honesty, transparency and mutual value creation. These principles underpin our corporate governance policies and procedures.

The Board of Directors supports the National Stock Exchange of Australia (NSX) Corporate Governance Practice note that outlines expectations by the NSX [https://www.nsx.com.au/documents/practice notes/PN14-CorporateGovernance.pdf](https://www.nsx.com.au/documents/practice%20notes/PN14-CorporateGovernance.pdf).

Whilst the Group's practices are largely consistent with the NSX guidelines, the Board considers that the implementation of some Recommendations are not appropriate having regard to the nature and scale of the Group's activities and size of the Board. The Board uses its best endeavours to ensure exceptions to the NSX guidelines do not have a negative impact on the Company and its controlled entities ('the Group') and the best interests of shareholders as a whole. When the Group is not able to implement one of the NSX Recommendations, the Group applies the 'if not, why not' explanation approach by applying practices in accordance with the spirit of the relevant principle.

The following discussion utilises the Australian Stock Exchange (ASX) Corporate Governance Council's eight principles and associated recommendations and the extent to which the Group complies with those recommendations.

Details of all of the Council's Recommendations can be found on the ASX website at [www.asx.com.au](http://www.asx.com.au).

All policies referenced in the Corporate Governance Statement below can be found on the Company's website: [http://sapexgroup.com/corporate\\_policies.php](http://sapexgroup.com/corporate_policies.php)

### 1. Principle 1 - Lay solid foundations for management and oversight Board role and responsibilities

The Board is responsible to shareholders for developing and operating a successful business and maximising shareholder value.

The Board is responsible for ensuring that the Group is managed in such a way to best achieve this desired result. Given the current size and operations of the business, the Board currently undertakes an active, not passive role.

The Board is responsible for evaluating and setting the strategic directions for the Group, establishing goals for management and monitoring the achievement of these goals. The Managing Director is responsible to the Board for the day-to-day management of the Group.

Without intending to limit the role of the Board, the Board has adopted a Board Charter which outlines the principal functions and responsibilities of the Board, these include but are not limited to:

- formulation and approval of the strategic direction, objectives and goals of the Group;
- the prudential control of the Group's finances and operations, monitoring the financial performance and approving budgets and major expenditures of the Group in line with the approved budget;
- the resourcing, review and monitoring of performance of senior management;
- ensuring that adequate internal control systems and procedures exist and that compliance with these systems and procedures is maintained;
- the identification of significant business risks and ensuring that such risks are adequately managed;
- the timeliness, accuracy and effectiveness of communications and reporting to shareholders and the market;
- the establishment and maintenance of appropriate ethical standards;
- approving the Group's remuneration framework, and;
- monitoring the effectiveness of corporate governance practices.

Pursuant to the Board Charter, the Board delegates management of the Group's resources to the Group's executive management team under the leadership of the Chief Executive Officer, to deliver the strategic direction and goals approved by the Board.

Responsibilities delegated by the Board to Management:

- the conduct and operation of the Group's business;
- implementing corporate strategies; and
- operating under approved budgets and an approved authority matrix.

The Group has followed Recommendation 1.1 by establishing the functions reserved to the Board and those delegated to senior executives as disclosed above.

#### Board appointments

The Company will follow Recommendation 1.2 by ensuring that the appointment of directors will come before shareholders for re-election at the Company's Annual General Meeting, and that these directors are suitable for the Group and equipped with the knowledge and information to discharge their roles adequately. In addition, the Company will ensure that all relevant information that it possess is disclosed in the notice of meeting to enable shareholders to make a decision on whether or not to elect or re-elect a director.

The Group has followed Recommendation 1.3 by having a written agreement with each director and senior executive setting out the terms of their appointment.

## Corporate Governance Statement

31 December 2019

### Company Secretary

The Company has followed Recommendation 1.4 by ensuring that the Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

### Diversity

Recommendation 1.5 sets out that a company should establish a policy concerning diversity and disclose that policy or a summary of it. Such a policy is to include requirements for the board to establish measurable objectives to achieve gender diversity and to assess annually in respect of both the objectives and progress in achieving them.

The Board is committed to engaging directors, management and employees with the highest qualifications, skills and experience to develop a cohesive team that is best placed to achieve business success regardless of age, nationality, race, gender, religious beliefs, sexuality, physical ability or cultural background. The Company's Diversity Policy outlines the processes and strategy to ensure that recruitment and appointments are appropriate and adequately take into account diversity of background amongst a number of factors considered by the Company in ensuring its Directors and workforce have an appropriate mix of qualifications, experience and expertise. Whilst the Company has a diversity policy, it has not set measurable objectives under such a policy. While the Company considers diversity is important, the priority for the Company when recruiting is ensuring an appropriate mix of qualifications, experience and expertise regardless of age, nationality, race, gender, religious beliefs, sexuality, physical ability or cultural background. The Company does, however, make it clear when seeking to appoint additional Directors, senior management and employees that women are encouraged to apply for roles and that the Company is an equal opportunity employer.

### Board and management evaluation

Although the Group is not of a size to warrant the development of formal processes for evaluating the performance of its Board and individual directors as per Recommendation 1.6 there is on-going monitoring by the Chairman and the Board. The Chairman also speaks to directors individually regarding their role as a director. During 2018 the Company introduced a Remuneration Committee. One of the purposes of the Committee is to establish processes for the review of the performance of individual Directors, Board Committees and the Board as a whole and the implementation of such processes. Whilst the Committee did not introduce these processes during 2019, it will aim to do so in 2020.

Arrangements put in place by the Board to monitor the performance of the Group's executives, in line with recommendation 1.7, include:

- a review by the Board of the Group's financial performance;
- annual performance appraisal meetings incorporating analysis of key performance indicators with each individual to ensure that the level of reward is aligned with respective responsibilities and individual contributions made to the success of the Group;
- an analysis of the Group's prospects and projects; and
- a review of feedback obtained from third parties, including advisors.
- The Remuneration Report discloses the process for evaluating the performance of senior executives, including the Chief Executive Officer. Performance evaluation of senior executives was conducted during the period in accordance with this process.
- Whilst not responsible for establishing the performance review process for executives, the newly established Remuneration Committee will be responsible for reviewing and recommending to the Board on the Company's remuneration framework, remuneration packages and policies applicable to the members of the executive management of the Company and will work with the board in ensuring that the appropriate remuneration packages are in line with the Company's executive performance reviews.

## 2. Principle 2 - Structure the Board to add value

### **Board of Directors - Composition, Structure and Process**

The Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given the Group's current size, scale and nature of its activities.

### Nomination Committee

The Company does not have a Nomination Committee however the Remuneration Committee is responsible for considering the appropriate size, composition and skills of the Board.

### Skills of the Board

The Board consists of a blend of personal experience at director-level and relevant corporate experience required by the Group for effective decision-making. Directors are appointed based on the specific operational, corporate and governance skills required by the Group and the Company follows Recommendation 2.2 by disclosing the Directors' qualifications, experience, date of appointment and independence status, which satisfy the Board skill matrix below, in the Directors' Report section of the Annual Report.

Area	Competence
Business Finance	Business strategy, management financial literacy, executive
Investment	Corporate mergers and acquisitions, corporate financing, portfolio management
Technical	Geology, project development in the coal industry, coal marketing
Leadership	Experience in public listed companies having the ability but not limited to setting Board directives and representing the Group appropriately

## Corporate Governance Statement

31 December 2019

### Independent Directors

The Board has five directors, of which a majority of three (Peter Van Ratingen, James Midgley and Dan Powell) are assessed as being independent. Mr Chambers is a representative of the Company's largest shareholder, IndoMines. Mr K Larson is one of the original Founders of the business.

The names of the directors of the Company in office at the date of this report and their length of services are as follows:

Mr Peter Chambers (non-exec Chairman) - appointed May 2017

Mr Kyle Larson - appointed May 2017

Mr Peter Van Ratingen (independent) - appointed May 2017

Mr James Midgley (independent) – appointed March 2018

Mr Dan Powell (independent) – appointed August 2018

### Regular assessment of independence

An independent director, in the view of the Group, is a director who:

- is non-executive;
- is not a substantial shareholder (i.e. greater than 5%) of the Company or an officer of, or otherwise associated, directly or indirectly, with a substantial shareholder of the Company;
- has not within the last three years been employed in an executive capacity by the Company or another Group member, or been a director after ceasing to hold such employment;
- within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the Company or another Group member;
- is not a significant supplier or customer of the Company or another Group member, or an officer of or otherwise associated, directly or indirectly, with a significant supplier or customer;
- has no material contractual relationship with the Company or another Group member other than as a director of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

### Chairman and CEO

The roles of chairman and CEO are held by different people as follows:

- Peter Chambers is a Non-Executive Chairman
- Kyle Larson is an Executive Director

Mr Chambers is not considered to be an independent non-executive chairman, in line with Recommendation 2.5, due to the fact that he is a representative of a substantial shareholder in the Company. The Board is of the view that this association does not affect the Chairman's capacity to bring an independent judgement to bear on issues before the Board and he is able to act in the best interests of the company and its shareholders.

### Directors' induction and education

In accordance with Recommendation 2.6, the Company encourages Directors to continue their professional development to assist them in performing their role effectively and has a policy to provide each new Director or officer with a copy of the following documents:

- Board Charter
- Code of Business Conduct;
- Continuous Disclosure Policy;
- Share Trading Policy; and
- Shareholders Communication Policy.

### **3. Principle 3 - Act ethically and responsibly Code of Conduct Policy and ethical standards**

The Company has a Code of Business Conduct to guide and enhance directors, executives and employees to act with the utmost integrity and objectivity in carrying out their duties and responsibilities, endeavouring at all times to enhance the reputation and performance of the Group. Every employee has direct access to a director to whom they may refer any ethical issues that may arise from their employment.

### Access to Group information and confidentiality

All directors have the right of access to all relevant Group books and to the Group's executive management. In accordance with legal requirements and agreed ethical standards, directors and executives of the Group have agreed to keep confidential information received in the course of exercising their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

### Share dealings and disclosures

The Group has a Securities Trading policy which restricts directors, executives and employees from acting on material information until it has been released to the market. Directors should consult with the Chairman prior to dealing in securities in the Company or other companies with which the Company has a relationship.

## **Corporate Governance Statement**

**31 December 2019**

Share trading by directors, executives or employees is not permitted at any time whilst in the possession of price sensitive information not already available to the market. In addition, the Corporations Act prohibits the purchase or sale of securities whilst a person is in possession of inside information.

In addition to the above, Directors must notify the Company Secretary as soon as practicable, but not later than 5 business days, after they have bought or sold the Company's securities or exercised options. In accordance with the provisions of the Corporations Act and the Listing Rules of the NSX, the Company on behalf of the Directors must advise the NSX of any transactions conducted by them in the securities of the Company.

Breaches of this policy will be subject to disciplinary action, which may include termination of employment.

These restrictions have been developed having regard to the current nature of the Company's activities, being rental and sale of composite mat systems to exploration and production companies.

### **Conflicts of interest**

To ensure that directors are at all times acting in the best interests of the Group, directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the director and the interests of any other parties in carrying out the activities of the Group; and
- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a director cannot, or is unwilling to remove a conflict of interest then the director must, as required by the Corporations Act, absent himself from the room when Board discussion and/or voting occurs on matters about which the conflict relates.

### **Related party transactions**

Related party transactions include any financial transaction between a director and the Group as defined in the Corporations Act or the NSX Listing Rules. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction. The Group also discloses related party transactions in its financial statements as required under relevant Accounting Standards.

## **4. Principle 4 - Safeguard integrity in financial reporting**

### **Audit Committee**

The Company has an Audit Committee to assist the Board in fulfilling its corporate governance and oversight responsibilities in relating to:

- a) The integrity of the Company's financial reporting;
- b) The effectiveness of the Company's systems of financial risk management and internal control; and
- c) The external audit functions.

The Audit Committee is comprised of the following members:

Mr Dan Powell (Chair of Committee)  
Mr Peter Chambers  
Mr James Midgley

All members are non-executive directors and Mr Dan Powell and Mr James Midgley are also independent.

A copy of the Audit Committee Charter is available on the Company's website at: [http://sapexgroup.com/corporate\\_policies.php](http://sapexgroup.com/corporate_policies.php)

### **CEO and CFO declarations**

The Board has, in line with Recommendation 4.2, before approving financial statements for a financial period, received the CEO and CFO declaration as required under section 295A of the Corporations Act. Further the CEO and CFO have declared their opinion has been formed on the basis of a sound system of risk management and internal control that is operating effectively.

### **Auditor attendance at Annual General Meeting**

The Group will follow Recommendation 4.3 and ensure that a representative of its external auditor PKF will attend the Company's Annual General Meeting and is available to answer questions from security holders relevant to the audit.

## **5. Principle 5 - Make timely and balanced disclosure**

### **Continuous Disclosure to the NSX**

The Board has designated the Chairman and Company Secretary as being responsible for overseeing and co-ordinating disclosure of information to the NSX as well as communicating with the NSX. Accordingly the Company will notify the NSX promptly of information:

- concerning the Company, that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

Announcements are made in a timely manner, are factual and do not omit material information in order to avoid the emergence of a false market in the Company's securities.

## **Corporate Governance Statement**

**31 December 2019**

### **6. Principle 6 - Respect the rights of security holder**

The Company has followed Recommendation 6.1 by keeping investors informed through the Company's website [www.sapexgroup.com](http://www.sapexgroup.com), and on the NSX website [www.nsx.com.au](http://www.nsx.com.au) under NSX code 'SAA' regarding information about the Group, the Board, policies, reports and NSX announcements.

The Company has followed Recommendations 6.2 and 6.3 by designing a communications program to promote effective communication with shareholders and to encourage their participation at general meetings.

The Board recognises its duty to ensure that its shareholders are informed of all major developments affecting the Group's state of affairs. Information is communicated to shareholders and the market through:

- the Annual Report which is distributed to shareholders (usually with the Notice of Annual General Meeting);
- the Annual General Meeting and other general meetings called to obtain shareholder approvals as appropriate;
- the half-yearly financial statements; and
- other announcements released to the NSX as required under the continuous disclosure requirements of the NSX Listing Rules and other information that may be mailed to shareholders or made available through the Company's website.

The Company has followed Recommendation 6.4 by actively promoting communication with shareholders through a variety of measures, including the use of the Company's website and email.

The Company via its share registry, Automatic, gives shareholders the option to receive communications electronically.

### **7. Principle 7 - Recognise and manage risk**

#### **Risk Committee**

Whilst the Company does not have a Risk Committee it does have an Audit Committee whose responsibilities include assisting the Board in fulfilling its corporate governance and oversight responsibilities relating to the effectiveness of the Company's systems of financial risk management and internal controls.

#### **Risk management**

The Company has followed Recommendation 7.2, whereby the full Board regularly throughout the year reviews and monitors systems of external and internal controls and areas of significant operational, financial and property risk, and ensures arrangements are in place to contain such risks to acceptable levels.

#### **Internal audit function**

Having regard to the size of the Group and the nature of its activities, an internal audit function has not been established, however, in compliance with Recommendation 7.3, it is disclosed that the full Board carries out the risk management and internal audit functions.

#### **Risks and risk management**

In compliance with Recommendation 7.4, the material manageable risks which the Group is exposed to include operational risks, capital risks and human resources risks as follows:

- obtaining government approvals;
- ecological and environmental issues;
- oil and gas industry standard safety procedures;
- land access and community disputes;
- the ability to raise additional capital; and
- recruiting and retaining qualified personnel.

The full Board is responsible for overseeing the risk management function and the Chief Executive Officer is in charge of implementing an appropriate level of control to mitigate these risks within the Group. The full Board reviews all major Group strategies and decisions and takes appropriate actions on a continuous basis.

### **8. Principle 8 - Remunerate fairly and responsibly**

#### **Remuneration Committee**

The Company has a Remuneration Committee who is responsible for reviewing and recommending to the Board the Company's remuneration framework, remuneration packages and policies applicable to the members of the executive management of the Company and Directors.

The Remuneration Committee is comprised of the following members:

Mr Peter Van Ratingen (Chair of Committee)

Mr Dan Powell

Mr James Midgley

All of whom are non-executive and independent directors.

## Corporate Governance Statement

31 December 2019

A copy of the Remuneration Committee Charter is available on the Company's website at:  
[http://sapexgroup.com/corporate\\_policies.php](http://sapexgroup.com/corporate_policies.php)

### Remuneration responsibilities

The role and responsibility of the Board is to review and make recommendations in respect of:

- executive remuneration policy;
- executive director and senior management remuneration;
- executive incentive plan;
- superannuation arrangements for Directors, senior executives and other employees;
- non-executive directors' remuneration ;
- performance measurement policies and procedures;
- termination policies and procedures;
- equity based plans; and
- required remuneration and remuneration benefits public disclosure.

The group has the following remuneration policy to ensure that remuneration arrangements are equitable, appropriate, and not excessive.

### Remuneration policy

The directors' remuneration policy is adopted by shareholders at the Annual General Meeting. The salary and emoluments paid to officers are approved by the Board. Consultants are engaged as required pursuant to service agreements. The Group ensures that fees, salaries and emoluments are in line with general standards for publicly listed companies of the size and type of the Group. All salaries of directors and officers are disclosed in the Annual Report.

The Group has a policy to remunerate its directors and officers based on fixed and incentive component salary packages to reflect the short and long term objectives of the Group.

The salary component of non-executive and executive directors is made up of:

- fixed remuneration; and
- equity based remuneration when invited to participate by the Board in the executive share option plan of the Company.

### Securities Trading policy

In accordance with recommendation 8.3 the Company has a Securities Trading Policy that prohibits directors, officers and employees from entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements under any equity based remuneration scheme.

## 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 31 December 2019 there have been:

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



PKF



PAUL PEARMAN  
PARTNER

28 APRIL 2020  
SYDNEY, NSW

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2019

	Note	2019 \$	2018 \$
Revenue	5	2,992,029	1,195,460
Other income	5	28,115	353,485
Raw materials and consumables used		(2,052,239)	-
Employee benefits expense	6	(1,071,838)	(692,053)
Depreciation, amortisation and impairment expense	6	(7,936,631)	(760)
Fair value loss on derivative liabilities		-	(222,000)
Other expenses		(2,751,400)	(2,083,274)
Finance costs	6	(3,375,517)	(635,600)
<b>Loss before income tax</b>		<b>(14,167,481)</b>	<b>(2,084,742)</b>
Income tax expense	7	(2,007)	(67)
<b>Loss for the year</b>		<b>(14,169,488)</b>	<b>(2,084,809)</b>
<b>Items that will be reclassified to profit or loss when specific conditions are met</b>			
Exchange differences on translating foreign controlled entities		(322,878)	295,657
<b>Other comprehensive loss for the year, net of income tax</b>		<b>(322,878)</b>	<b>295,657</b>
<b>Total comprehensive loss for the year</b>		<b>(14,492,366)</b>	<b>(1,789,152)</b>
Loss attributable to:			
Members of the parent entity		(14,148,979)	(2,079,241)
Non-controlling interest		(20,509)	(5,568)
		<b>(14,169,488)</b>	<b>(2,084,809)</b>
Total comprehensive loss attributable to:			
Members of the parent entity		(14,471,857)	(1,783,584)
Non-controlling interest		(20,509)	(5,568)
		<b>(14,492,366)</b>	<b>(1,789,152)</b>
<b>Earnings per share</b>			
From continuing and discontinued operations:			
Basic earnings per share (cents)	21	(6.16)	(1.08)
Diluted earnings per share (cents)	21	(6.16)	(1.08)
From continuing operations:			
Basic earnings per share (cents)	21	(6.16)	(1.08)
Diluted earnings per share (cents)	21	(6.16)	(1.08)

The accompanying notes form part of these financial statements.



# SAPEX Group Limited

ACN 619 195 283

## Consolidated Statement of Financial Position As At 31 December 2019

	Note	2019 \$	2018 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	9	10,671	87,048
Trade and other receivables	10	1,193,957	902,369
Loans and advances	11	23,665	22,522
Other assets	12	108,791	15,331
<b>TOTAL CURRENT ASSETS</b>		<b>1,337,084</b>	<b>1,027,270</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	3,783,665	6,177,394
Intangible assets	14	475,428	6,114,811
<b>TOTAL NON-CURRENT ASSETS</b>		<b>4,259,093</b>	<b>12,292,205</b>
<b>TOTAL ASSETS</b>		<b>5,596,177</b>	<b>13,319,475</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	958,657	547,582
Borrowings	16	13,444,185	14,680,119
Derivative financial instruments	17	-	222,000
Current tax liabilities	23	56,362	34,864
Employee benefits		60,594	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>14,519,798</b>	<b>15,484,565</b>
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables	15	512,489	-
Borrowings	16	25,192	-
Deferred tax liabilities	23	199,283	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>736,964</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>15,256,762</b>	<b>15,484,565</b>
<b>NET LIABILITIES</b>		<b>(9,660,585)</b>	<b>(2,165,090)</b>
<b>EQUITY</b>			
Issued capital	19	14,620,983	7,811,990
Reserves	20	506,861	641,861
Accumulated losses		(24,788,429)	(10,639,450)
<b>Total equity attributable to equity holders of the Company</b>		<b>(9,660,585)</b>	<b>(2,185,599)</b>
Non-controlling interest		-	20,509
<b>TOTAL EQUITY</b>		<b>(9,660,585)</b>	<b>(2,165,090)</b>

The accompanying notes form part of these financial statements.

# SAPEX Group Limited

ACN 619 195 283

## Consolidated Statement of Changes in Equity For the Year Ended 31 December 2019

2019

	Note	Ordinary Shares \$	Accumulated losses \$	Foreign Currency Translation Reserve \$	Convertible Instruments Reserve \$	Total attributable to members of the Company \$	Non- controlling Interests \$	Total \$
<b>Balance at 1 January 2019</b>		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		-	(14,148,979)	-	-	(14,148,979)	-	(14,148,979)
Loss attributable to non-controlling interests		-	-	-	-	-	(20,509)	(20,509)
Total other comprehensive income for the year		-	-	(322,878)	-	(322,878)	-	(322,878)
<b>Total comprehensive loss for the year</b>		-	(14,148,979)	(322,878)	-	(14,471,857)	(20,509)	(14,492,366)
Shares issued during the year	19(a)	6,513,633	-	-	-	6,513,633	-	6,513,633
Equity value of conversion rights of convertible notes issued during the year	20	-	-	-	483,238	483,238	-	483,238
Conversion of equity value of convertible notes to shares during the year	19(a)	295,360	-	-	(295,360)	-	-	-
<b>Balance at 31 December 2019</b>		<u>14,620,983</u>	<u>(24,788,429)</u>	<u>(27,221)</u>	<u>534,082</u>	<u>(9,660,585)</u>	<u>-</u>	<u>(9,660,585)</u>

2018

	Note	Ordinary Shares \$	Accumulated losses \$	Foreign Currency Translation Reserve \$	Convertible Instruments Reserve \$	Total attributable to members of the Company \$	Non- controlling Interests \$	Total \$
<b>Balance at 1 January 2018</b>		7,811,990	(8,560,209)	-	-	(748,219)	-	(748,219)
Loss attributable to members of the parent entity		-	(2,079,241)	-	-	(2,079,241)	-	(2,079,241)
Loss attributable to non-controlling interests		-	-	-	-	-	(5,568)	(5,568)
Total other comprehensive income for the year		-	-	295,657	-	295,657	-	295,657
<b>Total comprehensive loss for the year</b>		-	(2,079,241)	295,657	-	(1,783,584)	(5,568)	(1,789,152)
Recognition of non-controlling interest		-	-	-	-	-	26,077	26,077
Equity value of conversion rights of convertible notes issued during the year	20	-	-	-	346,204	346,204	-	346,204
<b>Balance at 31 December 2018</b>		<u>7,811,990</u>	<u>(10,639,450)</u>	<u>295,657</u>	<u>346,204</u>	<u>(2,185,599)</u>	<u>20,509</u>	<u>(2,165,090)</u>

The accompanying notes form part of these financial statements.

# SAPEX Group Limited

ACN 619 195 283

## Consolidated Statement of Cash Flows For the Year Ended 31 December 2019

	Note	2019 \$	2018 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers		3,279,323	70,884
Payments to suppliers and employees		(5,213,839)	(1,319,095)
Interest received		454	-
Net cash provided by/(used in) operating activities	30	<u>(1,934,062)</u>	<u>(1,248,211)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Payments to acquire property, plant and equipment		-	(4,679)
Payments to acquire subsidiaries and business, net of cash acquired		-	(8,856,431)
Proceeds from purchase price adjustment, acquisition of subsidiaries		409,722	-
Net cash provided by/(used in) investing activities		<u>409,722</u>	<u>(8,861,110)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of borrowings		4,009,952	10,539,791
Repayment of borrowings		(773,647)	-
Payments of interest and other finance costs		(1,767,888)	(369,104)
Net cash provided by/(used in) financing activities		<u>1,468,417</u>	<u>10,170,687</u>
Exchange differences on cash and cash equivalents		(20,454)	12,540
Net increase/(decrease) in cash and cash equivalents held		(76,377)	73,906
Cash and cash equivalents at beginning of year		87,048	13,142
Cash and cash equivalents at end of financial year	9	<u>10,671</u>	<u>87,048</u>

The accompanying notes form part of these financial statements.

## **Notes to the Financial Statements**

### **For the Year Ended 31 December 2019**

The consolidated financial report covers SAPEX Group Limited and its controlled entities ('the Group'). SAPEX Group Limited is a for-profit listed Public 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 24 April 2020.

Comparatives are consistent with prior years, unless otherwise stated.

#### **1 Basis of Preparation**

The financial statements are general purpose financial statements that have been prepared in accordance with the Australian Accounting Standards and the *Corporations Act 2001*.

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

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 Change in Accounting Policy**

##### **Leases - Adoption of AASB 16**

The Group has adopted AASB 16 *Leases* using the modified retrospective (cumulative catch-up) method from 1 January 2019 and therefore the comparative information for the year ended 31 December 2018 has not been restated and has been prepared in accordance with AASB 117 *Leases* and associated Accounting Interpretations.

Under AASB 117, the Group assessed whether leases were operating or finance leases based on its assessment of whether the significant risks and rewards of ownership had been transferred to the Group or remained with the lessor. Under AASB 16, there is no differentiation between finance and operating leases for the lessee and therefore all leases which meet the definition of a lease are recognised on the consolidated statement of financial position (except for short-term leases and leases of low value assets).

The Group has elected to use the exception to lease accounting for short-term leases and leases of low value assets, and the lease expense relating to these leases are recognised in the consolidated statement of profit or loss on a straight line basis.

The Group's leases at 1 January 2019 were all short term leases or leases of low value assets, therefore there were no effects arising from the change in accounting policy on the financial statements.

## **Notes to the Financial Statements**

### **For the Year Ended 31 December 2019**

#### **3 Summary of Significant Accounting Policies**

##### **(a) Basis for consolidation**

###### **(i) Basis for consolidation**

The consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

Intragroup assets, liabilities, equity, income, expenses and cashflows relating to transactions between entities in the consolidated entity have been eliminated in full for the purpose of these financial statements.

Appropriate adjustments have been made to a controlled entity's financial position, performance and cash flows where the accounting policies used by that entity were different from those adopted by the consolidated entity. All controlled entities have a December financial year end.

A list of controlled entities is contained in Note 27 to the financial statements.

###### **(ii) Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the parent has control. Control is established when the parent is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

##### **(b) 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.

For the financial year ended 31 December 2019, SAPEX Group Limited (SAPEX) recorded a loss after tax of \$14,169,488 (2018: \$2,084,809) and as of that date, the Group was in a net liability position of \$9,660,585 (2018: \$2,165,090). The Group also incurred net operating cash outflows of \$1,934,062 (2018: \$1,248,211).

As at the balance date, the following financial liabilities are in default and included in current borrowings on the statement of financial position (refer to Note 16):

- principal and interest payments owing of US\$3,000,000 (AU\$4,277,790) from Athos Asia Event Driven Master Fund ("Athos") which was due on 19 December 2019. Athos is a Hong Kong based special situations focused hedge fund and is an existing lender to Sapex. Athos' existing facility with Sapex expired on 19 December 2019. Sapex is currently in default and Athos is owed US\$3,000,000 in principal and approximately US\$160,000 in accrued interest as at 6 March 2020;
- \$788,500 owing to convertible note holders which were due for settlement on various dates in the 2019 financial year;

These circumstances have given rise to a significant doubt on the entity's ability to continue as a going concern.

## **Notes to the Financial Statements**

### **For the Year Ended 31 December 2019**

#### **3 Summary of Significant Accounting Policies (continued)**

##### **(b) Going concern (continued)**

The Directors have prepared cash flow forecasts which are underpinned by existing customer contracts as well as a pipeline of customers representing advanced discussions with customers with contracts expected to come to fruition. These forecasts further include the following arrangements and considerations in respect of the Group's financial liabilities:

- As detailed in Note 32, the Group has signed a binding Heads of Agreement ("HoA"), Share Purchase Agreement ("SPA") and supporting transaction documents (together the "Transaction Documents") in relation to a Consortium Offer which was announced on the NSX on 9 December 2019 and 7 February 2020 which is subject to approval by the Group's non-associated shareholders. This transaction sets forth the acquisition by SAPEX of PT Lombok Bau Nyale ("LBN") in exchange for new SAPEX shares to be issued to the shareholders of LPG as well as a concurrent refinancing of SAPEX's debt obligation including those above which are in default. It is expected that subject to appropriate regulatory approval, relevant information will be provided to the shareholders of SAPEX in early April 2020 for a meeting of the shareholders to then be held in the first half of May 2020;
- the lenders of the Group, including those in default detailed above and FG Agri Pty Ltd, the majority holder of the Group's remaining convertible notes of \$6.4m as at 31 December 2019 have signed respective transaction documents which contemplates the completion of the Consortium Offer and restructure of debt. The debt will be restructured through part settlement in cash (\$788k), part conversion to equity (\$403k), with the balance to be refinanced under a new loan facility with First Guardian Secured Convertible Bond Fund (\$5.2m) subject to shareholder approval;
- As detailed in Note 16, 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 was 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 Directors have laid down measures in response to the uncertainties and challenges that may impact the Group's business due to the COVID-19 pandemic. These measures, and their impact on the Group's operations are detailed in Note 4(c) which contemplates the business being able to mitigate the risks and challenges to enable the Group to continue operations as a going concern.

Based on the cash flow forecasts, and considerations of the steps and measures above, 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 and other considerations 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.

## Notes to the Financial Statements

### For the Year Ended 31 December 2019

#### 3 Summary of Significant Accounting Policies (continued)

##### (c) 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 acquisition of the Dura-Base assets and business. This included reflecting an adjustment to the final cash 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
<b>Total purchase consideration</b>	<b>12,288,336</b>	<b>11,878,614</b>
Assets or liabilities acquired:		
Plant and equipment	6,173,525	6,173,525
Intangible assets	-	838,000
Deferred tax liabilities	-	(210,000)
<b>Identifiable assets acquired and liabilities assumed</b>	<b>6,173,525</b>	<b>6,801,525</b>
<b>Goodwill</b>		<b>5,077,089</b>

##### (d) Income Tax

The tax expense recognised in the consolidated statement of profit or loss and other comprehensive income comprises of current income tax expense plus deferred tax expense.

## **Notes to the Financial Statements**

### **For the Year Ended 31 December 2019**

#### **3 Summary of Significant Accounting Policies (continued)**

##### **(d) Income Tax (continued)**

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (loss) for the year and is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and laws that have been enacted or substantively enacted by the end of the reporting period. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred tax is provided on temporary differences which are determined by comparing the carrying amounts of tax bases of assets and liabilities to the carrying amounts in the consolidated financial statements.

Deferred tax is not provided for the following:

- The initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).
- Taxable temporary differences arising on the initial recognition of goodwill.
- Temporary differences related to investment in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised.

Current and deferred tax is recognised as income or an expense and included in profit or loss for the period except where the tax arises from a transaction which is recognised in other comprehensive income or equity, in which case the tax is recognised in other comprehensive income or equity respectively.

##### **(e) Revenue and other income**

The core principle of AASB 15 is that revenue is recognised on a basis that reflects the transfer of promised goods or services to customers at an amount that reflects the consideration the Group expects to receive in exchange for those goods or services. Revenue is recognised by applying a five-step model as follows:

1. Identify the contract with the customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognise revenue as and when control of the performance obligations is transferred



## **Notes to the Financial Statements**

### **For the Year Ended 31 December 2019**

#### **3 Summary of Significant Accounting Policies (continued)**

##### **(e) Revenue and other income (continued)**

The revenue recognition policies for the principal revenue streams of the Group are:

##### **Recurring service contracts**

The Group manages and distributes, under licence, its Dura Base asset base in the South East Asia region through recurring service (lease) contracts. The services provided under these service contracts are substantially the same. The services are transferred to the customer with the same pattern of consumption over time, and whose consideration consists of a recurring fixed amount over the term of the contract (e.g. monthly or annual payment), in such a way that the customer receives and consumes the benefits of the services as the Group provides them.

Under this method, revenue is recognised on a straight line basis over the term of the contract and costs are recognised on an accrual basis.

##### **Sale of mats**

Revenue relating to the sale of Dura base mats is recognised at the point in time the mats are delivered to the customer. At this point the customer accepts the goods and the consideration becomes due and payable.

##### **Other income**

Other income is recognised on an accruals basis when the Group is entitled to it.

##### **(f) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

##### **(g) Goods and services tax (GST)**

Revenue, expenses and assets are recognised net of the amount of Australian goods and services tax (GST) and Indonesian valued added tax (VAT) (see below), except where the amount of GST or VAT incurred is not recoverable from the Australian Taxation Office (ATO) or The Directors General of Taxation (Indonesia).

Receivables and payable are stated inclusive of GST and VAT.

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

##### **Indonesian VAT**

Value Added Tax (VAT) is levied on the delivery of taxable goods and the provision of taxable services. VAT also applies to intangible goods (including royalties) and to virtually all services provided outside Indonesia to Indonesian businesses. Deliveries to certain areas (e.g. a free zone or bonded zone) may enjoy certain VAT incentives. Certain goods and services are nontaxable for VAT purposes.

## **Notes to the Financial Statements**

### **For the Year Ended 31 December 2019**

#### **3 Summary of Significant Accounting Policies (continued)**

##### **(g) Goods and services tax (GST) (continued)**

The Directors General of Taxation is responsible for administering VAT in Indonesia.

##### **(h) Property, plant and equipment**

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

###### **Plant and equipment**

Plant and equipment are measured using the cost model.

###### **Depreciation**

Property, plant and equipment, excluding freehold land, is depreciated on a straight-line basis over the assets useful life to the Group, commencing when the asset is ready for use.

Leased assets and leasehold improvements are amortised over the shorter of either the unexpired period of the lease or their estimated useful life.

The depreciation rates used for each class of depreciable asset are shown below:

<b>Fixed asset class</b>	<b>Depreciation rate</b>
Plant & Equipment Held for Lease to External Parties	13%
Office Equipment	25%
Computer Equipment	25%

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

##### **(i) Financial instruments**

###### **Financial assets**

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

## **Notes to the Financial Statements**

### **For the Year Ended 31 December 2019**

#### **3 Summary of Significant Accounting Policies (continued)**

##### **(i) Financial instruments (continued)**

###### **Financial assets (continued)**

###### *Classification*

On initial recognition, the Group classifies its financial assets into the following categories, those measured at:

- amortised cost
- fair value through profit or loss - FVTPL
- fair value through other comprehensive income - equity instrument (FVOCI - equity)
- fair value through other comprehensive income - debt investments (FVOCI - debt)

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets.

###### *Amortised cost*

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows are solely payments of principal and interest on the principal amount outstanding.

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment.

Interest income, foreign exchange gains or losses and impairment are recognised in profit or loss. Gain or loss on derecognition is recognised in profit or loss.

###### *Impairment of financial assets*

Impairment of financial assets is recognised on an expected credit loss (ECL) basis for financial assets measured at amortised cost.

When determining whether the credit risk of a financial assets has increased significant since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment and including forward looking information.

## **Notes to the Financial Statements**

### **For the Year Ended 31 December 2019**

#### **3 Summary of Significant Accounting Policies (continued)**

##### **(i) Financial instruments (continued)**

###### **Financial assets (continued)**

The Group uses the presumption that an asset which is more than 30 days past due has seen a significant increase in credit risk.

The Group uses the presumption that a financial asset is in default when:

- the other party is unlikely to pay its credit obligations to the Group in full, without recourse to the Group to actions such as realising security (if any is held); or
- the financial assets is more than 90 days past due.

Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows expected to be received. This is applied using a probability weighted approach.

###### *Trade receivables and contract assets*

Impairment of trade receivables and contract assets have been determined using the simplified approach in AASB 9 which uses an estimation of lifetime expected credit losses. The Group has determined the probability of non-payment of the receivable and contract asset and multiplied this by the amount of the expected loss arising from default.

The amount of the impairment is recorded in a separate allowance account with the loss being recognised in finance expense. Once the receivable is determined to be uncollectable then the gross carrying amount is written off against the associated allowance.

Where the Group renegotiates the terms of trade receivables due from certain customers, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in profit or loss.

###### *Other financial assets measured at amortised cost*

Impairment of other financial assets measured at amortised cost are determined using the expected credit loss model in AASB 9. On initial recognition of the asset, an estimate of the expected credit losses for the next 12 months is recognised. Where the asset has experienced significant increase in credit risk then the lifetime losses are estimated and recognised.

###### **Financial liabilities**

The Group measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.

The financial liabilities of the Group comprise trade payables, bank and other loans and finance lease liabilities.

## **Notes to the Financial Statements**

### **For the Year Ended 31 December 2019**

#### **3 Summary of Significant Accounting Policies (continued)**

##### **(j) Cash and cash equivalents**

Cash and cash equivalents comprises cash on hand, demand deposits and short-term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

##### **(k) Leases**

For comparative year

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the Group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

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.

For current year

At inception of a contract, the Group assesses whether a lease exists - i.e. does the contract convey the right to control the use of an identified asset for a period of time in exchange for consideration.

This involves an assessment of whether:

- The contract involves the use of an identified asset - this may be explicitly or implicitly identified within the agreement. If the supplier has a substantive substitution right then there is no identified asset.
- The Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use.
- The Group has the right to direct the use of the asset i.e. decision making rights in relation to changing how and for what purpose the asset is used.

At the lease commencement, the Group recognises a right-of-use asset and associated lease liability for the lease term. The lease term includes extension periods where the Group believes it is reasonably certain that the option will be exercised.

The right-of-use asset is measured using the cost model where cost on initial recognition comprises of the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration less any lease incentives received.

The right-of-use asset is depreciated over the lease term on a straight line basis and assessed for impairment in accordance with the impairment of assets accounting policy.

The lease liability is initially measured at the present value of the remaining lease payments at the commencement of the lease. The discount rate is the rate implicit in the lease, however where this cannot be readily determined then the Group's incremental borrowing rate is used.

## **Notes to the Financial Statements**

### **For the Year Ended 31 December 2019**

#### **3 Summary of Significant Accounting Policies (continued)**

##### **(k) Leases (continued)**

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. The lease liability is remeasured whether there is a lease modification, change in estimate of the lease term or index upon which the lease payments are based (e.g. CPI) or a change in the Group's assessment of lease term.

Where the lease liability is remeasured, the right-of-use asset is adjusted to reflect the remeasurement or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

##### *Exceptions to lease accounting*

The Group has elected to apply the exceptions to lease accounting for both short-term leases (i.e. leases with a term of less than or equal to 12 months) and leases of low-value assets. The Group recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

##### **(l) Employee benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be wholly settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits expected to be settled more than one year after the end of the reporting period have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Cashflows are discounted using market yields on high quality corporate bond rates incorporating bonds rated AAA or AA by credit agencies, with terms to maturity that match the expected timing of cashflows. Changes in the measurement of the liability are recognised in profit or loss.

##### **(m) Trade and other payables**

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

##### **(n) Borrowings**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.

##### **(o) Earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to owners of the company by the weighted average number of ordinary shares outstanding during the year.

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

## **Notes to the Financial Statements**

### **For the Year Ended 31 December 2019**

#### **3 Summary of Significant Accounting Policies (continued)**

##### **(p) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options which vest immediately are recognised as a deduction from equity, net of any tax effects.

##### **(q) Foreign currency transactions and balances**

###### **Transaction and balances**

Foreign currency transactions are recorded at the spot rate on the date of the transaction.

At the end of the reporting period:

- Foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured at historical cost are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value are translated using the rate at the date when fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in prior reporting periods are recognised through profit or loss, except where they relate to an item of other comprehensive income or whether they are deferred in equity as qualifying hedges.

##### **(r) Adoption of new and revised accounting standards**

The Group has adopted all standards which became effective for the first time at 31 December 2019, the adoption of these standards has not caused any material adjustments to the reported financial position, performance or cash flow of the Group.

##### **(s) Parent entity**

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the legal parent entity is disclosed in Note 33.

##### **(t) Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The Board alongside the chief operating decision maker assesses the financial performance and position of the group, and makes strategic decisions. The chief operating decision maker, consists of the chief executive officer, the chief operating officer and the chief financial officer.

## **Notes to the Financial Statements**

### **For the Year Ended 31 December 2019**

#### **4 Critical Accounting Estimates and Judgments**

The directors make estimates and judgements during the preparation of these consolidated financial statements regarding assumptions about current and future events affecting transactions and balances.

These estimates and judgements are based on the best information available at the time of preparing the financial statements, however as additional information is known then the actual results may differ from the estimates.

The significant estimates and judgements made have been described below.

##### **(a) Key estimates - impairment of goodwill**

In accordance with AASB 136 Impairment of Assets, the Group is required to estimate the recoverable amount of goodwill at each reporting period.

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.

In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of:

- growth in EBITDA, calculated as adjusted operating profit before depreciation and amortisation;
- timing and quantum of future capital expenditure;
- long-term growth rates; and
- the selection of discount rates to reflect the risks involved.

The Group prepares and approves formal five year management plans for its operations, which are used in the value in use calculations.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and hence results.

The Group's review includes the key assumptions related to sensitivity in the cash flow projections. Further details are provided in Note 14 to the consolidated financial statements.

##### **(b) Key estimates - business combinations**

The Group initially recognises assets and liabilities acquired, through business combination, at their fair values. Fair values are based on the prevailing market conditions and industrial information at the time and make estimation and assumptions when arriving at the fair values, which are provisional. Subsequent events may indicate these estimation and assumptions need to be revised thus affecting their fair values.



## **Notes to the Financial Statements**

### **For the Year Ended 31 December 2019**

#### **4 Critical Accounting Estimates and Judgments (continued)**

##### **(c) Assessment of the impact of COVID-19 (Coronavirus)**

As at the date of this financial report, the Directors and Management have made a considered assessment of the impact of COVID-19 (Coronavirus), having been determined a major global risk, on the Group's affairs and this financial report. COVID-19 was first reported to the World Health Organisation as an unknown virus in late December 2019. Developments throughout 2020 has been creating significant uncertainty for supply chains and the global economy. As a result, the Directors and Management outline their assessment below as to whether and how the Group is affected, and any potential impact on this financial report.

SAPEX Group Limited's (SAA) main revenue generation business is involved in specialised and focused field operations for the energy and natural resources sector in Indonesia. Considered "essential services", the energy industry in Indonesia has been increasing activity through Q3/Q4 2019 and Q1/Q2 2020. SAA's clients have indicated to Management that this activity is not expected to decrease, but rather increase, over the next 3 quarters; primarily to continue servicing the region's energy demands but also to assist in supporting stabilizing Indonesia's economy through the uncertain and challenging COVID-19 pandemic.

SAA's Management has proactively taken steps to cut costs in anticipation of a possible downturn, including downsizing office staff, controlling costs and preparing for a merger to help streamline the head office operations as a whole. SAA has not, however, undertaken measures to reduce field support activities as SAA's clients in Indonesia continue to increase their operational needs in the field. For SAA, field operations directly reflect revenue.

However, SAA's Management is very aware that risks remain, including delays in Invoicing or Payment cycles with clients, eventual downturn in business activity (as a result of global pressures to reduce operations for SAA's clients), rapid currency devaluations and possible social unrest in SAA's area of operations. Consequently, SAA undertook the cost-cutting measures and introduced human health and safety protection protocols at SAA operations in Indonesia (ie remote working, reduced hours and monitoring of employee health). Currently, SAA's office-based client representatives are also working in similar remote-work arrangements; ensuring standard procedures for Invoice Preparation, Receipt, Processing and Approval for Payment are managed digitally, and without undue delays.

There are currently no travel bans in Indonesia affecting SAA's operations. Management is headquartered in Indonesia and able to interface and manage the situation on the ground effectively, with oversight and guidance from SAA's Board.

The full effects of the pandemic are not practicable to assess comprehensively. Therefore, in assessing the impact on SAA from COVID-19, the directors and management has considered and effected the following factors:

i) Materiality of the event: Management has taken steps to mitigate a material financial impact for the foreseeable future, primarily due to the nature of the industries SAA services ("essential" energy production companies);

ii) Assessing Financial Impact to this financial report:

- Management has prepared deliberately conservative and prudent cash flow models for the purposes of its going concern and impairment assessments;

## Notes to the Financial Statements

### For the Year Ended 31 December 2019

#### 4 Critical Accounting Estimates and Judgments (continued)

##### (c) Assessment of the impact of COVID-19 (Coronavirus) (continued)

- In particular, Management's impairment modelling and assessment as described in Note 14 has been built upon assumptions that apply caution to normal operating conditions to take into consideration the potential effects of COVID-19. These measures include a reduced growth rate in its cash flow modelling (downgraded from 2% per annum to Nil% for the 5 year cash flow projections) and an increased discount rate (from 20% to 28%) which builds in an additional risk premium factor in light of these events;
- SAA's current vendor contracts have assigned fixed (not variable) rates, as such no increased costs are expected in the short/mid term;
- SAA does not anticipate a reduction in demand in the foreseeable future as contracts are being awarded and projects proceeding ahead of schedule but has still maintained a conservative outlook in its modelling as noted earlier.

Based on the above assessment, the Directors and Management believe the going concern basis is appropriate as a result of the factors outlined above, and information available at the time of this report. Please refer to Note 3(b) for further details relating to Going Concern.

An impairment loss has been recognised arising as a result of the cautious assumptions built in Management's impairment assessment for the year - details of the model and the resultant impairment loss recognised for the financial year are detailed in Note 14.

#### 5 Revenue and Other Income

##### Revenue from continuing operations

	2019 \$	2018 \$
Sales revenue		
- sale of mats	2,765,185	-
- provision of services	226,844	414,455
	<b>2,992,029</b>	414,455
Other revenue		
- licence fees	-	781,005
<b>Total Revenue</b>	<b>2,992,029</b>	<b>1,195,460</b>

	2019 \$	2018 \$
Other Income		
- fees	-	18,045
- discount on acquisition	-	322,565
- other income	454	336
- gain on exchange differences	27,661	12,540
	<b>28,115</b>	<b>353,486</b>

## **Notes to the Financial Statements**

### **For the Year Ended 31 December 2019**

#### **6 Result for the Year**

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

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Finance Costs		
- Other finance costs	<b>3,795,182</b>	635,600
Cost of sales	<b>2,052,239</b>	-
Other expenses:		
- Employee benefits expense	<b>1,071,838</b>	692,053
- Depreciation and amortisation expense	<b>829,437</b>	760
Impairment loss on property, plant and equipment	<b>1,667,532</b>	-
Impairment loss on goodwill	<b>5,077,089</b>	-
Impairment of receivables:		
- Bad debts	<b>-</b>	827,814

#### **7 Income Tax Expense**

(a) The major components of tax expense (income) comprise:

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Current tax expense	<b>-</b>	67
Deferred tax expense	<b>(15,148)</b>	-
Under/(over) provision in respect of prior years	<b>17,155</b>	-
<b>Income tax expense for continuing operations</b>	<b>2,007</b>	67
<b>Total income tax expense</b>	<b>2,007</b>	67

## Notes to the Financial Statements

### For the Year Ended 31 December 2019

#### 7 Income Tax Expense (continued)

(b) Reconciliation of income tax to accounting profit:

	2019	2018
	\$	\$
Loss	(14,167,481)	(2,084,742)
Tax	30.00 %	30.00 %
	(4,250,244)	(625,423)
Add:		
Tax effect of:		
- under provision for income tax in prior year	17,155	-
- other non-deductible expenses	2,023,386	-
- tax losses not recognised	2,226,858	625,490
	17,155	67
Less:		
Tax effect of:		
- employee provisions	15,148	-
Income tax attributable to parent entity	2,007	67
Income tax charge	2,007	67

#### 8 Operating Segments

##### Identification of reportable segments

The Group identifies 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.

#### 9 Cash and Cash Equivalents

	2019	2018
	\$	\$
Cash at bank and in hand	10,671	87,048

**Notes to the Financial Statements**  
**For the Year Ended 31 December 2019**

**10 Trade and Other Receivables**

	2019 \$	2018 \$
CURRENT		
Trade receivables	81,191	451,056
Deposits	18,303	3,874
GST receivable	1,094,463	447,439
<b>Total current trade and other receivables</b>	<b>1,193,957</b>	<b>902,369</b>

**(a) Impairment of receivables**

Reconciliation of changes in the provision for impairment of receivables is as follows:

	2019 \$	2018 \$
Balance at beginning of the year	-	631,631
Provision used	-	(631,631)
<b>Balance at end of the year</b>	<b>-</b>	<b>-</b>

**11 Loans and Advances**

	2019 \$	2018 \$
CURRENT		
Loans to directors, managers and employees	23,665	22,522
	<b>23,665</b>	<b>22,522</b>

29(c)

**12 Other Assets**

	2019 \$	2018 \$
CURRENT		
Prepayments	22,928	15,331
Accrued income	85,863	-
	<b>108,791</b>	<b>15,331</b>

## Notes to the Financial Statements

### For the Year Ended 31 December 2019

#### 13 Property, plant and equipment

	2019 \$	2018 \$
Plant and equipment held for lease to external parties pursuant to operating leases		
At cost	6,173,525	6,173,525
Accumulated depreciation	(801,318)	-
Impairment loss	(1,667,532)	-
Total plant and equipment held for lease to external parties pursuant to operating leases	3,704,675	6,173,525
Office equipment		
At cost	3,000	3,000
Accumulated depreciation	(966)	(187)
Total office equipment	2,034	2,813
Computer equipment		
At cost	1,629	1,629
Accumulated depreciation	(981)	(573)
Total computer equipment	648	1,056
Right of use asset		
At cost	103,241	-
Accumulated depreciation	(26,933)	-
Total right of use asset	76,308	-
<b>Total property, plant and equipment</b>	<b>3,783,665</b>	<b>6,177,394</b>

#### (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 year:

	Note	Plant & Equipment Held for Lease to External Parties \$	Office Equipment \$	Computer Equipment \$	Right of Use Asset \$	Total \$
<b>Year ended 31 December 2019</b>						
Balance at the beginning of the year		6,173,525	2,813	1,056	-	6,177,394
Additions	18(a)	-	-	-	103,241	103,241
Depreciation expense		(801,318)	(779)	(408)	(26,933)	(829,438)
Impairment loss	13(b)	(1,667,532)	-	-	-	(1,667,532)
<b>Balance at the end of the year</b>		<b>3,704,675</b>	<b>2,034</b>	<b>648</b>	<b>76,308</b>	<b>3,783,665</b>

## Notes to the Financial Statements

### For the Year Ended 31 December 2019

#### 13 Property, plant and equipment (continued)

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

	Note	Plant & Equipment Held for Lease to External Parties \$	Office Equipment \$	Computer Equipment \$	Right of Use Asset \$	Total \$
<b>Year ended 31 December 2018</b>						
Balance at the beginning of year		-	-	-	-	-
Additions		-	3,000	1,629	-	4,629
Additions through acquisition of entity		6,173,525	-	-	-	6,173,525
Total additions		6,173,525	3,000	1,629	-	6,178,154
Depreciation expense		-	(187)	(573)	-	(760)
<b>Balance at the end of the year</b>		<b>6,173,525</b>	<b>2,813</b>	<b>1,056</b>	<b>-</b>	<b>6,177,394</b>

##### (b) Impairment loss

During the year, the Group identified certain Dura-base Mats as being unusable. The carrying value of these mats has been written off to \$nil giving rise to an impairment loss of \$1,667,532 for the year ended 31 December 2019.

#### 14 Intangible Assets

	2019 \$	2018 \$
Goodwill		
Cost	5,077,089	6,114,811
Accumulated amortisation and impairment	(5,077,089)	-
<b>Net carrying value</b>	<b>-</b>	<b>6,114,811</b>
Customer lists		
Cost	838,000	-
Accumulated amortisation and impairment	(362,572)	-
<b>Net carrying value</b>	<b>475,428</b>	<b>-</b>
<b>Total Intangibles</b>	<b>475,428</b>	<b>6,114,811</b>

## Notes to the Financial Statements

### For the Year Ended 31 December 2019

#### 14 Intangible Assets (continued)

##### (a) Movements in carrying amounts of intangible assets

	Customer lists \$	Goodwill \$	Total \$
<b>Year ended 31 December 2019</b>			
Balance at the beginning of the year	-	6,114,811	6,114,811
<b>Additions through business combinations</b>			
- restatement on completion of provisional accounting	838,000	(1,037,722)	(199,722)
Amortisation expense	(362,572)	-	(362,572)
Impairment loss in income	-	(5,077,089)	(5,077,089)
<b>Closing value at 31 December 2019</b>	<b>475,428</b>	<b>-</b>	<b>475,428</b>

	Customer lists \$	Goodwill \$	Total \$
<b>Year ended 31 December 2018</b>			
Balance at the beginning of the year	-	-	-
<b>Additions through business combinations</b>			
- provisionally accounted for at date of acquisition	-	6,114,811	6,114,811
<b>Closing value at 31 December 2018</b>	<b>-</b>	<b>6,114,811</b>	<b>6,114,811</b>

##### (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.

As part of the assessment for the year ended 31 December 2019, and as explained in Note 4(c), Management has carefully considered the potential effects of COVID-19 on the the local and global economy, and their impact on the Group's operations. This has meant a cautious recalibration of key assumptions in its underlying impairment assessment model particularly in respect of the growth rate and discount rate (see below).

Based on Management's assessment of these factors, and the application of these assumptions to its impairment model, the carrying value of goodwill and associated assets in the Dura Base Cash Generating Unit were required to be impaired at 31 December 2019 by \$5,077,089 in light of the effects described above.



## Notes to the Financial Statements

### For the Year Ended 31 December 2019

#### 14 Intangible Assets (continued)

Management carried out an impairment review at the end of the year using discounted cash flows. The following table sets out the key assumptions used in the impairment review and their approach in determining each criteria:

Assumption	Approach used to determining values	Value
Growth rate	Average annual growth rate over the five-year forecast period; based on current industry trends and including long term inflation forecasts for each territory.	nil%
Budgeted gross margin	Based on past performance and management's expectations for the future.	34%
Other operating costs	Fixed costs of the CGUs, which do not vary significantly with sales volumes or prices. Management forecasts these costs based on the current structure of the business, adjusting for inflationary increases but not reflecting any future restructurings or cost saving measures. The amounts disclosed above are the average operating costs for the five-year forecast period.	\$13m
Pre-tax discount rates	Reflect specific risks relating to the relevant segments and the countries in which they operate.	28%

#### 15 Trade and Other Payables

	2019 \$	2018 \$
CURRENT		
Trade payables	438,704	399,939
Employee benefits	141,000	921
Accrued expenses	120,206	101,907
Other payables	258,747	44,818
	<b>958,657</b>	<b>547,585</b>

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.

	2019 \$	2018 \$
Non-Current		
Trade payables	512,489	-
	<b>512,489</b>	<b>-</b>

## Notes to the Financial Statements

### For the Year Ended 31 December 2019

#### 16 Borrowings

		2019 \$	2018 \$
CURRENT			
Compound instruments	16(a)	6,172,834	6,347,067
Related party payables	16(b)	992,079	3,812,261
Other loans	16(c)	6,225,201	4,520,791
Lease liability	18(b)	54,071	-
<b>Total current borrowings</b>		<b>13,444,185</b>	<b>14,680,119</b>
		2019 \$	2018 \$
NON-CURRENT			
Lease liability	18(b)	25,192	-
<b>Total non-current borrowings</b>		<b>25,192</b>	<b>-</b>

#### (a) Convertible notes

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

60,847,920 convertible loan notes (after incorporating effects of share split) were issued in 2018 financial year 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 (refer to Note 20), which represents the value of conversion rights of the convertible notes.

During the 2019 financial year, the following occurred in respect of the convertible debt securities:

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

\$1,657,708 of the convertible notes which were maturing at various dates post 2 August 2019 converted to ordinary shares on 9 October 2019.

On 28 August 2019, convertible notes of \$2.1m previously issued plus \$3.1m of additional funding provided was rolled into new convertible notes of \$5.2m via a Deed of Variation of the Convertible Note Deed dated 5 July 2019 entered into between the Company and FG Agri Pty Ltd.

As disclosed in Note 3(b), the Company agreed terms with FG Agri Pty Ltd (FGC), the majority holder of the remaining convertible notes, to refinance their entire position of \$5.2m under a new loan facility with First Guardian Secured Convertible Bond Fund subject to shareholder approval at the next General Meeting of the Company. Following shareholders' approval, these notes will be redeemed and cancelled. To refinance these amounts, FGSC Bond Fund will provide additional new loan funding on the same terms (12% interest pa maturing on 13 March 2021).

## **Notes to the Financial Statements**

### **For the Year Ended 31 December 2019**

#### **16 Borrowings (continued)**

##### **(b) Related party payables**

Related party loans consist of the following:

##### **Loan from First Guardian Holdings Pty Ltd**

During the 2019 year, the Group obtained further funding from First Guardian Capital Holdings Pty Ltd. The balance at 31 December 2019 was \$948,192 (2018: \$351,989). This amount has been included as part of related party payables. Refer to Note 29 for details of related parties.

##### **Loan from Director / CEO**

The Group received a loan from Kyle Larson, Director and CEO of the Group, during the 2019 financial year. The balance of the loan at 31 December 2019 was \$43,887.

##### **(c) Other loans**

The balance of Other Loans includes amount borrowed of \$4,277,790 (2018: \$4,185,862) from Athos Asia Event Driven Master Fund ("Athos"), \$1,932,246 (2018: \$nil) from PT. SAS International ("SAS") and \$15,165 (2018: \$nil) from Elantis Premium Funding.

##### **Loan from Athos Asia Event Driven Master Fund**

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. Athos is a Hong Kong based special situations focused hedge fund. 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 financial year, 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 was 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 year ended 31 December 2019.

Athos' existing facility with Sapex expired on 19 December 2019. Sapex is currently in default and Athos is owed US\$3,000,000 in principal and approximately US\$160,000 in accrued interest as at 6 March 2020. Refer to Notes 3(b) and 32 for details on the planned settlement of this facility.

## Notes to the Financial Statements

### For the Year Ended 31 December 2019

#### 16 Borrowings (continued)

##### (c) Other loans (continued)

###### Loan from PT SAS International

The Group entered into a loan agreement with PT. SAS International in relation to payments of Overdue VAT of 13,196,495,000 IDR in relation to the acquisition of Dura base mats and business (completed early 2019), and an additional amount of 8,479,200,000 IDR for assistance in the repayment of the Group's loan from MK Engineering Pte Ltd. The combined loan at 31 December was AUD\$1,932,246. Full settlement of the loan is due 31 July 2020. Refinancing of this debt amount is contemplated as part of the proposed transaction and debt restructure.

For further details on the acquisition, please refer to Note 3(c).

###### Loan from Etlantis Premium Funding

The Group obtained a loan from Elantis Premium Funding for the Directors & Officers insurance policy of \$68,480 during the 2019 financial year, repayable over 10 monthly instalments. The first instalment was paid in June 2019. The last instalment, and full repayment of the loan, is due 12 April 2020.

###### Loan from MK Engineering Pte Ltd

On 18 December 2018, a loan was provided by MK Engineering Pte Ltd for an amount of USD\$250,000 (AUD\$354,929). The Group paid a facility fee of USD\$25,000 on 31 January 2019 and on 15 March 2019. The loan was repaid during the 2019 financial year.

#### 17 Derivative Financial Instruments

	2019	2018
	\$	\$
CURRENT		
Fair value of detachable warrants	-	222,000

3.7 million detachable warrants were issued during the year ended 31 December 2018 as security on the loan provided by Athos Asia Event Driven Master Fund ("Athos"). During the year ended 31 December 2019, the Group entered into a Deed of Forbearance with Athos to extinguish the detachable warrants. Refer to Note 16(c).

#### 18 Leases

The Group has applied AASB 16 using the modified retrospective (cumulative catch-up) method and therefore the comparative information has not been restated and continues to be reported under AASB 117 and related Interpretations.

##### The Group as a lessee

The Group has leases over a range of assets including land, buildings and IT equipment.

The Group has chosen not to apply AASB 16 to leases of intangible assets.

Information relating to the leases in place and associated balances and transactions are provided below.

## Notes to the Financial Statements

### For the Year Ended 31 December 2019

#### 18 Leases (continued)

##### *Terms and conditions of leases*

The Group leases land and buildings for their corporate offices and other buildings for storage of their Dura Base mats available for lease. The leases are generally between 1 - 3 years and no leases include a renewal option to allow the Group to renew the non-cancellable lease term.

##### Consolidated Statement of Financial Position

##### (a) Right-of-use assets

	Buildings \$	Total \$
<b>Year ended 31 December 2019</b>		
Additions	103,241	103,241
Depreciation charge	<u>(26,933)</u>	<u>(26,933)</u>
<b>Balance at end of year</b>	<u><u>76,308</u></u>	<u><u>76,308</u></u>

##### (b) Lease liabilities

The maturity analysis of lease liabilities based on contractual undiscounted cash flows is shown in the table below:

	< 1 year \$	1 - 5 years \$	> 5 years \$	Total undiscounted lease liabilities \$	Lease liabilities included in this Consolidated Statement Of Financial Position \$
<b>2019</b>					
Lease liabilities	63,649	26,520	-	90,169	79,263

##### (c) Extension options

The building lease does not contain extension options which allow the Group to extend the lease term.

##### Consolidated Statement of Profit or Loss and Other Comprehensive Income

The amounts recognised in the consolidated statement of profit or loss and other comprehensive income relating to leases where the Group is a lessee are shown below:

	2019 \$	2018 \$
Short term lease payments not included in the measurement of lease liabilities	121,487	13,521
Depreciation of right-of-use assets	26,933	-
Lease interest	<u>7,473</u>	-
	<u><u>155,893</u></u>	<u><u>13,521</u></u>

## Notes to the Financial Statements

### For the Year Ended 31 December 2019

#### 18 Leases (continued)

##### Consolidated Statement of Cash Flows

	2019	2018
	\$	\$
Total cash outflow for leases	152,938	13,521

#### 19 Issued Capital

	2019	2018
	\$	\$
253,152,430 (2018: 19,286,406) Ordinary shares	14,620,983	7,811,990
<b>Total</b>	<b>14,620,983</b>	<b>7,811,990</b>

##### (a) Ordinary shares

	No.	\$
Opening balance at 1 January 2018	19,286,406	7,811,990
Shares issued during the year	-	-
<b>Balance 31 December 2018</b>	<b>19,286,406</b>	<b>7,811,990</b>
4 Feb 2019: Issue of shares to complete acquisition	2,954,545	3,427,272
<b>Sub total</b>	<b>22,240,951</b>	<b>11,239,262</b>
<b>26 Apr 2019: 1:10 Share split</b>	<b>222,409,510</b>	<b>11,239,262</b>
13 Sep 2019: Issue of shares on conversion of convertible notes*	15,672,850	1,724,013
9 Oct 2019: Issue of shares on conversion of convertible notes*	15,070,070	1,657,708
<b>Balance at 31 December 2019</b>	<b>253,152,430</b>	<b>14,620,983</b>

\* included in these amounts is \$295,360 equity value of conversion rights in relation to the convertible notes redeemed.

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.

##### (b) Capital Management

The key objectives of the Group when managing capital is to safeguard its ability to continue as a going concern and maintain optimal benefits to stakeholders. The Group defines capital as its equity and net debt.

The Group manages its capital structure and makes funding decisions based on the prevailing economic environment and has a number of tools available to manage capital risk.

## Notes to the Financial Statements

### For the Year Ended 31 December 2019

#### 19 Issued Capital (continued)

##### (b) Capital Management (continued)

The Board monitors a range of financial metrics including return on capital employed and gearing ratios. A key objective of the Group's capital risk management is to maintain compliance with the covenants attached to the Group's debts. Throughout the year, the Group has complied with these covenants.

#### 20 Reserves

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income - foreign currency translation reserve. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

	Note	2019 \$	2018 \$
<b>Foreign currency translation reserve</b>			
Opening balance		295,657	-
Exchange differences on translation of foreign controlled entities		(322,878)	295,657
<b>Closing balance</b>		<b>(27,221)</b>	<b>295,657</b>
<b>Convertible instruments reserve</b>			
Opening balance		346,204	-
Equity value of conversion rights of convertible notes issued during the year	16(a)	483,238	346,204
Conversion of equity value of convertible notes to shares during the year		(295,360)	-
<b>Closing balance</b>		<b>534,082</b>	<b>346,204</b>
<b>Total</b>		<b>506,861</b>	<b>641,861</b>

#### 21 Earnings per Share

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

	2019 \$	2018 \$
Loss from continuing operations	(14,169,488)	(2,079,241)
<b>Earnings used in the calculation of dilutive EPS from continuing operations</b>	<b>(14,169,488)</b>	<b>(2,079,241)</b>

##### (b) Earnings used to calculate overall earnings per share

	2019 \$	2018 \$
Earnings used to calculate overall earnings per share	(14,169,488)	(2,079,241)

## Notes to the Financial Statements

### For the Year Ended 31 December 2019

#### 21 Earnings per Share (continued)

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

	<b>2019</b>	<b>2018</b>
	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	<b>229,638,852</b>	192,864,060
Weighted average number of dilutive convertible instruments on issue	-	-
<b>Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS</b>	<b>229,638,852</b>	192,864,060

#### 22 Financial Risk Management

The Group is exposed to a variety of financial risks through its use of financial instruments.

The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets.

The most significant financial risks to which the Group is exposed to are described below:

##### Specific risks

- Liquidity risk
- Credit risk
- Market risk - currency risk, interest rate risk and price risk

##### Financial instruments used

The principal categories of financial instrument used by the Group are:

- Trade receivables
- Cash at bank
- Trade and other payables
- Borrowings

##### Objectives, policies and processes

The Board of Directors have overall responsibility for the establishment of the Group's financial risk management framework. This includes the development of policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and the use of derivatives.



## **Notes to the Financial Statements**

### **For the Year Ended 31 December 2019**

#### **22 Financial Risk Management (continued)**

##### **Objectives, policies and processes (continued)**

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The day-to-day risk management is carried out by the Group's finance function under policies and objectives which have been approved by the Board of Directors. The Chief Financial Officer has been delegated the authority for designing and implementing processes which follow the objectives and policies. This includes monitoring the levels of exposure to interest rate and foreign exchange rate risk and assessment of market forecasts for interest rate and foreign exchange movements.

The Board of Directors receives monthly reports which provide details of the effectiveness of the processes and policies in place.

Mitigation strategies for specific risks faced are described below:

##### **Liquidity risk**

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities as and when they fall due. The Group maintains cash and marketable securities to meet its liquidity requirements in line with appropriate credit periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities, borrowings and equity raisings.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business.

The Group has also received the continued support from First Guardian Holdings Pty Ltd as explained in Notes 3(b) and 29.

At the reporting date, these reports indicate that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances and will not need to draw down any of the financing facilities.

##### **Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure to wholesale and retail customers, including outstanding receivables and committed transactions.

The utilisation of credit limits by customers is regularly monitored by line management. Customers who subsequently fail to meet their credit terms are required to make purchases on a prepayment basis until creditworthiness can be re-established.

## Notes to the Financial Statements

### For the Year Ended 31 December 2019

## 22 Financial Risk Management (continued)

### Credit risk (continued)

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

The Group has no significant concentration of credit risk.

On a geographical basis, the Group has significant credit risk exposures in Indonesia given the substantial operations in that region.

The following table details the Group's trade and other receivables exposure to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, within the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there is objective evidence indicating that the debt may not be fully repaid to the Group.

	Gross amount \$	Past due and impaired \$	Past due but not impaired (days overdue)				Within initial trade terms \$
			< 30 \$	31-60 \$	61-90 \$	> 90 \$	
<b>2019</b>							
Trade receivables	81,191	-	-	15,597	-	84	65,510
Other receivables	1,112,768	-	-	-	-	-	1,112,768
Total	1,193,959	-	-	15,597	-	84	1,178,278
<b>2018</b>							
Trade receivables	451,056	-	436,702	14,354	-	-	-
Other receivables	451,315	-	-	-	-	-	451,315
Total	902,371	-	436,702	14,354	-	-	451,315

The Group does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

The other classes of receivables do not contain impaired assets.

### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

#### (i) Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

## Notes to the Financial Statements

### For the Year Ended 31 December 2019

#### 22 Financial Risk Management (continued)

Exposures to currency exchange rates arise from the Group's overseas sales and purchases, which are primarily denominated in Indonesian Rupiah and US Dollars.

Generally, the Group's risk management procedures distinguish short-term foreign currency cash flows (due within 6 months) from longer-term cash flows. Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken.

The Group is not exposed to material foreign exchange risk

##### (ii) Interest rate risk

The Group is exposed to interest rate risk as funds are borrowed at floating and fixed rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +1.00% and -1.00% (2018: +1.00%/-1.00%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions and economist reports.

The calculations are based on the financial instruments held at each reporting date. All other variables are held constant.

	2019		2018	
	+1.00%	-1.00%	+1.00%	-1.00%
	\$	\$	\$	\$
Net results	131,462	(131,462)	146,801	(146,801)
Equity	131,462	(131,462)	146,801	(146,801)

##### (iii) Price risk

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices of securities held being fair value through profit and loss.

The Group is not exposed materially to such risk.

#### 23 Tax assets and liabilities

##### (a) Current Tax Liability

	2019	2018
	\$	\$
Other current tax payable	56,362	34,864
<b>Current tax liabilities</b>	<b>56,362</b>	<b>34,864</b>

## Notes to the Financial Statements

### For the Year Ended 31 December 2019

#### 23 Tax assets and liabilities (continued)

##### (b) Deferred Tax Assets

	Note	Opening Balance \$	Charged to Income \$	Charged directly to Equity \$	Exchange Differences \$	Closing Balance \$
<b>Deferred tax assets</b>						
Provisions - employee benefits		-	15,148	-	-	15,148
<b>Balance at 31 December 2019</b>		-	15,148	-	-	15,148
Set-off of deferred tax assets pursuant to set-off provisions	23(c)					(15,148)
<b>Net deferred tax assets as at 31 December 2019</b>						-

##### (c) Deferred Tax Liabilities

	Note	Opening Balance \$	Charged to Income \$	Acquired on Business Combination \$	Exchange Differences \$	Closing Balance \$
<b>Deferred tax liabilities</b>						
Customer lists	3(c)	-	-	210,000	4,431	214,431
<b>Balance at 31 December 2019</b>	3(c)	-	-	210,000	4,431	214,431
Set-off of deferred tax assets pursuant to set-off provisions	23(b)					(15,148)
<b>Net deferred tax liability as at 31 December 2019</b>						199,283

##### (d) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following:

	2019 \$	2018 \$
Tax losses	9,507,827	2,084,967

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therein.

#### 24 Dividends

There were no dividends paid or recommended during the period or since the end of the period. There are no franking credits available to the shareholders of the Company

## Notes to the Financial Statements

### For the Year Ended 31 December 2019

#### 25 Key Management Personnel Remuneration

Key management personnel (KMP) remuneration included within employee expenses for the year is shown below:

	2019	2018
	\$	\$
Short-term employee benefits	<b>416,212</b>	640,905

There were no non-cash benefits provided the KMP during the year ended 31 December 2019 (2018: \$395,000). Detailed remuneration disclosures are provided in the Remuneration Report.

#### 26 Auditors' Remuneration

	2019	2018
	\$	\$
Remuneration of the auditor PKF, for:		
- auditing or reviewing the financial statements	<b>67,000</b>	42,000
- other services	<b>82,500</b>	111,125
<b>Total</b>	<b>149,500</b>	153,125

#### 27 Interests in Subsidiaries

##### (a) Composition of the Group

	Principal place of business / Country of Incorporation	Percentage Owned (%) <sup>*</sup> 2019	Percentage Owned (%) <sup>*</sup> 2018
<b>Subsidiaries:</b>			
SAPEX Oilfield Services Limited	British Virgin Islands	<b>100</b>	100
PT. SAPEX Servis Indonesia	Indonesia	<b>99</b>	99

<sup>\*</sup>The percentage of ownership interest held is equivalent to the percentage voting rights for all subsidiaries.

The principal activities of the subsidiaries are the same as that of the Group.

#### 28 Contingencies

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

## Notes to the Financial Statements

### For the Year Ended 31 December 2019

#### 29 Related Parties

(a) The Group's main related parties are as follows:

Disclosures relating to key management personnel compensation are set out in Note 25 and the Directors Report.

Disclosures relating to subsidiaries are set out in Note 27.

Other related parties include close family members of key management personnel and entities that are controlled or significantly influenced by those key management personnel or their close family members.

(b) 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.

(c) Loans to/from related parties

	Opening balance	Closing balance	Interest not charged	Interest paid/payable	Impairment
<b>Loans to KMP / Related Parties</b>					
<b>2019</b>					
Peter Chambers	22,500	23,665	-	-	-
	<u>22,500</u>	<u>23,665</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>2018</b>					
Peter Chambers	-	22,500	-	-	-
	<u>-</u>	<u>22,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Loans from KMP / Related Parties</b>					
<b>2019</b>					
First Guardian Holdings Pty Ltd	351,989	948,192	-	-	-
FG Agri Pty Ltd	3,427,272	-	-	-	-
FG Agri Pty Ltd**	-	5,220,090	-	446,719	-
Kyle Larson	-	43,887	-	-	-
Peter van Ratingen**	-	103,000	-	10,300	-
Daniel Powell**	-	48,000	-	4,800	-
James Midgley**	-	73,000	-	7,300	-
First Guardian Innovation Fund, LP**	-	150,000	-	15,000	-
Peter Chambers	-	27,000	-	2,700	-
	<u>3,779,261</u>	<u>6,613,169</u>	<u>-</u>	<u>486,819</u>	<u>-</u>
<b>2018</b>					
APAC Partners Pty Ltd	-	-	-	-	-
First Guardian Holdings Pty Ltd	257,475	351,989	-	19,872	-
FG Agri Pty Ltd	-	3,427,272	-	-	-
	<u>257,475</u>	<u>3,779,261</u>	<u>-</u>	<u>19,872</u>	<u>-</u>

## **Notes to the Financial Statements**

### **For the Year Ended 31 December 2019**

#### **29 Related Parties (continued)**

##### **(c) Loans to/from related parties (continued)**

\*\* denotes loans in the form of convertible notes.

APAC Partners Pty Ltd and Conrad Warren are related parties as defined under the *Corporations Act 2001*. Conrad Warren is the sole director and 100% shareholder of APAC Partners Pty Ltd. Conrad Warren is also a director of First Guardian Capital Pty Ltd. Mayee Warren and Chris Warren are related parties and/or associates of Conrad Warren as defined under the *Corporations Act 2001*. These parties are substantial shareholders of the Company.

FG Agri Pty Ltd, First Guardian Holdings Pty Ltd and David Anderson are related parties as defined under the *Corporations Act 2001*. David Anderson is the director and shareholder of FG Agri Pty Ltd, First Guardian Capital Pty Ltd and First Guardian Holdings Pty Ltd. David Anderson acted as the Chief Financial Officer of the Group until 1 August 2019.

Terms of the loan from First Guardian Holdings Pty Ltd are disclosed in Note 16.

Terms of the loan to Peter Chambers are disclosed in the Remuneration Report, included as part of the Directors Report.

## Notes to the Financial Statements

### For the Year Ended 31 December 2019

#### 30 Cash Flow Information

##### (a) Reconciliation of result for the year to cashflows from operating activities

Reconciliation of net income to net cash provided by operating activities:

	2019	2018
	\$	\$
Total loss for the year	(13,558,816)	(2,084,809)
Non-cash flows in profit:		
- amortisation	357,461	-
- depreciation	811,124	760
- non-monetary remuneration of KMP	-	308,925
- impairment of property, plant and equipment	1,667,532	-
- interest accrued on convertible notes	295,390	-
- impairment of goodwill	5,077,039	-
- impairment of receivables	-	827,814
- fair value of derivative financial instruments	-	222,000
- extinguishment of detachable warrents	(222,000)	-
- discount on acquisition	-	(322,565)
- interest on borrowings classified as financing activities	1,767,887	369,104
- foreign exchange loss / (gain)	20,454	(12,540)
Changes in assets and liabilities:		
- (increase)/decrease in trade and other receivables	(289,336)	(660,798)
- (increase)/decrease in other assets	(102,043)	-
- (increase)/decrease in prepayments	(19,077)	122,476
- increase/(decrease) in trade and other payables	2,195,403	(121,605)
- increase/(decrease) in accrued expenses	-	56,726
- increase/(decrease) in income taxes payable	21,033	34,377
- increase/(decrease) in provisions	43,887	11,924
Cashflows from operations	(1,934,062)	(1,248,211)

##### (b) Non-cash financing and investing activities

	2019	2018
	\$	\$
Purchase of subsidiary through transfer of shares by Shareholder Group	-	3,427,272

#### 31 Share-based Payments

There were no share based payments or options granted during the year ended 31 December 2019.

In the year ended 31 December 2018, the Group's only share based payments related to the acquisition of the Business and Assets from PT. SAS International.



## **Notes to the Financial Statements**

### **For the Year Ended 31 December 2019**

#### **32 Events Occurring After the Reporting Date**

The Group has signed a binding a Heads of Agreement ("HoA"), Share Purchase Agreement ("SPA") and supporting transaction documents (together the "Transaction Documents") in relation to the Consortium Offer which was disclosed in the NSX announcements dated 9 December 2019 and 7 February 2020 to the NSX. The completion of this transaction is subject to the approval of SAPEX's non-associated shareholders.

Under the terms of the HoA and SPA (and supported by the remainder of the Transaction Documents), The Group has agreed to acquire 99.9% of the issued shares in the capital of PT Lombok Bau Nyale ("LBN"), an Indonesian based Property Development and Construction Company and to the refinancing of existing debt obligations, some of which are currently in default.

It is proposed that, upon completion of the acquisition of LBN, SAPEX's existing wholly owned Indonesian operating entity, PT Sapex Servis Indonesia ("SSI") and LBN will be merged such that LBN's Property Development and Construction services are added to and complement SAPEX's existing business of supplying Dura Base composite mats to the oil & gas, infrastructure and construction industries in Indonesia.

The transaction will be funded via the issue of SAPEX shares to the existing LBN shareholders and members of the Consortium. Following the issue of the shares the Consortium will hold more than half of the shares on issue in SAPEX.

Having signed the Transaction Documents, SAPEX has submitted the final Notice of Shareholder Meeting ("NoM") to ASIC for review along with an accompanying Independent Expert Report ("IER"). Pending any comments from ASIC the NoM and IER will then be despatched to shareholders so that the non-associated shareholders can make an informed decision whether to approve the transaction. It is expected that relevant information is to be provided to shareholders in April 2020 for a meeting of Sapex shareholders planned to be held in the May 2020.

As at the date of this financial report, the Directors and Management have made a considered assessment of the impact of COVID-19 (Coronavirus), having been determined a major global risk, on the Group's affairs and this financial report. The full effects of the pandemic are not practicable to assess comprehensively. Therefore, in assessing the impact on SAA from COVID-19, the directors and management has considered and effected the factors as outlined in Note 4(c).

Except for the above, no other matters or circumstances have arisen since the end of the financial 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.

#### **33 Parent entity**

The following information has been extracted from the books and records of the parent, SAPEX Group Limited and has been prepared in accordance with Accounting Standards.

The financial information for the parent entity, SAPEX Group Limited has been prepared on the same basis as the consolidated financial statements except as disclosed below.

##### *Investments in subsidiaries, associates and joint ventures*

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the consolidated financial statements of the parent entity. Dividends received from associates are recognised in the parent entity profit or loss, rather than being deducted from the carrying amount of these investments.

## SAPEX Group Limited

ACN 619 195 283

### Notes to the Financial Statements For the Year Ended 31 December 2019

#### 33 Parent entity (continued)

	2019 \$	2018 \$
<b>Statement of Financial Position</b>		
Assets		
Current assets	7,787,435	7,656,528
Non-current assets	7,065,923	7,066,330
Total Assets	<u>14,853,358</u>	<u>14,722,858</u>
Liabilities		
Current liabilities	12,004,242	14,646,266
Non-current liabilities	2,378,711	2,377,211
Total Liabilities	<u>14,382,953</u>	<u>17,023,477</u>
Equity		
Issued capital	7,001,857	192,864
Accumulated losses	(7,065,534)	(2,839,686)
Convertible instruments reserve	534,082	346,204
Total Equity	<u>470,405</u>	<u>(2,300,618)</u>
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Total loss for the year	<u>(4,003,848)</u>	<u>(1,815,491)</u>
<b>Total comprehensive income</b>	<u>(4,003,848)</u>	<u>(1,815,491)</u>

#### Contingent liabilities

The parent entity did not have any contingent liabilities as at 31 December 2019 or 31 December 2018.

#### Contractual commitments

The parent entity did not have any commitments as at 31 December 2019 or 31 December 2018.

#### 34 Statutory Information

The registered office of the company is:

Level 5  
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 for the year ended 31 December 2019 are in accordance with the *Corporations Act 2001* and:
  - a. comply with Accounting Standards, which, as stated in basis of preparation Note 1 to the consolidated financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
  - b. give a true and fair view of the financial position and performance of the consolidated group;
2. the Chief Executive Officer and Chief Finance Officer have given the declarations required by Section 295A that:
  - a. the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
  - b. the consolidated financial statements and notes for the financial year comply with the Accounting Standards; and
  - c. the consolidated financial statements and notes for the financial year give a true and fair view.
3. 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 28 April 2020

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF SAPEX GROUP LIMITED

#### Report on the Financial Report

#### Opinion

We have audited the accompanying financial report of SAPEX Group Limited ("the Group"), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Company and the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion, the financial report of the Group is in accordance with the Corporations Act 2001, including:

- i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our 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 3(b) to the financial report, which indicates that the Group incurred a net loss after tax of \$14,169,488 and operating cash outflows of \$1,934,062 during the year ended 31 December 2019. As at that date, the Group had net current liabilities of \$13,182,714. The Group's ability to continue as a going concern and meet its debts as and when they fall due is dependent upon the matters described in Note 3(b) to the financial report. These conditions indicate that a material uncertainty exists that may cast significant doubt as to the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### Independence

We are independent of the consolidated entity 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.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

### 1. Going Concern

#### Why significant

As at 31 December 2019, the net current liability position of the Group was \$13,182,714 after recognising a loss in the current year of \$14,169,488. Management has outlined circumstances in Note 3(b) relating to the entity's ability to continue as a going concern.

The ability of the Group to pay its debts as they fall due is contingent on the impending capital raise through completion of the Consortium Offer transaction, refinancing of existing loans, realisation of cashflow forecasts based on revenues supported by the rental of Dura-base mats, and the ongoing financial support of related parties.

Given the significance and uncertainty of these circumstances we have considered this to be a Key Audit Matter.

#### How our audit addressed the key audit matter

Our work included, but was not limited to, the following procedures:

- Reviewing the directors and board approved cashflow forecasts over the next 12 months;
- Reviewing assumptions around revenue forecasts compared to historical trends;
- Reviewing the restructure and refinancing transactions and its cashflow effects;
- Obtaining confirmation and reviewing the financial capacity regarding related parties' ongoing support of working capital;
- Reviewing management's financial statements disclosure of the circumstances regarding going concern; and
- Assessing the completeness and accuracy of the disclosed circumstances.

### 2. Carrying value of Goodwill

#### Why significant

As set out in Note 14 of the financial statements, as at 31 December 2019, the group have impaired the remaining goodwill balance by \$5,077,089 to Nil. Note 14 (b) outlines the circumstances and assumptions used by the Group to determine the appropriate carrying value as at 31 December 2019.

Given the material significance of the impairment and the level of estimation and judgement required to be made by management, we have considered this to be a Key Audit Matter.

#### How our audit addressed the key audit matter

Our work included, but was not limited to, the following procedures:

- Assessing the assumptions supporting the number of cash generating units being appropriate;
- Reviewing the appropriateness of the underlying cash flow model for the assessment;
- Assessing the accuracy of the FY19 budget approved by the Board by comparing against actual results;
- Agreeing inputs in the cash flow models to relevant data including approved budgets and latest forecasts;

- Assessing the key assumptions for long term growth in the forecast cash flow by comparing them to industry forecasts;
- Assessing the discount rate applied by comparing the Weighted Average Cost of Capital to industry benchmarks;
- Reviewing management's sensitivity analysis in relation to key assumptions including discount rate, growth rates, and terminal value; and
- Assessing the appropriateness of disclosures including those relating to sensitivities in the assumptions used.

## Other Information

Other information is financial and non-financial information in the annual report of the Group which is provided in addition to the Financial Report and the Auditor's Report. The directors are responsible for Other Information in the annual report.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's report. The remaining Other Information is expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, the auditor does not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information in the Financial Report and based on the work we have performed on the Other Information that we obtained prior the date of this Auditor's Report we have nothing to report.

## Directors' Responsibilities 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 Note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

In preparing the financial report, the Directors are responsible for assessing the consolidated entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using a going concern basis of accounting unless the Directors either intend to liquidate the consolidated entity or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgement, including assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the consolidated entity to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation. We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Remuneration Report

### Opinion

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2019. In our opinion, the Remuneration Report of SAPEX Group Limited for the year ended 31 December 2019, complies with section 300A of the Corporations Act 2001.

### Responsibilities

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



PKF



PAUL PEARMAN  
PARTNER

28 APRIL 2020  
SYDNEY, NSW



## Additional Information for Listed Public Companies

31 December 2019

### NSX Additional Information

Additional information required by the NSX Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 20 March 2020.

### Substantial shareholders

The number of substantial shareholders and their associates are set out below:

Shareholders	Number of shares
INDOMINES LIMITED	57,859,220
PT SAS INTERNATIONAL	29,545,450
KYLE LARSON	28,929,610
RON LARSON	28,929,610
FIRST GUARDIAN SECURED CONVERTIBLE BOND FUND	22,252,207

### Voting rights

#### Ordinary Shares

On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

#### Options

No voting rights.

### Distribution of equity security holders

Holding	Ordinary shares		% of issued shares
	Holders	Shares	
1 - 1,000	1	909	-
1,001 - 5,000	3	11,941	-
5,001 - 10,000	4	35,454	0.01
10,001 - 100,000	315	11,696,885	4.62
100,000 and over	127	241,407,241	95.36
<b>Total</b>	<b>450</b>	<b>253,152,430</b>	<b>100.00</b>

There were Nil holders of less than a marketable parcel of ordinary shares.

## **Additional Information for Listed Public Companies**

**31 December 2019**

### **Twenty largest shareholders**

	Ordinary shares	
	Number held	% of issued shares
INDOMINES LIMITED	57,859,220	22.86
PT SAS INTERNATIONAL	29,545,450	11.67
KYLE LARSON	28,929,610	11.43
RON LARSON	28,929,610	11.43
FIRST GUARDIAN SECURED CONVERTIBLE BOND FUND	22,252,207	8.79
NEAL WATMOUGH	5,680,000	2.24
DAVID MATHEWS	4,500,000	1.78
JAMES MIDGLEY		
<THE STOCKMANS INVESTMENT A/C>	4,000,000	1.58
INGHURILA PTY LTD		
<FRASER FAMILY A/C>	2,727,280	1.08
PETER VAN RATINGEN	2,500,000	0.99
DR CHRISTOPHER DAVID ATKINSON	2,003,160	0.79
EILEEN VAN RATINGEN	2,000,000	0.79
AEI AUSTRALIA PTY LTD		
<R G LADD S/F A/C NO 2>	2,000,000	0.79
SONDANCE PTY LTD		
<JOLPET A/C>	2,000,000	0.79
FALCON CAPITAL LIMITED		
<FG EMERGING COMPANIES A/C>	1,900,000	0.75
DAVID MATTHEWS	1,818,190	0.72
SALMON FAMILY HOLDINGS		
<SUPER FUND A/C>	1,450,000	0.57
JOHN L ANDE		
<J L ANDERSON & ASSOC SF A/C>	1,363,640	0.54
MR CHRISTOPER RICHARD JUN CARTER	1,215,310	0.48
MR ADAM THOMAS LEONARDI		
<AT LEONARDI SUPER FUND A/C>	1,100,000	0.43
CREST INNOVATIONS PTY LTD	909,100	0.36
SIMON SELIMAJ	909,100	0.36
MALL SERVICES PTY LTD	909,100	0.36
YONG GUANG LIU	909,100	0.36
ASCENDANT SC PTY LTD		
<ASCENDANT SC A/C>	909,100	0.36
TOSIN CAPITAL PTY LTD		
<VIATICUS A/C>	909,100	0.36
MALLEE DOWNS COMPANY PTY LTD		
<SALMON FAMILY HOLD S/F A/C>	909,100	0.36
DAVID NIGEL TATLOW & CAROLYN JEAN TATLOW		
<DAVID AND CARRIE TATLOW S/F A/C>	909,100	0.36
MR BASTIAN MICHAEL SAGILD	890,190	0.35
DANIEL EDWARD POWELL & JOANNE MARY POWELL		
<D & J POWELL SUPER FUND A/C>	800,000	0.32

### **Unissued equity securities**

There are 22 holders of unquoted convertible notes

### **Securities exchange**

**SAPEX Group Limited**

## **Additional Information for Listed Public Companies**

**31 December 2019**

The Company is listed on the National Stock Exchange of Australia.