



Synertec Corporation Limited

ARBN 161 803 032

**ASX Listing Rule 4.3A.
Appendix 4E Statement
Preliminary Final Report**

**For the Year Ended
30 June 2022**

Current Reporting Period: Year Ended 30 June 2022
Previous Corresponding Period: Year Ended 30 June 2021

1. Company details

Name of entity:	Synertec Corporation Limited
ARBN:	161 803 032
Reporting period:	For the year ended 30 June 2022
Previous period:	For the year ended 30 June 2021

This Appendix 4E Preliminary Final Report presents the results of Synertec Corporation Limited (the 'Company') and the entities it controlled at the end of, or during, the financial year ended 30 June 2022 (together referred to as the 'Group').

Additional Appendix 4E disclosure requirements and further information including commentary on significant features of the operating performance, results of segments, trends in performance and other factors affecting the results for the financial year are included in the Comments – Review of Operations, Preliminary Final Report and the accompanying ASX Release ('FY22 Key Achievements & Preliminary Financial Results').

2. Results for announcement to the market

	30 June 2022	30 June 2021	Up/ Down	Change	Change
	\$	\$		\$	%
Revenues from ordinary activities	12,088,794	8,435,690	Up	3,653,104	43%
Loss from ordinary activities after tax attributable to the owners of Synertec Corporation Limited	(3,981,234)	(3,350,996)	Down	(630,238)	19%
Loss for the period attributable to the owners of Synertec Corporation Limited	(3,981,234)	(3,350,996)	Down	(630,238)	19%

Comments – Review of Operations

Profit and Loss Performance

Summary Profit & Loss Performance	FY22 (\$'000s)	FY21 (\$'000s)	\$ Change (\$'000s)	% Change
Total Revenue & Other Income	12,089	8,436	Up 3,653	Up 43%
Engineering Consultancy Services Revenue	8,848	4,697	Up 4,151	Up 88%
Adjusted EBITDA before R&D activities	(1,364)	(2,205)	Up 841	Up 38%
Adjusted EBITDA	(2,720)	(2,205)	Down 515	Down 23%
EBITDA	(3,475)	(1,765)	Down 1,710	Down 97%
Adjusted Net Profit / (Loss) After Tax	(3,016)	(3,372)	Up 356	Up 11%
Net Profit / (Loss) After Tax	(3,981)	(3,351)	Down 630	Down 19%

Synertec generated external revenue and other income for the year ended 30 June 2022 ("FY22", or "year") of \$12.1 million, up 43% on the prior comparable period ("pcp") (30 June 2021: \$8.4 million). This result was underpinned by strong growth in the engineering consultancy services revenue category, which generated \$8.8 million of revenue at further improved gross margins from prior years, an increase of 88% on pcp (30 June 2021: \$4.7 million).

The Board assesses the underlying performance of the business based on measures of Adjusted EBITDA which exclude the effect of non-operating and non-recurring items. Outlined below is an analysis of Adjusted Earnings Before Income Tax Depreciation Amortisation ('EBITDA') and Adjusted Net Profit After Tax ('NPAT') in the current period which is calculated after excluding the effects of costs incurred and subsidies received but not related to underlying operations or expected to occur in the future.

The Adjusted EBITDA was a loss of \$2.7 million (30 June 2021: \$2.2 million loss). Adjusted EBITDA excludes costs which are discretionary for the purposes of exploring strategic long term strategic growth opportunities and/or activities and expenses which are not considered to be typical annual operational overheads for the business. Such items include corporate development costs of \$0.2 million (30 June 2021: \$0.6 million), share-based payments of \$0.4 million approved by the Company's shareholders at the 2021 Annual General Meeting (30 June 2021: \$nil), redundancy payments of \$0.1 million (30 June 2021: \$nil) and Federal Government JobKeeper payments which were nil in the year (30 June 2021: \$1.0 million).

Note; COVID-19 impacts are reflected in Adjusted EBITDA only by the exclusion of government subsidies, with no attempt to include a corresponding adjustment for the abnormal (but difficult to measure) reduction in revenue and increase in costs which has continued throughout the current year with Government-imposed public lockdowns and workplace restrictions continuing during the year.

On a like-for-like basis between the two years, excluding technology Research and Development ('R&D') costs and income, the Adjusted EBITDA for the year is a loss of \$1.4 million (30 June 2021: \$2.2 million loss). While the degree of technology investment was in line with expectations announced by the Company earlier in the year, the Powerhouse development timeframe was accelerated with most of the anticipated outlay condensed into FY22.

Included in the Adjusted EBITDA is applicable technology R&D costs of \$2.6 million, primarily for development of the Powerhouse technology, which made a significant advancement during the year progressing from concept to site-commissioned. These costs have been expensed for tax and accounting purposes (30 June 2021: nil), enabling the Group to achieve maximum tax credits for this expenditure which are expected to be refunded in cash to the Group following lodgement of its annual income tax return. The anticipated tax refund receivable which has been recognised is \$1.1 million (30 June 2021: nil).

The Company is extremely pleased with the outcome of the Powerhouse technology development effort during the year and pleased to report that it has continually met its ambitious schedule of key milestones.

The result from operations before tax was a loss of \$4.0 million (30 June 2021: \$2.3 million loss) and the result after tax (NPAT) was also a net loss of \$4.0 million (30 June 2021: \$3.4 million loss). The table below shows how FY22 and FY21 NPAT compare, allowing for items unique to the respective periods:

	FY22 (\$'000s)	FY21 (\$'000s)	Variance (\$'000s)
Net Profit / (Loss) After Tax	(3,981)	(3,351)	(630)
JobKeeper Payments	-	(995)	995
Write-down of Deferred Tax Asset	-	1,063	(1,063)
Technology R&D Expenditure eligible for R&D credits	2,558	-	(2,558)
R&D credit from Technology development	(1,202)	-	1,202
Share Based Payments	383	-	(383)
Redundancy Payments	56	-	56
Comparable Net Profit / (Loss) After Tax	(2,186)	(3,283)	Up 1,097

Segment Performance

Since 1 July 2021, as announced by the Company during the year, the Group restructured the business to form two key areas of operation, being Engineering Solutions ('Engineering') and Technology and Future Business ('Technology'). These two divisions/segments are managed separately as each requires different skills, technologies, marketing approaches and other resources. This is the basis on which information is internally provided to the Chief Operating Decision Makers ('CODMs') for assessing performance and making operating decisions. All inter-segment transfers are conducted at arm's length prices based on prices charged to customers in stand-alone sales of identical goods or services.

The Corporate area of the Group, which is primarily a cost centre, includes the Board and Executives which oversee the function and strategic direction of Engineering and Technology, as well as the governance and operation of the public ASX-listed head company, Synertec Corporation Limited. The activities of the head company include governance oversight, corporate development, investor relations and other functions associated with the operation, governance and regulatory compliance of the Group's head company.

FY22	Engineering	Technology	Corporate	Total	Inter-segment	External sources
	(\$'000s)	(\$'000s)	(\$'000s)	(\$'000s)	(\$'000s)	(\$'000s)
Revenue & Other Income	13,106	1,202	-	14,308	2,219	12,089
Segment Adjusted EBITDA	(201)	(1,988)	(805)	(2,994)	274	(2,720)
Net Profit / (Loss) After Tax	(982)	(1,759)	(1,240)	(3,981)	-	(3,981)

Total revenue for the Engineering business grew by 56% on pcp (30 June 2021: \$8.4 million). This includes services and materials provided to the Technology business of \$2.2 million (30 June 2021: nil) contributing to the development of the Group's three key environmentally friendly technology solutions to help global industry transition to a low carbon future and reduce its environmental footprint. All inter-segment services and materials are conducted at arm's length prices based on prices charged to customers in stand-alone sales of identical goods or services.

Synertec's Engineering business strengthens and protects important technology intellectual property development, which would otherwise be sourced through external service providers. It is an efficient and commercial relationship between the businesses which enables the Group to prioritise and focus on its growth-leading technology development and effectively accelerate the technology commercialisation process.

As a result of the continued change in mix of revenues in the Engineering business over the past three years from predominantly fixed price solutions to consultancy services, Engineering gross margins have continued to strengthen. During the Period, the gross margin increased a further 4 percentage points, which was in line with budgeted expectations and is double the gross margin achieved in the financial year prior to COVID-19 (FY19).

Engineering segment adjusted EBITDA is a loss of \$0.2 million (30 June 2021: \$0.3 million loss), a 35% improvement on the prior year. The Engineering business is now strongly positioned to be self-sustainable and prepared for further growth going forward. Further commentary on the annual performance and highlights for the Engineering business is provided below.

Technology income includes \$1.2 million (30 June 2021: nil) in Research and Development tax credits receivable under the federal government's Research and Development Tax Incentive program (R&DTI). Associated Research and Development ('R&D') costs of \$2.5 million (30 June 2021: nil) have been expensed as incurred.

Capital Management

Balance Sheet	FY22 (\$'000s)	FY21 (\$'000s)	\$ Change (\$'000s)		% Change	
Total Assets	10,903	8,228	Up	2,675	Up	33%
Cash at Bank	4,121	2,626	Up	1,495	Up	57%
Net Assets	5,161	2,096	Up	3,064	Up	146%
Current Ratio (Current Assets / Current Liabilities)	2.1 times	1.6 times	Up	0.5 times	Up	31%

Total Assets of \$10.9 million (30 June 2021: \$8.2 million) and Net Assets of \$4.1 million (30 June 2021: \$2.6 million) includes cash of \$4.1 million (30 June 2021: \$2.6 million). The increase in net assets reflects the Company's stronger cash balance driven by the successful share placement ('Placement') completed in August 2021 (refer below for further commentary on this), improved net working capital position from substantial growth in Engineering business activity, as well as the anticipated cash refund of eligible R&D credits related to FY22 technology development of \$1.1 million (30 June 2021: \$nil).

Synertec continues to operate with no working capital debt or covenants from its bank.

Cash Flow	FY22 (\$'000s)	FY21 (\$'000s)	\$ Change (\$'000s)		% Change	
Cash receipts from customers	11,824	8,941	Up	2,884	Up	32%
Net cash used in operating activities before COVID deferred payments related to prior years	(4,256)	(358)	Down	3,898	Down	1090%
Net cash used in/from operating activities	(4,826)	(358)	Down	4,468	Down	1250%
Net increase in cash	1,495	(414)	Up	1,909	Up	461%

Cash receipts from customers was \$11.8 million (30 June 2021: \$8.9 million), up 33% on pcq and debtor-days remain within the Group's 30-40 day target range. The Company continues to manage cash prudently and maintains a strong working capital and liquidity position. The Company invested \$2.6 million in technology R&D activities primarily for development of the Powerhouse and LNG Custody Transfer System ('CTS') products.

The overall net cash flow for the year was an increase in cash held of \$1.5 million. This included net proceeds of \$6.6 million from an oversubscribed Placement conducted in August 2021. The Placement of 71.4 million new shares at an issue price of \$0.10 per share represented a 9% discount to the last closing price and 5-day VWAP.

Net proceeds from the Placement have been principally used to provide balance sheet support to fund current growth initiatives within the Company's Technology business, and its rapidly growing portfolio of engineering solutions with its many Tier-1, 'blue-chip' customers. The Placement was corner-stoned by high quality institutional investors, Perennial Value Management and SG Hiscock, proving a strong endorsement for the Company and its ESG technology-led growth strategy.

The net operating cash outflow of \$4.8 million (30 June 2021: \$0.4 million outflow) comprised net cash used in operations as follows:

FY22	Engineering (\$'000s)	Technology (\$'000s)	Corporate (\$'000s)	Total (\$'000s)
Net cash used in operations	(622)	(301)	(601)	(1,524)
COVID deferred payments related to prior years	(570)	-	-	(570)
Net cash used in R&D activities	-	(2,470)	-	(2,470)
Corporate development activities	-	-	(262)	(262)
Net operating cash flows	(1,192)	(2,771)	(863)	(4,826)

The net cash flows from operating activities during the year do not include any JobKeeper payments, unlike the pcg (30 June 2021: \$1 million). The Group continues to avail of COVID-19 relief measures offered by both Federal and State Governments during 2020 for the deferral of payroll tax for FY21 and the ability to defer and spread Pay-As-You-Go ("PAYG") and Business Activity Statement ("BAS") payments related to the period April 2020 to September 2020 across 36 months with no interest or penalties. Synertec accepted these offers and accrued the costs accordingly in the FY20 and FY21 results and set aside the entire cash requirements for these commitments which it is currently fulfilling.

These payments during the year amounted to \$0.6 million (30 June 2021: nil). The deferred payments to the Victorian State Government for FY21 payroll tax have been fully paid.

As noted above, the degree of technology investment was in line with expectations announced by the Company earlier in the year, however the Powerhouse development timeframe was accelerated with most of the anticipated cash outlay condensed into FY22.

The Engineering business had approximately \$0.5 million of the total \$1.3 million in contract assets (work in progress) at year end which it carried over a large portion of the year until key project milestones were achieved in the month subsequent to year end and this was invoiced accordingly. Delays on these project milestones were caused mainly due to COVID-19 impacts and the inability for customers and Synertec personnel to attend sites for commissioning activities.

The Company remains focused on moving both the Technology and Engineering businesses towards consistent positive operating cash flow.

Operations

Technology Business

Synertec's Technology Business continues to progress its three key environmentally friendly technology solutions to help the global energy industry transition to a low carbon future and reduce its environmental footprint. Synertec is committed to being an impact investment for shareholders and local communities, and to ensuring the Company is supporting its partners in the collective endeavour to improve ESG performance.

Powerhouse

The Powerhouse system involves a combination of an easily deployable industrial-scale solar panel array, battery storage, and sophisticated predictive algorithms in a complex control system to optimise the generation and consumption of renewable electricity without the need for a back-up power source like hybrid renewable solutions which rely on diesel or gas powered generators, or mains grid power.

During the year, Synertec entered into a Memorandum of Understanding (“MOU”) with leading independent energy producer Santos Limited (ASX:STO, “Santos”) to progress the Company’s Powerhouse technology (“Powerhouse”) which centres around the design, construction and field testing of an innovative Artificial Intelligence (AI)-driven sustainable solar renewable energy and battery power system for remote-site application. The system employs sophisticated AI and predictive analytics to optimise energy efficiency and industrial-scale power delivery.

During the course of the year, despite challenging global supply-chain and pandemic conditions, the Group is pleased to report that it swiftly advanced Powerhouse from concept to a commercial-scale commissioned prototype in the field, undergoing site testing. Powerhouse is also connected to the Santos SCADA system, allowing for remote monitoring and operability by each of the parties.

Further to this, as publicly announced, the Company progressed its commercial terms with Santos from MOU to executing a General Services Contract (“GSC”) between the parties, and a Work Order for the Powerhouse prototype. The Santos GSC forms the basis of any future deployments as the substantive contract conditions are agreed thereby allowing for potential accelerated roll-out of Powerhouse units in the future. The parties continue to work together towards commercial terms beyond the prototype on a case-by-case basis.

Synertec continues to see significant opportunities for this technology for remote locations across the energy and resources industries, both nationally and globally, and will continue to progress and prove the technology over the coming year. Following the success of factory testing and agreeing commercial terms for prototype, Synertec started to explore the potential for Powerhouse to be more broadly applied in Australia and the USA given the strong market interest in this technology solution.

As a result, Synertec has focused on the United States market, with a significant near-term development being the announcement on 8 August 2022 of the passing of the US Inflation Reduction Act through the US Senate, committing \$US369 billion (A\$528 billion) over 10 years, including tax credits for clean energy technology development that will help with the high upfront costs, a new “clean energy technology accelerator” which will be created to help advance renewable technologies and investment to build clean technology manufacturing facilities.

Custody Transfer System (CTS)

During the year, world-leading independent certification body DNV approved Synertec’s marine Custody Transfer System for installation on LNG vessels. DNV is the world’s leading Classification Society and a recognised advisor to the maritime industry, which provides certification services based on established standards and criteria for multiple sectors including the maritime industry, oil and gas and renewable energy.

Synertec also announced during the year that it is partnering with GasLog on the development of Synertec’s CTS technology. European-based GasLog is amongst the largest independent owners, operators and managers of LNG vessels in the world, with 36 vessels in its fleet, all managed 100% in-house. Previously listed on the New York Stock Exchange, GasLog recently merged with Blackrock’s Global Energy & Power Infrastructure Team which is focused on essential, long-term infrastructure investments in the energy and power sector. GasLog is also active in the floating terminals business.

In July 2021, GasLog signed a Heads of Agreement with Venice Energy to negotiate the charter of an LNG Floating Storage and Regasification Unit (FSRU) for the Outer Harbour LNG Import Project in Port Adelaide, South Australia. Synertec was engaged to perform Front End Engineering Design (FEED) work for the project consortium. Gaslog is also a shareholder and appointed operation and maintenance contractor for Gastrade who is developing Floating Storage and Regasification Units (“FSRU”) in Europe for which Synertec is positioning as a key technology supplier.

Composite Dry Powder (CDP)

During the year, Synertec and GreenTech entered into a perpetual, exclusive and royalty-free Intellectual Property Licence Agreement ("Licence Agreement"), providing Synertec with the right to use GreenTech's Composite Dry Power ("CDP") technology. The Licence Agreement replaced an existing arrangement between the two parties that was due to expire in September 2022.

At the time of entering the Licence Agreement, Synertec paid an upfront Licence fee to GreenTech by extinguishing \$0.6 million of the \$0.8 million secured loan to GreenTech, with GreenTech repaying the remaining balance of \$0.2 million plus interest. The Licence fee and associated costs incurred during the year of \$0.2 million in securing the Licence Agreement were capitalised as part of the intangible asset of \$0.8 million recognised in the balance sheet and will be amortised over 3 years.

With the Licence Agreement in place, the Company is now looking to commercialise CDP across some of the world's largest hydrocarbon markets including Australia, Canada, North America, Central America and South America. Field testing commenced during the year in Australia with local technology partners, Beneterra, and Synertec is currently seeking commercial opportunities.

The novel environmentally friendly and cost-effective CDP technology converts hydrocarbon drilling mud into a useful non-polluting by-product starting material with many potential applications including high strength construction materials such as bricks and road base. Conversion of drilling mud via the CDP process removes the need to transport waste mud to treatment facilities and/or landfill, whilst additionally reducing the quarrying of raw materials to produce construction products. The technology has wider applications, with potential use of CDP in mining tailings and sewage sludge to help further reduce the environmental impact of mining, tunnelling and waste treatment processes.

Engineering Business

The year delivered an increased pace in critical infrastructure planning and expenditure across Australia, enabling Synertec's Engineering Business to continue to win new business in its target industries of critical infrastructure, energy, water and advanced manufacturing. During the year, Synertec was awarded various new contracts and existing contract extensions across these four key target sectors. Proportionality of revenue between these sectors has changed between FY21 and FY22. While in FY21 revenue was derived in almost four equal proportions of 25% each, in FY22 revenue was more weighted to Water (36%) and Critical Infrastructure (31%). Advanced Manufacturing (23%), where Synertec derived its niche expertise over 25 years ago and has applied this to its other target sectors, continues to be an important and relevant sector for Synertec's growth.

The Engineering business achieved stronger gross margins in FY22 (versus FY21) and has established a solid work in hand position, setting it on a path for self-sustainability. Some key awards received in the Engineering business during the year include;

- Engineering services to a new client in support of the development of a new green ammonia facility;
- Additional projects with existing client, APA, responding to the need to increase gas supply within Victoria;
- Additional scope with existing client, Beon Energy, for solar power projects in major water utilities;
- Engineering services for a water utility treatment plant system upgrade with John Holland/KBR JV;
- Additional contracts and Master Services Agreements ("MSAs") with long-time customers, CSL Limited, Pfizer and Aspen Pharmacare, to provide important Project Management, Automation, Validation and Design support to several of their critical pharma advanced manufacturing projects.

A significant additional engagement with Metro Trains Melbourne was also signed and announced by the Group during the year for the provision of services with an estimated price of circa \$3 million, with provision for scope extensions, and a completion date of December 2024. This important contract will see Synertec deliver the Control and Monitoring System for the Metro Tunnel Project (“MTP”).

The \$11 billion-dollar MTP is one the largest infrastructure projects in Victoria. Synertec was awarded contract for works to design and supply the Control and Monitoring System to allow the safe and reliable operation of the new Metro Tunnel. Synertec has a strong rail industry reputation having already delivered several projects including critical safety systems on the existing underground rail loop.

Despite the growing global challenges resulting from the COVID-19 pandemic, including exceptionally strong ongoing demand for localised labour and the resulting substantial increase in labour and recruitment costs, the Company was able to significantly grow its team of highly skilled and talented people across the year to approximately 90 people, including almost 60 full time equivalent engineers, project managers and related professionals. This represents the largest workforce in the company’s history, and almost doubles billable capacity from the prior year (which is reflected in the increase of 88% to Engineering Consultancy Services revenue of \$8.8 million (30 June 2021: \$4.3 million).

To accommodate this, during the year the Company invested in further Human Resource (“HR”), recruitment and team management capability, including the introduction of a General Manager of Engineering, to ensure its talented people are suitably developed, performing and retained. The Engineering business also restructured to a smaller team-based approach to ensure its people receive the development opportunities they require to grow and deepen the Company’s valuable expertise, as well as improve retention of talent. Synertec is well placed and continues to further expand its engineering team to support new and expanded engagements, as well as the growing Technology arm of the Group.

ESG Reporting

Synertec is committed to building its Environmental, Social, and Governance (“ESG”) credentials. The Company is making regular ESG disclosures against the World Economic Forum (“WEF”) Stakeholder Capitalism framework. The WEF framework is a set of common metrics for sustainable value creation captured in 21 core ESG disclosures.

Synertec uses this universal ESG framework to align mainstream reporting on performance against ESG indicators. By integrating ESG metrics into governance, business strategy, and performance management process, the Company diligently consider all pertinent risks and opportunities in running our business.

The Company’s progress toward making disclosures under the four pillars of the WEF ESG framework (Governance, Planet, People, and Prosperity) is captured in the regular “ESG Go” report.

Synertec’s ESG activity summary for the year is as follows:

- Delivery of the Company’s first annual ESG Report (to be included in the 2022 Annual Report).
- Sustainability integrated into company strategy and values: the Environment, Social and Governance (ESG).
- The Board skills matrix was reviewed and approved and incorporates ESG competencies.
- The website has been expanded to include;
 - An Environmental, Social and Governance page declaring Synertec’s commitment to the framework;
 - Expanded biographies of the Directors and their relevant experience; and
 - ISO accreditations in Quality (ISO 9001), Occupational Health & Safety (ISO 45001) and Environment (ISO 14001).
- Risk management systems have been reviewed for inclusion of ESG factors.
- Synertec has introduced, commenced and implemented ESG values and guidelines and structuring at Board level.
- The company commenced inducting new employees under ESG guidelines and framework.
- Synertec has partnered with Social Traders and is developing and reviewing its social enterprise procurement strategy to ensure it is embedded firmly across the Group’s businesses.

Outlook

Synertec's is well positioned to support the Company's technology-led growth strategy, including commercialising large near-term ESG-focused technology opportunities in the energy sector; while also growing out its high-end engineering solutions business.

Synertec will continue to progress its Powerhouse technology over the next year, with plans to complete field testing, achieve sign-off and reach commercial terms with Santos Limited for future systems. The Company has also begun exploring opportunities for Powerhouse with partners in the United States.

The Company will continue to collaborate with its technology partner, GasLog, to progress CTS opportunities led by the Outer Harbour project in Australia, and progress field testing of the CDP technology in Australia with its technology partners.

While COVID-19 and global economic and supply-chain challenges remain, demand for ESG-focused technologies and engineering solutions continues to grow, particularly around large infrastructure projects in the energy, rail and water sectors. Synertec will continue to invest in its people to drive continued growth in its technology and engineering consultancy services over the next year.

With the commercialisation of Powerhouse progressing, a strong pipeline of work in the engineering business and a portfolio of technologies that help the global transition to a low carbon future, Synertec is well positioned to deliver growth into FY23 and beyond.

Dividends

No dividends were declared, paid or recommended in respect of the current year (pcp: nil).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>0.01</u>	<u>0.02</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Details of associates and joint venture entities

Not applicable.

Name of associate / joint venture	Reporting entity's percentage holding		Contribution to profit/(loss) (where material)	
	Reporting period %	Previous period %	Reporting period \$'000	Previous period \$'000
There are no associates or joint venture entities.	-	-	-	-

7. Status of Audit

The Preliminary Final Report has been prepared in accordance with ASX Listing Rule 4.3A and has been derived from the unaudited Financial Report. The Financial Report is in the process of being audited and is expected to be made available by 30 September 2022.

8. Consolidated Statement of Profit and Loss and Other Comprehensive income

Refer to page 12 of this Report.

9. Consolidated Statement of Financial Position

Refer to page 13 of this Report.

10. Consolidated Statement of Changes in Equity

Refer to page 14 of this Report.

11. Consolidated Statement of Cashflows

Refer to page 15 of this Report.

12. Signed

Date: 29 August 2022

Mr. Michael Carroll
Managing Director
Melbourne, Australia

Synertec Corporation Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2022

<i>In Australian dollars</i>	<i>Note</i>	30 June 2022	30 June 2021
Revenue & other income			
Revenue	3	10,886,378	8,385,690
Other income	4	1,202,416	50,000
Total Revenue & other income		12,088,794	8,435,690
Expenses			
Materials and service expense		(1,222,623)	(1,809,131)
Employee benefit expenses		(9,676,081)	(6,056,366)
Depreciation and amortisation expense		(517,313)	(374,256)
Technology research and development costs		(2,531,213)	-
Business and corporate development expenses		(420,693)	(831,203)
Other expenses		(1,566,308)	(1,548,950)
Net interest expense		(135,797)	(104,149)
Total expenses		(16,070,028)	(10,724,055)
Loss before tax		(3,981,234)	(2,288,365)
Income tax expense		-	(1,062,631)
Loss after tax		(3,981,234)	(3,350,996)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(3,981,234)	(3,350,996)
Earnings per share (cents)			
Basic loss per share		(1.14)	(1.18)
Diluted loss per share		(1.11)	(1.18)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Synertec Corporation Limited
Consolidated Statement of Financial Position
As at 30 June 2022

In Australian dollars

	Note	30 June 2022	30 June 2021
Assets			
Cash and cash equivalents	5	4,120,753	2,625,853
Trade and other receivables		2,519,135	1,746,872
Contract assets		1,339,443	655,170
Other assets		513,924	1,276,628
Total current assets		8,493,255	6,304,523
Non-current assets			
Property, plant and equipment		1,788,498	1,923,555
Intangible assets	6	621,085	-
Total non-current assets		2,409,583	1,923,555
Total assets		10,902,838	8,228,078
Liabilities			
Trade and other payables		3,005,665	3,015,332
Employee benefits		855,427	677,758
Contract liabilities		50,053	201,109
Lease liabilities		86,985	96,581
Total current liabilities		3,998,130	3,990,780
Non-current liabilities			
Trade and other payables		151,241	504,166
Lease liabilities		1,431,459	1,499,459
Employee benefits		161,193	137,235
Total non-current liabilities		1,743,893	2,140,860
Total liabilities		5,742,022	6,131,640
Net assets		5,160,816	2,096,437
Equity			
Issued capital	7	8,518,510	2,097,506
Share option reserve	10	624,609	-
Retained earnings		(3,982,303)	(1,069)
Total equity		5,160,816	2,096,437

The above statement of financial position should be read in conjunction with the accompanying notes

Synertec Corporation Limited
Consolidated Statement of Changes in Equity
For the year ended 30 June 2022

In Australian dollars

	Issued capital	Share option reserve	Retained earnings	Total
	\$	\$	\$	\$
Balance at 1 July 2020	596,139	-	3,349,927	3,946,066
Issue of shares	1,608,412	-	-	1,608,412
Capital raising costs	(107,045)	-	-	(107,045)
Loss for the year	-	-	(3,350,996)	(3,350,996)
Total comprehensive income	-	-	(3,350,996)	(3,350,996)
Balance at 30 June 2021	2,097,506	-	(1,069)	2,096,437
Balance at 1 July 2021	2,097,506	-	(1,069)	2,096,437
Issue of shares	7,147,211	-	-	7,147,211
Capital raising costs	(726,207)	-	-	(726,207)
Employee share-based payments	-	382,609	-	382,609
Broker options on issue	-	242,000	-	242,000
Loss for the year	-	-	(3,981,234)	(3,981,234)
Total comprehensive income	-	-	(3,981,234)	(3,981,234)
Balance at 30 June 2022	8,518,510	624,609	(3,982,303)	5,160,816

The above statement of changes in equity should be read in conjunction with the accompanying notes

Synertec Corporation Limited
Consolidated Statement of Cash Flows
For the year ended 30 June 2022

In Australian dollars

	Note	30 June 2022	30 June 2021
Cash flows from operating activities			
Cash receipts from customers		11,824,270	8,940,522
Cash paid to suppliers and employees		(13,348,195)	(8,744,986)
Cash (used in)/generated from operations		(1,523,926)	195,536
Government grant received		88,426	-
Payments for R&D activities		(2,558,249)	-
Payments for corporate development activities		(261,940)	(554,074)
Repayment of COVID deferred payments relating to prior year		(570,390)	-
Interest received		-	933
Net cash used in operating activities	5A(i)	(4,826,079)	(357,605)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		-	18,182
Loan funds paid by/(to) technology partner		255,000	(849,189)
Payment for intangible asset associated costs		(176,705)	-
Purchase of property, plant and equipment		(196,628)	(437,493)
Net cash used in investing activities		(118,334)	(1,268,501)
Cash flows from financing activities			
Payments for capital raising costs		(484,207)	(107,045)
Proceeds from issue of shares		7,147,211	1,512,526
Repayment of finance lease liabilities		(223,691)	(193,521)
Net cash from financing activities		6,439,313	1,211,960
Net decrease in cash and cash equivalents		1,494,900	(414,145)
Cash and cash equivalent at beginning of the year		2,625,853	3,039,998
Cash and cash equivalents at end of the year		4,120,753	2,625,853

The above statement of cash flows should be read in conjunction with the accompanying notes

Synertec Corporation Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2022

1. Significant accounting policies

Synertec Corporation Limited (the 'Company') is a for-profit company, limited by shares, incorporated in Bermuda, and domiciled in Australia. The registered office and principal place of business of the Company is Ground Floor, 2-6 Railway Parade, Camberwell, Victoria, Australia, 3124.

The Preliminary Final Report (the 'Report') of the Company is for the year ended 30 June 2022 (the 'financial year') and comprises the Company and its controlled entities (together referred to as the 'Group'). The parent controls an entity if it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All controlled entities have a reporting date of 30 June. The comparative period is for the year ended 30 June 2021.

The Report, comprising the consolidated financial statements of the Group, is presented in Australian dollars and has been prepared;

- on the historical cost basis except for financial assets at fair value through other comprehensive income and certain financial liabilities which have been measured at fair value, as explained in the accounting policies;
- in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB); and
- in accordance with ASX Listing Rule 4.3A and disclosure requirements of ASX Appendix 4E.

This Report does not include all the notes of the type normally included in an annual financial report and should be read in conjunction with the annual Financial Report for Synertec Corporation Limited for the financial year ended 30 June 2021, the December 2021 half-year report (Appendix 4D Statement and Interim Financial Report) and any public announcements made by Synertec Corporation Limited during the year ended 30 June 2022 in accordance with the continuous disclosure requirements of the ASX Listing Rules.

The annual Financial Report of the Company is in the process of being audited and is expected to be made available by 30 September 2022.

The principal accounting policies adopted in the preparation of the financial report are consistent with those of the previous financial year with the exception of those discussed below.

Research and development tax credits

Research and Development ('R&D') tax credits relate to technology projects, for which eligible R&D activities are being undertaken. The federal government's Research and Development Tax Incentive program (R&DTI) offers a tax offset for companies conducting eligible R&D activities. Companies in a tax loss position are able to obtain a refund of the tax offset. When management is able to calculate a reasonable estimate of the R&DTI refund likely to be received for a financial year, that amount is recognised in the financial year to which the refund relates. When a reasonable estimate cannot be determined, income from the R&DTI refund is recognised when it is received.

The Group is eligible for a 43.5% refundable R&D tax offset on applicable R&D activities given that its aggregate turnover is less than \$50 million. The permanent tax benefit is currently 18.5% (FY21: 17.5%) of R&D expenditure and the timing benefit is 25% (FY21: 26%), which is equivalent to the Group's corporate tax rate. The Group has recognised the R&D credit on an accrual basis.

Intangible Assets

Licences

The Group acquired a licence for the use of intellectual property and is granted for an initial period of 3 years. In accordance with the terms of the Licence Agreement, Synertec will make additional consideration milestone payments of 2.5 million fully paid ordinary shares each (at an equivalent value of 10 cents per share) after 3 and 5 years respectively, based on licenced product (Composite Dry Powder) revenue hurdles of \$2 million by year 3 and \$5 million by year 5 being achieved.

As a result, the licence is amortised over 3 years.

There are no ongoing royalty fees associated with the Licence Agreement. The milestone licence fees will be accounted at cost at each milestone date, if achieved. They constitute contingent liabilities - refer to Note 11 of this Report.

2. Operating segments

Since 1 July 2021, as announced by the Company during the year, the Group restructured the business to form two key areas of operation, being Engineering Solutions ('Engineering') and Technology and Future Business ('Technology'). These two divisions/segments are managed separately as each requires different skills, technologies, marketing approaches and other resources. This is the basis on which information is internally provided to the Chief Operating Decision Makers ('CODMs') for assessing performance and making operating decisions. All inter-segment transfers are conducted at arm's length prices based on prices charged to customers in stand-alone sales of identical goods or services.

The segment disclosures are before corporate costs. The Corporate area of the Group, which is a cost centre, includes the Board and Executives which oversee the function and strategic direction of Engineering and Technology, as well as the governance, financing and operation of the public ASX-listed head parent company, Synertec Corporation Limited. The activities of the head company include governance oversight, finance and related affairs, corporate development, investor relations and other functions associated with the operation and regulatory compliance of the Group's head company.

It includes parent company costs and interest income and charges which are not otherwise allocated to operating segments as this type of activity is driven by the Group function, which manages the cash position, governance and compliance for the Group as a whole.

The Board assesses the performance of the operating segments based on a measure of Adjusted EBITDA, which excludes the effects of non-operating and non-recurring costs.

The revenues and profit generated by each of the Group's two key business segments and the Corporate division, and their respective segment assets and liabilities are summarised as follows:

Synertec Corporation Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2022

2. Operating segments (continued)

	1 July 2021 to 30 June 2022		
	Engineering	Technology	Total
Revenue and other income			
From external customers	10,886,378	-	10,886,377
From other segment ⁽¹⁾	2,219,359	-	2,219,359
Government incentives	-	1,202,416	1,202,416
Segment revenues and other income	13,105,737	1,202,416	14,308,152
Segment Adjusted EBITDA	(200,232)	(1,988,407)	(2,188,639)
Depreciation and amortisation	(359,097)	(158,215)	(517,312)
Redundancy payments ⁽²⁾	(55,846)	-	(55,846)
Share-based payments	-	(160,870)	(160,870)
Segment EBIT	(615,175)	(2,307,491)	(2,922,666)
Assets and liabilities			
Segment assets	6,180,767	4,553,649	10,734,417
Segment liabilities	5,247,029	236,483	5,483,513

- (1) The revenue recognised by the Engineering business includes the provision of services to the Technology business, primarily relating to the Powerhouse and CTS Technologies under development.
- (2) This relates to redundancy payments paid to the Chief Operating Officer, whose role was made redundant on 20 August 2021.

The totals presented for the Group's operating segments reconcile to the key financial figures as presented in its financial statements as follows:

	1 July 2021 to 30 June 2022
(i) Revenue and other income	
Total reportable segment revenues	14,308,152
Elimination of inter-segment revenues	(2,219,359)
	12,088,794
(ii) Segment operating profit/(loss)	
Segment EBIT	(2,922,666)
Elimination of inter-segment profits	274,038
Corporate expenses	(1,187,763)
Group operating loss	(3,836,391)
Finance income	539
Finance costs	(145,383)
Group loss before tax	(3,981,234)

Synertec Corporation Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2022

2. Operating segments (continued)

(iii) Segment assets

Segment assets

Corporate assets

Total assets

30 June 2022

10,734,417

168,421

10,902,838

(iv) Segment liabilities

Segment liabilities

Corporate liabilities

Total liabilities

5,483,513

258,509

5,742,022

3. Revenue

	30 June 2022	30 June 2021
Engineering services	8,847,611	4,696,765
Fixed price solutions	2,038,767	3,688,925
	10,886,378	8,385,690

4. Other income

	30 June 2022	30 June 2021
Government benefits – R&D tax credits	1,202,416	50,000
	1,202,416	50,000

Research and Development ('R&D') tax credits relate to technology projects, for which eligible R&D activities are being undertaken. The federal government's Research and Development Tax Incentive program (R&DTI) offers a tax offset for companies conducting eligible R&D activities. Companies in a tax loss position are able to obtain a refund of the tax offset. When management is able to calculate a reasonable estimate of the R&DTI refund likely to be received for a financial year, that amount is recognised in the financial year to which the refund relates. When a reasonable estimate cannot be determined, income from the R&DTI refund is recognised when it is received.

The Group is eligible for a 43.5% refundable R&D tax offset on applicable research and development activities given that its aggregate turnover is less than \$50 million. The permanent tax benefit is currently 18.5% (FY21: 17.5%) of R&D expenditure and the timing benefit is 25% (FY21: 26%), which is equivalent to the Group's corporate tax rate. The Group's taxable loss must be greater than R&D expenditure to access the full timing benefit. Given the Group's current tax loss position, the Group is entitled to a refundable benefit of 43.5% on all its eligible research and development expenditure.

The tax credits recognised for the period ended 30 June 2022 are expected to be refunded to the Group following lodgement of its annual income tax return.

Synertec Corporation Limited
Notes to the Preliminary Final
Report
For the year ended 30 June 2022

5. Cash and cash equivalents

	30 June 2022	30 June 2021
Bank balances	4,119,490	2,624,522
Cash on hand	1,263	1,331
Cash and cash equivalents	4,120,753	2,625,853

5A. Cash flow information

(i) Reconciliation of cash flows from operating activities

Cash flows from operating activities

Loss for the year	(3,981,234)	(3,350,996)
Adjustments:		
Depreciation and amortisation	517,313	374,256
Interest costs	135,797	104,149
Share-based payments	382,609	95,887
Loss on sale of property, plant and equipment	-	16,758
Tax expense	-	1,062,631
	(2,945,515)	(1,697,315)
Change in contract assets	(684,273)	731,741
Change in other assets	(694,151)	431,401
Increase in non-current assets	(776,705)	-
Change in trade and other receivables	705,540	(1,237,694)
Change in trade and other payables	(362,595)	1,013,716
Change in employee benefits	201,628	222,856
Change in finance liabilities	(77,596)	(3,729)
Change in contract liabilities	(151,056)	185,976
Cash used in operating activities	(4,784,724)	(353,049)
Interest paid net of interest received	(41,357)	(6,567)
Realised foreign currency gains	-	2,011
Net cash used in operating activities	(4,826,079)	(357,605)

Synertec Corporation Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2022

6. Intangible asset

Details of the Group's intangible asset and its carrying amount is as follows:

	Acquired Licence
Gross carrying amount	
Balance at 1 Jul 2021	-
Additions, separately acquired	600,000
Additions, associated costs capitalised	176,705
Disposals	-
Balance at 30 Jun 2022	776,705
Amortisation and impairment	
Balance at 1 Jul 2021	-
Amortisation	155,620
Impairment losses	-
Disposals	-
Balance at 30 Jun 2022	155,620
Carrying amounts	
at 1 Jul 2021	-
at 30 Jun 2022	621,085

As announced by the Company on the ASX on 24 November 2021, Synertec and its Composite Dry Powder ('CDP') technology partner, GreenTech, entered into a perpetual, exclusive and royalty-free Intellectual Property Licence Agreement ("Licence Agreement"), providing Synertec with the right to use GreenTech's CDP technology in the key global energy territories of the entire Americas, Canada, Australia and New Zealand. At the time of entering the agreement, the balance of the loan outstanding from GreenTech (\$800,000) plus interest accrued over the term of the facility (\$55,000), was repaid to Synertec as follows; \$255,000 cash, with the balance of \$600,000 offset as consideration for the licence payable by Synertec to GreenTech. The licence fee and costs directly attributable to obtaining the licence have been capitalised accordingly.

In accordance with the terms of the Licence Agreement, Synertec will make additional consideration milestone payments of 2.5 million fully paid ordinary shares each (at an equivalent value of 10 cents per share) after 3 and 5 years respectively, based on CDP revenue hurdles of \$2 million by year 3 and \$5 million by year 5 being achieved. There are no ongoing royalty fees associated with the Licence Agreement. The Milestone Licence fees will be accounted at cost at each Milestone date, if achieved. They constitute contingent liabilities. Refer to Note 11 of this Report.

The Licence fee and attributable costs will be amortised over 3 years, the initial exclusivity period of the Licence Agreement and based on the timeframes of the milestones. The carrying value of the Licence will be reviewed for impairment at the end of each reporting period.

The Licence has been assessed by the Group for impairment at 30 June 2022 based on the net present value of estimated future cashflows. Since its recoverable amount exceeds its carrying amount as at 30 June 2022, there is no indication of impairment.

Synertec Corporation Limited
Notes to the Preliminary Final Report
For the year ended 30 June 2022

7. Issued capital

	30 June 2022	30 June 2021	30 June 2022	30 June 2021
	Shares	Shares	\$	\$
Ordinary shares - fully paid	357,360,560	285,888,449	9,244,717	2,204,552
Capital raising costs	-	-	(726,207)	(107,045)
	357,360,560	285,888,449	8,518,510	2,097,506

In August 2021, Synertec undertook a share placement to various professional, sophisticated and institutional investors and successfully raised \$7.1 million (before costs) through a placement of 71,472,111 new fully paid ordinary shares at \$0.10 per share, which represented a 9% discount to the last closing price and 5-day VWAP at the time of the placement.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

8. Share based payments

During the year, at the Company's 2021 Annual General Meeting, shareholders approved the grant of unlisted options with a 1-year expiry to the Company's Independent Non-Executive Director, Board and Nomination and Remuneration Committee Chair, Mr. Dennis Lin (2,173,913 options, strike price \$0.023); and Executive Director, Chief Financial Officer and Company Secretary, Mr. David Harris (2,173,913 options, strike price \$0.023; and 2,173,913 options, nil strike price); for their contribution to the achievement of various strategic objectives over preceding periods.

During the year, at the Company's 2021 Annual General Meeting, shareholders approved the grant of 10,000,000 unlisted options with an exercise price of \$0.20 (a 100% premium to the share placement price of \$0.10) and term expiry of 3 years, to its Joint Lead Managers and Brokers in the share placement conducted by the Company in August 2021. As a result Taylor Collison's nominees received total of 6,000,000 options and PAC Partners nominees received a total of 3,500,000 options.

A professional independent valuation of the options has been performed by accounting and advisory firm, RSM Australia. The attributed equivalent value of this award is accounted for as a share-based payment and reflected in the employee benefits expense for the year ended 30 June 2022.

The fair value of share-based payment transactions was determined using a ESO2 trinomial valuation model. The model requires certain inputs in order to determine an appropriate fair value. These inputs include share price at grant date, risk free rate, volatility factor, exercise price, time to maturity and expected dividend yield.

Synertec Corporation Limited
Notes to the Appendix 4E
For the year ended 30 June 2022

The above fair value calculation was based upon the following inputs.

	Tranche 1	Tranche 2	Tranche 3
Grant date	16-Dec-21	16-Dec-21	16-Dec-21
Share price at grant date	\$0.075	\$0.075	\$0.075
Exercise price	Nil	\$0.023	\$0.20
Expiry Date	14-Jan-22	14-Jan-22	14-Jan-24
Expected Future Volatility	90%	90%	90%
Risk Free Rate	0.55%	0.55%	0.90%
Early Exercise Multiple	N/A	2.5x	2.5x
Dividend Yield	Nil	Nil	Nil

9. Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders of the Parent Company as the numerator.

In accordance with the principles of reverse acquisition accounting, the weighted average number of ordinary shares outstanding during the year ended 30 June 2022 has been calculated as:

- the weighted average number of ordinary shares of Synertec Pty Ltd outstanding during the period before acquisition multiplied by the exchange ratio established in the acquisition accounting, and
- the actual number of ordinary shares of Synertec Corporation Limited outstanding during the period after acquisition.

The basic earnings per share for the comparative period before the acquisition date presented in the consolidated statements following a reverse acquisition is calculated by dividing (a) by (b):

- the profit or loss of Synertec Corporation Limited attributable to ordinary equity holders of the Company in the period.
- Synertec Corporation Limited's historical weighted average number of ordinary shares outstanding multiplied by the exchange ratio established in the acquisition accounting.

In accordance with IFRS 33 'Earnings Per Share', as potential ordinary shares may only result in a situation where their conversion results in an increase in loss per share or decrease in profit per share from continuing operations, no dilutive effect has been taken into account.

Earnings per share

Loss after income tax (in Australian dollars)	(3,981,234)
Weighted average number of ordinary shares used in calculating basic earnings per share	348,940,558
Weighted average number of ordinary shares used in calculating diluted earnings per share	357,857,770
Basic loss per share (cents per share)	(1.14)
Diluted loss per share (cents per share)	(1.11)

30 June 2022

Synertec Corporation Limited
Notes to the Appendix 4E
For the year ended 30 June 2022

9. Earnings per share (continued)

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

10. Share option reserve

	30 June 2022	30 June 2021
Balance at 1 July 2021	-	-
Employee share-based payments	382,609	-
Broker options on issue	242,000	-
Balance at 30 June 2022	624,609	-

11. Contingent liabilities

The Group has potential contingent liabilities with respect to the perpetual and exclusive Intellectual Property Licence agreement ("Licence Agreement") with CDP technology partner, GreenTech.

The Licence Agreement is exclusive within the stated Territories, however if:

- on or before the date which is three years after the Commencement Date ("First Milestone Date"), Synertec has not received an amount of revenue equal to more than \$2 million from services or sales associated with the GreenTech IP within the Territories (or with the consent of GreenTech, from outside the Territories) ("First Milestone"); or
- on or before the date which is five years after the Commencement Date ("Second Milestone Date"), licence is still an exclusive licence and Synertec has not received an amount of revenue equal to more than \$5 million from services or sales associated with the GreenTech IP within the Territories (or with the consent of GreenTech, from outside the Territories) ("Second Milestone");

then GreenTech may convert the licence from an exclusive licence to a non-exclusive licence.

As additional consideration for the grant of the licence, Synertec will issue the following securities to GreenTech (or its nominee):

- 2.5 million fully paid ordinary shares in Synertec if the First Milestone is achieved by the First Milestone Date; and
- 2.5 million fully paid ordinary shares if the Second Milestone is achieved by the Second Milestone Date.

If a change of control of Synertec occurs, or if the milestone fees are unable to be paid by way of issue of shares in Synertec when payable, the milestone fees will be paid in cash in the amount of \$250,000 each.

12. Subsequent events

No matter or circumstance has arisen since 30 June 2022 that has significantly affected or may significantly affect the consolidated entity's operations, the results from those operations, or the consolidated entity's state of affairs in future years.