DownUnder GeoSolutions

**DOWNUNDER GEOSOLUTIONS (AUSTRALIA) PTY LTD**

ABN 99 169 944 334

# Consolidated Annual Financial Report

## 30 JUNE 2019

**Expressed in US dollars unless otherwise stated**

CONTENTS

| | |
|---|---|
| DIRECTORS | MATTHEW GORDON LAMONT<br>LOUISE ELIZABETH BOWER<br>TROY THOMPSON<br>CHARLES RAMSDEN (Non-Executive)<br>FRANK SCIARRONE (Non-Executive) |
| COUNTRY OF INCORPORATION | AUSTRALIA |
| COMPANY REGISTRATION NUMBER | 99 169 944 334 |
| LEGAL FORM | PROPRIETARY LIMITED COMPANY |
| REGISTERED OFFICE | 76 KINGS PARK RD<br>WEST PERTH WA 6005<br>AUSTRALIA |
| PRINCIPAL PLACE OF BUSINESS | 76 KINGS PARK RD<br>WEST PERTH WA 6005<br>AUSTRALIA |
| AUDITORS | MOORE STEPHENS WA<br>LEVEL 15, EXCHANGE TOWER<br>2 THE ESPLANADE<br>PERTH WA 6000 |

# DIRECTORS' REPORT

The directors hereby present their report together with the consolidated financial statements of the Group comprising of DownUnder GeoSolutions (Australia) Pty Ltd (the **Company**), and its subsidiaries for the financial year ended 30 June 2019 and the auditor's report thereon. The use of the words Company and Group are interchangeable for the purposes of this report and the financial report.

## 1 Directors

The directors of the Company at any time during or since the end of the financial year are as follows:

Matthew Gordon Lamont

Louise Elizabeth Bower

Troy Thompson

Charles Ramsden

Frank Sciarrone

## 2 Principal activities

The principal activity of the Group during the course of the financial year continued to be that of the provision of geoscience services and software to the oil and gas industry. During the year, the Group launched DUG McCloud providing DUG's seismic interpretation software package, compute and storage of data in the DUG Cloud. The Skybox data center was officially opened on the 16th May 2019.

There were no significant changes in the nature of the activity of the Group during the year.

## 3 Review of operations and results of those operations

The Group recorded a profit before interest and tax for the year ended 30 June 2019 of US$2,539,777 (30 June 2018 – loss of US$556,465 before interest and tax).

The Group recorded a net loss after tax of US$2,633,238 for the year ended 30 June 2019 (year ended 30 June 2018 net loss after tax of US$1,914,841).

Total assets increased by US$7,350,358 from last financial year primarily due to the additions in property, plant and equipment.

Total liabilities increased by US$9,702,991 mostly due to additional borrowings to fund the investment in property, plant and equipment.

## 4 Significant changes in the state of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the Group that occurred during the financial year under review.

## 5 New Accounting Standards Implemented

The Group has implemented AASB 15: Revenue from Contracts with Customers, which has come into effect and is included in the results. AASB 15: Revenue from Contracts with Customers has been applied using the cumulative effective method; that is, by recognising the cumulative effect of initially applying AASB 15 as an adjustment to the opening balance of equity at 1 July 2018. Therefore, the comparative information has not been restated and continues to be reported under AASB 118: *Revenue.*

The Group has implemented AASB 9: *Financial Instruments*, which has come into effect and is included in the results. Comparative amounts have not been restated as permitted by the transitional provisions of AASB 9 and continue to be reported under AASB 139: *Financial Instruments: Recognition and Measurement.*

## 6 Dividends

No dividends were declared after 30 June 2019 and up to the date of signing this report (year ended 30 June 2018: nil).

## 7 Events subsequent to reporting date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

## 8 Likely developments

Information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

## 9 Indemnification and insurance of officers and auditors

*Indemnification*

Since the end of the previous financial year, the Company has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an officer or auditor of the Group.

*Insurance premiums*

During the financial year the Company has paid premiums in respect of directors' and officers' liability for the year ended 30 June 2019. Such insurance contracts insure against certain liability (subject to specific exclusions) persons who are or have been directors or executive officers of the Group.

The directors have not included details of the nature of the liabilities covered or the amount of the premiums paid in respect of the directors' and officers' liability as such disclosure is prohibited under the terms of the contract.

## 10 Proceedings on behalf of the Company

DownUnder GeoSolutions Pty Ltd (DUG) and DownUnder GeoSolutions (Asia) Sdn Bhd (DUG Asia) are defendants to proceedings in the Federal Court of Australia brought by PGS Australia Pty Ltd. Those proceedings, which were commenced against DUG in December 2018 and to which DUG Asia were joined in June 2019, involve allegations of patent infringement being made against DUG and DUG Asia in relation to the processing of seismic data acquired in the course of three maritime surveys. DUG and DUG Asia have challenged the validity of the two patents registered in the name of PGS which are relevant to the proceedings by way of cross-claim.

Other than the court proceedings outlined above, no person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not party to any other proceedings during the financial year ended 30 June 2019, other than the proceeding described above.

## 11 Auditor's independence declaration

The Lead auditor's independence declaration is set out on page 10 and forms part of the directors' report for the financial year ended 30 June 2019.

Dated at Perth this 1st October 2019.

Signed in accordance with a resolution of the directors.

**Frank Sciarrone**
***Director***

**Matthew Gordon Lamont**
***Director***

## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of DownUnder GeoSolutions (Australia) Pty Ltd (the Company), the directors of the Company declare that:

The financial statements and notes, as set out on pages 11 to 59, are in accordance with the *Corporations Act 2001* and:

a comply with Australian Accounting Standards, which, as stated in accounting policy Note 6 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and

b give a true and fair view of the financial position as at 30 June 2019 and of the performance for the year ended on that date of the consolidated group.

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.

Dated at Perth this 1st October 2019.

Signed in accordance with a resolution of the directors.

**Frank Sciarrone**
***Director***

**Matthew Gordon Lamont**
***Director***

MOORE STEPHENS

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**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF**
**DOWNUNDER GEOSOLUTIONS (AUSTRALIA) PTY LTD**

## Opinion

We have audited the financial report of DownUnder GeoSolutions (Australia) Pty Ltd (the Company) and Controlled Entities (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of DownUnder GeoSolutions (Australia) Pty Ltd is in accordance with the *Corporations Act 2001*, including:

i. giving a true and fair view of the group's financial position as at 30 June 2019 and of its performance for the period then ended; and

ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

## Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with 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.

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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

## Responsibilities of the Directors for the Financial Report

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

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

**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF**
**DOWNUNDER GEOSOLUTIONS (AUSTRALIA) PTY LTD (CONTINUED)**

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

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standard Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our audit report.

| | |
|---|---|
| SHAUN WILLIAMS | MOORE STEPHENS |
| PARTNER | CHARTERED ACCOUNTANTS |

Signed at Perth this 1st day of October 2019.

MOORE STEPHENS

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**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001* TO THE DIRECTORS OF DOWNUNDER GEOSOLUTIONS (AUSTRALIA) PTY LTD AND ITS CONTROLLED ENTITIES**
**ABN 99 169 944 334**

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

a) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit, and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

| | |
|---|---|
| SHAUN WILLIAMS | MOORE STEPHENS |
| PARTNER | CHARTERED ACCOUNTANTS |

Signed at Perth this 1st day of October 2019.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
### As at 30 June 2019

| | Note | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | *13* | 1,987,849 | 1,878,522 |
| Trade and other receivables | *14* | 10,253,451 | 8,845,048 |
| Prepayments | | 1,105,219 | 1,017,846 |
| Contract assets | *15* | 761,012 | 2,803,412 |
| Other current assets | *16* | 1,236,240 | 1,148,383 |
| **Total current assets** | | **15,343,771** | **15,693,211** |
| Deferred tax assets | *12* | 3,232,039 | 4,174,386 |
| Property, plant and equipment | *18* | 26,888,879 | 18,060,863 |
| Intangible assets | *19* | 375,124 | 559,536 |
| Other assets | *20* | 874,227 | 875,686 |
| **Total non-current assets** | | **31,370,269** | **23,670,471** |
| **Total assets** | | **46,714,040** | **39,363,682** |
| **LIABILITIES** | | | |
| Trade and other payables | *21* | 6,021,837 | 3,881,690 |
| Loans and borrowings | *23* | 2,502,845 | 4,633,227 |
| Current tax liabilities | | 23,192 | (122,712) |
| Provisions | *22* | 1,634,613 | 1,583,025 |
| **Total current liabilities** | | **10,182,487** | **9,975,230** |
| Trade and other payables | *21* | 1,994,699 | 2,156,292 |
| Loans and borrowings | *23* | 22,038,334 | 12,452,363 |
| Provisions | *22* | 261,936 | 190,580 |
| Deferred tax liabilities | *12* | - | - |
| **Total non-current liabilities** | | **24,294,969** | **14,799,235** |
| **Total liabilities** | | **34,477,456** | **24,774,465** |
| **Net assets** | | **12,236,584** | **14,589,217** |
| **EQUITY** | | | |
| Share capital | *24* | 5,477,686 | 5,353,963 |
| Reserves | *24* | (1,283,818) | (1,440,700) |
| Retained earnings | | 8,042,716 | 10,675,954 |
| **Total equity** | | **12,236,584** | **14,589,217** |
| **Equity split as follows:-** | | | |
| Equity attributable to equity holders of the parent | | 12,253,323 | 14,605,117 |
| Non-controlling interest | | (16,739) | (15,900) |
| **Total equity** | | **12,236,584** | **14,589,217** |

*The consolidated statement of financial position is to be read in conjunction with the notes to the consolidated financial statements set out on pages 16 to 59.*

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### For the year ended 30 June 2019

| | Note | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|---|
| **Sales revenue** | *7* | **52,134,877** | **48,900,590** |
| **Income/(Expenses)** | | | |
| Depreciation and amortisation | *18&19* | (7,292,515) | (8,342,125) |
| Employee benefits | *11* | (29,647,580) | (28,880,613) |
| Other income | *9* | 72,821 | 228,246 |
| Other expense | *9* | (12,727,826) | (12,462,563) |
| **Operating (loss)/profit** | | **2,539,777** | **(556,465)** |
| Finance income | | 65,465 | 48,749 |
| Finance expense | | (951,192) | (948,261) |
| **Net finance expense** | *8* | **(885,727)** | **(899,512)** |
| (Loss) / Profit before tax | | 1,654,050 | (1,455,977) |
| Tax expense | *12* | (4,287,288) | (458,864) |
| **(Loss) / Profit for the year** | | **(2,633,238)** | **(1,914,841)** |
| **Attributable to:** | | | |
| Equity holders of the parent | | (2,632,399) | (1,920,395) |
| Non-controlling interest | | (839) | 5,554 |
| | | **(2,633,238)** | **(1,914,841)** |
| **OTHER COMPREHENSIVE INCOME** | | | |
| **Items that may be reclassified to profit or loss:** | | | |
| Foreign currency translation differences | | - | - |
| Related tax | | - | - |
| | | **-** | - |
| **Total comprehensive (loss)/income** | | **(2,633,238)** | **(1,914,841)** |

*The consolidated statement of comprehensive income is to be read in conjunction with the notes to the consolidated financial statements set out on pages 16 to 59.*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### For the year ended 30 June 2019

| 30-Jun-19 | Note | Share capital US$ | Translation reserve US$ | Share based payment reserve US$ | Retained earnings US$ | Total US$ | Non-controlling interests US$ | Total equity US$ |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 July 2018** | | **5,353,963** | **(2,177,382)** | **736,570** | **10,691,966** | **14,605,117** | **(15,900)** | **14,589,217** |
| Profit for the year | | - | - | - | (2,632,399) | (2,632,399) | (839) | (2,633,238) |
| Foreign currency translation differences - net | *24* | - | - | - | - | - | - | - |
| **Total comprehensive income for the year** | | - | - | - | (2,632,399) | (2,632,399) | (839) | (2,633,238) |
| **TRANSACTIONS WITH EQUITY HOLDERS** | | | | | | | | |
| Share issue during the year | *24* | 123,723 | - | - | - | 123,723 | - | 123,723 |
| Dividends paid | *25* | - | - | - | - | - | - | - |
| Share based payments recognised | *24* | - | - | 156,882 | - | 156,882 | - | 156,882 |
| **Total transactions with equity holders** | | 123,723 | - | 156,882 | - | 280,605 | - | 280,605 |
| **Balance at 30 June 2019** | | **5,477,686** | **(2,177,382)** | **893,452** | **8,059,567** | **12,253,324** | **(16,739)** | **12,236,584** |

*The consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated financial statements set out on pages 16 to 59.*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### For the year ended 30 June 2019

| 30-Jun-18 | Note | Share capital US$ | Translation reserve US$ | Share based payment reserve US$ | Retained earnings US$ | Total US$ | Non-controlling interests US$ | Total equity US$ |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 July 2017** | | **5,033,634** | **(2,177,490)** | **369,664** | **12,607,229** | **15,833,037** | **-** | **15,833,037** |
| Profit for the year | | - | - | - | (1,920,395) | (1,920,395) | 5,554 | (1,914,841) |
| Foreign currency translation differences - net | 24 | - | - | - | - | - | - | - |
| **Total comprehensive income for the year** | | - | - | - | (1,920,395) | (1,920,395) | 5,554 | (1,914,841) |
| **TRANSACTIONS WITH EQUITY HOLDERS** | | | | | | | | |
| Share issue during the year | 24 | 320,329 | - | - | - | 320,329 | - | 320,329 |
| Dividends paid | 25 | - | - | - | - | - | - | - |
| Options excercised during the year | 24 | - | - | - | - | - | - | - |
| Change in control of subsidiary | 24 | - | 108 | - | (20,720) | (20,612) | (21,454) | (42,066) |
| Share based payments recognised | 24 | - | - | 366,906 | 25,852 | 392,759 | - | 392,759 |
| **Total transactions with equity holders** | | 320,329 | 108 | 366,906 | 5,132 | 692,476 | (21,454) | 671,022 |
| **Balance at 30 June 2018** | | **5,353,963** | **(2,177,382)** | **736,570** | **10,691,966** | **14,605,117** | **(15,900)** | **14,589,217** |

*The consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated financial statements set out on pages 16 to 59.*

## CONSOLIDATED STATEMENT OF CASHFLOWS
## For the year ended 30 June 2019

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| **CASHFLOWS FROM OPERATING ACTIVITIES** | | |
| Profit after tax | (2,633,238) | (1,914,841) |
| Adjustments for: | | |
| - Depreciation | 7,017,060 | 7,687,607 |
| - Amortisation | 275,455 | 654,518 |
| - Net finance expense | 885,727 | 899,512 |
| - Tax expense | 4,287,288 | 458,864 |
| - Unrealised foreign exchange profit | (72,821) | (228,246) |
| - Disposal of property, plant and equipment: (gain)/loss | 5,626 | 10,875 |
| - Equity-settled share-based payment transactions | 236,140 | 664,773 |
| - Research & development grant | (3,146,152) | (2,934,584) |
| | 6,855,085 | 5,298,478 |
| Changes in: | | |
| - Trade and other receivables | (1,408,403) | 61,738 |
| - Prepayments | (87,373) | (353,416) |
| - Contract assets | 2,042,401 | (1,638,792) |
| - Other current assets | (87,857) | - |
| - Other assets | 1,459 | 7,211 |
| - Trade and other payables | 1,986,828 | (2,342,374) |
| - Provisions | 122,944 | 196,241 |
| Cash generated from operating activities | **9,425,083** | **1,229,085** |
| Tax credit / (paid) | (52,885) | (128,879) |
| **Net cash from operating activities** | **9,372,198** | **1,100,206** |
| **CASHFLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of property, plant and equipment | (15,858,182) | (7,482,811) |
| Acquisition of intangible assets | (91,043) | (85,479) |
| Investment in related parties | - | - |
| Interest received | 65,465 | 48,749 |
| Proceeds from disposal of property, plant and equipment | | |
| **Net cash used in investing activities** | **(15,883,760)** | **(7,519,541)** |
| **CASHFLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from share issue | - | 2,871 |
| Proceeds from borrowings | 10,155,688 | 6,817,000 |
| Costs relating to borrowings | (284,880) | - |
| Repayment of borrowings | (2,415,219) | (963,420) |
| Interest paid | (834,700) | (948,260) |
| Dividend paid | - | - |
| **Net cash from financing activities** | **6,620,889** | **4,908,191** |
| Net increase in cash and cash equivalents | 109,327 | (1,511,144) |
| Cash and cash equivalents at the beginning of the period | 1,878,522 | 3,389,666 |
| **Cash and cash equivalents at end of the period** | **1,987,849** | **1,878,522** |

*The consolidated statement of cash flows is to be read in conjunction with the notes to the consolidated financial statements set out on pages 16 to 59.*

## 1. REPORTING ENTITY

The consolidated financial statements of Downunder Geosolutions (Australia) Pty Ltd as at and for the year ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is comprised of for-profit entities. The principal activity of the Company during the course of the financial year was the provision of geoscience services and software to the oil and gas industry. There were no significant changes in the nature of the activity during the financial year

## 2. BASIS OF PREPARATION

These general purpose financial statements have been prepared in accordance with the Corporation Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below in Note 6 and have been consistently applied unless stated otherwise.

**New Accounting Standards for Application in Future Periods**

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The directors have decided not to early adopt any of the new and amended pronouncements. Their assessment of the pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

AASB 16: *Leases* (applicable to annual reporting periods beginning on or after 1 January 2019)

A core change under AASB 16: *Leases* is that most leases will be recognised on the balance sheet by lessees, as the new Standard does not differentiate between operating and finance leases.

An asset and a financial liability are recognised in accordance with this new Standard. There are, however, two exceptions allowed. These are short-term and low-value leases.

The accounting for the Group's operating leases will be primarily affected by this new Standard.

AASB 16 will be applied by the Group from its mandatory adoption date of 1 July 2019. The comparative amounts for the year prior to first adoption will not be restated as the Group has chosen to apply AASB 16 retrospectively with cumulative effect. The simplified transition approach will be the Group's chosen approach; thus, the comparative amounts for the year prior to first adoption will not be restated. While the right-of-use assets for property leases will be measured on transition as if the new rules had always been applied, all other right-of-use assets will be measured at the amount of the lease liability on adoption (after adjustments for any prepaid or accrued lease expenses).

The Group's non-cancellable operating lease commitments amount to US$19,588,507 as at the reporting date. Of this $19,588,507, approximately $24,000 of short-term leases and low-value leases will be recognised as expense in profit or loss on a straight-line basis.

The Group has performed a preliminary impact assessment and has estimated that on 1 July 2019 the Group expects to recognise right-of-use assets and lease liabilities of approximately $16,453,000 (after adjusting for prepayments and accrued lease payments recognised as at 30 June 2019).

Following the adoption of this new Accounting Standard, the Group's net profit after tax is expected to decrease by approximately $463,000 in 2020.

The repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities, thus increasing operating cash flows and decreasing financing cash flows by approximately $2,593,000.

## 3. FUNCTIONAL AND PRESENTATION CURRENCY

IAS 21 *The Effects of Changes in Foreign Exchange Rates paras 9* describes the functional currency as *“the primary economic environment in which an entity operates”*. The company’s determined that the functional currency is US$ because the majority of revenues being transacted are in US$ *(Para 9(a)(i) – “the currency that mainly influences sales prices”)* and that principal sources of finance have been refinanced to US$ *(Para 10(a) – “the currency in which funds from financing activities”)*

The consolidated financial statements are presented in United States dollars, which is the parent entity’s functional and presentation currency.

## 4. BASIS OF MEASUREMENT

The consolidated financial statements, except for cashflow information, have been prepared on an accrual basis and are based on historical costs unless otherwise stated in the notes. The amounts presented in the consolidated financial statements have been rounded to the nearest dollar.

## 5. USE OF JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and various other factors that are believed to be reasonable under the current circumstances.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 6(c) – revenue
- Note 6(e) – income tax
- Note 6(g) – property, plant and equipment
- Note 6(i) – financial instruments
- Note 6(o) – provisions

## 6. SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

### (a) Basis of consolidation

*(i) Subsidiaries*

Subsidiaries are entities controlled by the Parent, Downunder Geosolutions (Australia) Pty Ltd. The Parent controls an entity when it 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 over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

*(ii) Investments in equity-accounted investees*

The Group's interests in equity-accounted investees comprise interests in associates.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, where material, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence ceases.

Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

*(iii) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(b) Foreign currency**

*(i) Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that re measured based on historical cost in a foreign currency are not translated.

*(ii) Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to US$ at exchange rates at the reporting date. The income and expenses of foreign operations, are translated to United States dollars at the approximate average exchange rate for the month.

Foreign currency differences are recognised in other comprehensive income and accumulated in the translation reserve.

**(c) Revenue**

The Group has adopted AASB 15 *Revenue from Contracts with Customers* from 1 July 2018. In accordance with the transition provisions in AASB 15, the Group has been applied the cumulative effective method; that is, by recognising the cumulative effect of initially applying AASB 15 as an adjustment to the opening balance of equity at 1 July 2018. Therefore, the comparative information has not been restated and continues to be reported under AASB 118: *Revenue*.

AASB 15 has not resulted in a change in accounting policies (highlighted below). Therefore, no adjustments were made to the Statement of profit or loss and other comprehensive income for the period ending 30 June 2018 and amounts recognised in the balance sheet at the date of initial application (1 July 2018).

*Accounting policies*

Revenue is recognised when persuasive evidence, usually in the form of an executed sales agreement, exists and it is probable that the economic benefits that will flow to the Company can be determined with reasonable accuracy and collectability is reasonably assured. The following specific recognition criteria must also be met before revenue is recognised.

*(i) Service revenue*

Revenue from the rendering of services is recognised by reference to the stage of completion. The stage of completion is measured by reference to percentage complete as a percentage of total estimated project value for each contract.

Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

*(ii) Software*

Revenue from the sale of software is recognised for the entire licence fee when the annual licence is sold or renewed.

*(iii) Government grants*

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit and loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are deducted from the cost of the asset and are credited to profit and loss over the expected lives of the related assets.

*(iv) Management fees*

Management fees from performing various technical services on behalf of the Subsidiaries.

*(v) Interest income*

Revenue is recognised when the Company's right to receive payment is established.

**(d) Employee benefits**

*(i) Short-term employee benefits*

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position.

*(ii) Other long-term employee benefits*

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on corporate bonds that have maturity dates that approximate the terms of the obligations. Upon the remeasurement of obligations for other long-term employee benefits, the net change in the obligation is recognised in profit or loss as a part of employee benefits expense.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

*(iii) Defined contribution plans / Pension obligations*

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial periods. Such contributions are recognised as an expense in the period in which the related service is performed. As required by law, companies in Australia make such contributions to the Superannuation Fund (**SUPER)**.

*(iv) Loan funded share plan*

The loan funded share plan allows certain employees to acquire shares in DownUnder GeoSolutions (Australia) Pty Ltd. The grant date fair value of the shares issued is recognised as an employee share based payment in the profit and loss with a corresponding increase in equity, over the period during which the employees become unconditionally entitled to the shares. The fair value of the shares granted is measured using a Black-Scholes pricing model, taking into account the terms and conditions upon which the shares were granted. Employees have been granted a limited recourse ten-year loan to acquire the shares. The loan has not been recognised as the Company only has recourse to the value of the shares.

**(e) Income tax**

Income tax expense comprises current and deferred tax. It is recognised in profit and loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

*(i) Current tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

*(ii) Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and associates 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; and
- temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

The Company and its wholly owned Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is DownUnder GeoSolutions (Australia) Pty Ltd.

**(f) Goods and services tax (GST)**

Revenue, expenses and assets are recognised net of the amount of goods and service tax except:

- where the amount of GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the amount of GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable, or payable, to the taxation authority is included as part of receivables or payables in the balance sheet. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**(g) Property, plant and equipment**

*(i) Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost is the fair value of consideration given to acquire the assets at the time of its acquisition.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain and loss on disposal of an item of property, plant and equipment is recognised in profit and loss.

*(ii) Subsequent expenditure*

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

*(iii) Depreciation*

Depreciation is calculated to write off the cost of property, plant and equipment less their residual values over their estimated useful lives and is generally recognised in profit and loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- Computer equipment 3 to 4 years
- Plant and equipment 3 to 4 years
- Motor vehicles 4 years
- Leasehold improvements period of lease

**(h) Intangible assets**

Intangible assets acquired separately are measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or infinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate.

The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

*(i) Research and development*

Research and development costs related to software are expensed as incurred.

Development costs related to multi-client studies are capitalised as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how that asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of income generated from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period.

*(ii) Other intangible assets*

Other intangible assets acquired separately are measured at cost. Following initial recognition, other intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of other intangible assets are assessed to be either finite or infinite. Other intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for other intangible assets with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on other intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

*(iii) Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill, is recognised in profit and loss as incurred.

*(iv) Amortisation*

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values over the estimated useful life of the asset.

The estimated useful lives for current and comparative periods are as follows:

- Multi-client studies 5 years
- Software 2.5 to 4 years
- Website 2.5 to 4 years
- Trademarks 10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(i) Financial instruments**

*Initial Recognition and Measurement*

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Trade receivables are initially measured at the transaction price if the trade receivables do not contain significant financing component or if the practical expedient was applied as specified in AASB 15.63.

***Classification and Subsequent Measurement***

*Financial Liabilities*

Financial liabilities are subsequently measured at:

- amortised cost; or
- fair value through profit and loss.

A financial liability is measured at fair value through profit and loss if the financial liability is:

- a contingent consideration of an acquirer in a business combination to which *AASB 3: Business Combinations applies;*
- held for trading; or
- initially designated as at fair value through profit or loss.

All other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense in profit or loss over the relevant period.

The effective interest rate is the internal rate of return of the financial asset or liability. That is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

A financial liability is held for trading if it is:
incurred for the purpose of repurchasing or repaying in the near term;
part of a portfolio where there is an actual pattern of short-term profit-taking; or
a derivative financial instrument (except for a derivative that is in a financial guarantee contract or a derivative that is in effective hedging relationships).

Any gains or losses arising on changes in fair value are recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

The change in fair value of the financial liability attributable to changes in the issuer's credit risk is taken to other comprehensive income and is not subsequently reclassified to profit or loss. Instead, it is transferred to retained earnings upon derecognition of the financial liability. If taking the change in credit risk in other comprehensive income enlarges or creates an accounting mismatch, then these gains or losses are taken to profit or loss rather than other comprehensive income.

A financial liability cannot be reclassified.

*Financial Assets*

Financial assets are subsequently measured at:

- amortised cost;
- fair value through other comprehensive income; or
- fair value through profit and loss

  on the basis of the two primary criteria, being:
- the contractual cash flow characteristics of the financial asset; and
- the business model for managing the financial assets.

A financial asset is subsequently measured at amortised cost when it meets the following conditions:

- the financial asset is managed solely to collect contractual cash flows; and
- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal; and
- interest on the principal amount outstanding on specified dates.

A financial asset is subsequently measured at fair value through other comprehensive income when it meets the following conditions:

- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and
- interest on the principal amount outstanding on specified dates; and
- the business model for managing the financial asset comprises both contractual cash flows collection and the selling of the financial asset.

By default, all other financial assets that do not meet the conditions of amortised cost and the fair value through other comprehensive income's measurement condition are subsequently measured at fair value through profit or loss.

The Group initially designates financial instruments as measured at fair value through profit or loss if:

- it eliminates or significantly reduces a measurement or recognition inconsistency (often referred to as “accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;
- it is in accordance with the documented risk management or investment strategy and information about the groupings was documented appropriately, so the performance of the financial liability that was part of a group of financial liabilities or financial assets can be managed and evaluated consistently on a fair value basis; and
- it is a hybrid contract that contains an embedded derivative that significantly modifies the cash flows otherwise required by the contract.

The initial designation of the financial instruments to measure at fair value through profit and loss is a one-time option on initial classification and is irrevocable until the financial asset is derecognised.

*Equity instruments*

At initial recognition, as long as the equity instrument is not held for trading or not a contingent consideration recognised by an acquirer in a business combination to which AASB 3 applies, the Group did not make an irrevocable election to measure any subsequent changes in fair value of the equity instruments in other comprehensive income, while the dividend revenue received on underlying equity instruments investment will still be recognised in profit or loss.

Regular way purchases and sales of financial assets are recognised and derecognised at settlement date in accordance with the Group’s accounting policy.

**Derecognition**

Derecognition refers to the removal of a previously recognised financial asset or financial liability from the statement of financial position.

*Derecognition of financial liabilities*

A liability is derecognised when it is extinguished (i.e. when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability, is treated as an extinguishment of the existing liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

*Derecognition of financial assets*

A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.

All of the following criteria need to be satisfied for derecognition of a financial asset:

- the right to receive cash flows from the asset has expired or been transferred;
- all risk and rewards of ownership of the asset have been substantially transferred; and
- the Entity no longer controls the asset (i.e. it has no practical ability to make unilateral decisions to sell the asset to a third party).

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity which the Group elected to classify under fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

**Impairment**

The Group recognises a loss allowance for expected credit losses on:

- financial assets that are measured at amortised cost or fair value through other comprehensive income; lease receivables;
- contract assets (e.g. amount due from customers under construction contracts);
- loan commitments that are not measured at fair value through profit or loss; and
- financial guarantee contracts that are not measured at fair value through profit or loss.

Loss allowance is not recognised for:

- financial assets measured at fair value through profit or loss; or
- equity instruments measured at fair value through other comprehensive income.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

The Group uses the simplified approach to impairment, as applicable under AASB 9.

*Simplified approach*

The simplified approach does not require tracking of changes in credit risk in every reporting period, but instead requires the recognition of lifetime expected credit loss at all times.

This approach is applicable to:

- trade receivables; and
- lease receivables.

In measuring the expected credit loss a provision matrix for trade receivables and contract assets (work in progress) has been used, taking into consideration various data to get to an expected credit loss (i.e. diversity of its customer base, appropriate groupings of its historical loss experience, etc).

For interGroup loan receivables, the Group recognises 12 month expected credit losses i.e. the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within 12 months after the reporting date.

**Recognition of expected credit losses in financial statements**

At each reporting date, the Group recognises the movement in the loss allowance as an impairment gain or loss in the statement of profit or loss and other comprehensive income.

The carrying amount of financial assets measured at amortised cost includes the loss allowance relating to that asset.

Assets measured at fair value through other comprehensive income are recognised at fair value with changes in fair value recognised in other comprehensive income. An amount in relation to change in credit risk is transferred from other comprehensive income to profit or loss at every reporting period.

For financial assets that are unrecognised (e.g. loan commitments yet to be drawn, financial guarantees), a provision for loss allowance is created in the statement of financial position to recognise the loss allowance.

*Accounting policies applied until 30 June 2018*

*(i) Initial recognition and measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset (i.e.: trade date accounting is adopted).

Financial instruments are initially measured at fair value plus or minus transaction costs, except where the instrument is classified "at fair value through profit or loss" (**FVTPL**), in which case transaction costs are recognised as expenses in profit or loss immediately.

*(ii) Classification and subsequent measurement*

Financial instruments are subsequently measured at fair value or amortised cost.

The price used to measure the fair value of financial assets and liabilities may be directly observable, as in an active market with quoted prices, or may be determined using valuation techniques if no active market exists.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments. Accordingly, such interests are accounted for on a cost basis.

The Group determines the classification of its financial instruments at initial recognition, and the categories include financial assets at FVTPL, held-to-maturity investments, loans and receivables, available for sale investments and financial liabilities.

(a) Financial assets at fair value through profit or loss

Financial assets are classified at FVTPL when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

(b) Held to maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortised cost using effective interest method. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using effective interest method. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(d) Available-for-sale investments

Available-for-sale investments are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with any re-measurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are classified as non-current assets when they are not expected to be sold within twelve months after the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

(e) Financial liabilities

A financial liability is classified as at FVTPL if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial liabilities at FVTPL are measured at fair value and changes therein, including any interest expense, are recognised in profit or loss.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

*(f) Derecognition*

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

*(g) Offset*

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

**(j) Impairment of financial instruments**

*(i) Non-derivative financial assets*

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence that it is impaired.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers and issuers;
- the disappearance of an active market for a security; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

(ii) *Financial assets measured an amortised cost*

The Group considers evidence of impairment for financial assets measured at both a specific asset and a collective level. All individually significant assets are assessed for specific impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

*(iii) Equity-accounted investees*

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying value. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

*(iv) Non-financial assets*

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Indefinite life intangible assets are tested annually for impairment.

Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other asserts of cash generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of the asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, net of depreciation or amortisation, if no impairment loss had been recognised.

**(k) Finance costs**

Finance costs are generally expensed as incurred except where they relate to the financing of assets requiring a substantial period of time to prepare for their intended future use.

**(l) Trade and other receivables**

Receivables which generally have 30 day terms are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the entity may not be able to collect the debt. Bad debts are written off as incurred.

**(m) Trade and other payables**

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

**(n) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate if interest on the remaining balance of the liability. Finance charges are charged directly against income.

*(i) Finance leases*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to the ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate if interest on the remaining balance of the liability. Finance charges are charged directly against income.

*(ii) Operating leases*

Operating leases are not capitalised and rental payments are included in the profit or loss on a straight line basis over the lease term. Operating lease incentives are recognised in the profit or loss as integral part of the total lease expense.

**(o) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the of the obligation.

When the Group expects all or some of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current interest rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

**(p) Share capital**

Ordinary share capital is recognised at the fair value of the consideration received by the Group. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

**(q) Determination of fair values**

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For a non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

The Company recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2019

**(r) Impact of the application of new accounting standards**

The Group has adopted AASB 9 Financial Instruments from 1 July 2018. The Group has decided not to restate comparative information as permitted by the transitional provisions of AASB 9.

AASB 9 has resulted in a change in accounting policies (highlighted in note 3(i)) and the following impact on the opening balance sheet as at the date of initial application of the standard. These adjustments are therefore not reflected in the closing balance sheet as at 30 June 2018 but are recognised in the opening balance sheet on 1 July 2018.

The following table show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

(a) Classification and measurement

| Balance Sheet (extract) | 30 June 2018 Originally presented $ | AASB 9 $ | 1 July 2018 Restated $ |
|---|---|---|---|
| Loans and receivables (AASB 139) | 11,648,460 | (11,648,460) | - |
| Financial assets at amortised cost (AASB 9) | - | 11,648,460 | 11,684,460 |

b) Impairment

| | Impairment under AASB 139 as at 30 June 2018 | Remeasurement | ECL under AASB 9 as at 1 July 2018 |
|---|---|---|---|
| Loans and receivables (AASB 139) | - | - | - |
| Financial assets at amortised cost (AASB 9) | - | - | - |

## 7. SALES REVENUE

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| Services | 40,227,421 | 35,132,175 |
| Software | 4,632,986 | 4,499,235 |
| Technology | 4,128,318 | 6,334,596 |
| Government grants | 3,146,152 | 2,934,584 |
| **Sales Revenue** | **52,134,877** | **48,900,590** |

## 8. FINANCE INCOME/(EXPENSE)

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| Interest income | 65,465 | 48,749 |
| **Finance income** | **65,465** | **48,749** |
| Interest expense | (834,700) | (862,231) |
| Debt Arrangement fees | (116,492) | (86,030) |
| **Finance expense** | **(951,192)** | **(948,261)** |
| **Finance expense - net** | **(885,727)** | **(899,512)** |

## 9. OTHER INCOME/(EXPENSE)

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| Realised foreign exchange profit - net | 72,821 | 228,246 |
| **Other income** | **72,821** | **228,246** |
| Advertising | (982,383) | (1,000,835) |
| Facilities | (5,449,790) | (5,353,886) |
| Consulting | (1,236,183) | (931,160) |
| Loss on disposal of property, plant and equipment | (5,626) | (10,875) |
| Unrealised foreign exchange (loss) - net | (10,581) | (135,868) |
| Other | (5,043,263) | (5,029,939) |
| **Other expense** | **(12,727,826)** | **(12,462,563)** |

## 10. AUDITOR'S REMUNERATION

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| **Audit and review services** | | |
| Auditors of the Group – Moore Stephens | | |
| Audit and review of financial statements | **150,652** | **155,504** |

## 11. EMPLOYEE BENEFITS

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| Salaries and fees | 24,320,063 | 23,468,238 |
| Superannuation | 1,846,503 | 1,745,496 |
| Payroll tax | 1,479,764 | 1,422,509 |
| Other benefits | 1,765,110 | 1,579,597 |
| Share based payments | 236,140 | 664,773 |
| | **29,647,580** | **28,880,613** |

## 12. INCOME TAXES

### (a) Amounts recognised in consolidated profit or loss and other comprehensive income

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| **Current tax expense** | | |
| Current year | 4,782,674 | 2,384,975 |
| Withholding tax | 38,190 | 143,076 |
| Research and development | 0 | |
| Adjustment for prior years | (51,302) | (417,886) |
| Total current tax expense | **4,769,562** | **2,110,165** |
| **Deferred Tax** | | |
| Current year | (609,254) | (1,169,254) |
| Adjustment for prior years | 126,980 | (482,047) |
| **Tax expense** | **4,287,288** | **458,864** |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2019

#### (b) Numerical reconciliation of tax expense

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| **(Loss)/Profit before tax** | **1,654,050** | **(1,455,977)** |
| Tax using the Company's domestic tax rate of 30% | 496,215 | (436,793) |
| Effect of tax rates in foreign jurisdictions | 807,299 | 841,414 |
| Change in tax rates | 55,721 | 128,001 |
| Exempt foreign income | - | - |
| Research and development | (943,845) | (880,375) |
| Capital allowances | (124,260) | 20,173 |
| Non-deductible expenses | 556,176 | (263,215) |
| Pioneer status income not subject to tax | (747,401) | (2,165,835) |
| Non-temporary differences | 2,450,965 | 2,526,355 |
| Temporary differences | 2,075 | (249,742) |
| Prior year adjustments | (76,233) | (902,272) |
| Temporary differences not recognised | 1,778,100 | 1,698,077 |
| Withholding tax | 32,476 | 143,076 |
| **Tax expense** | **4,287,288** | **458,864** |

#### (c) Amounts recognised in consolidated statement of financial position

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| Deferred tax asset | 3,232,039 | 4,174,386 |
| Deferred tax liability | - | - |
| | **3,232,039** | **4,174,386** |

### (d) Movement in temporary differences during the year ended 30 June 2019:

| | Balance 1-Jul-18 US$ | Recognised in Income US$ | Recognised in OCI US$ | Balance 30-Jun-19 US$ |
|---|---|---|---|---|
| Borrowings | 27,057 | (27,057) | - | - |
| Other current assets | 210,820 | 23,782 | - | 234,602 |
| Property, plant and equipment | (970,792) | (2,052,668) | - | (3,023,460) |
| Cash and cash equivalents | (20,295) | (44,273) | - | (64,568) |
| Trade and other receivables | 1,152 | 3,397 | - | 4,549 |
| Prepayments | - | - | - | - |
| Trade and other payables | 79,935 | 51,645 | - | 131,580 |
| Provisions | 532,082 | 36,883 | - | 568,965 |
| Tax losses carried forward | 6,206,405 | 3,089,598 | - | 9,296,003 |
| Deferred tax (assets)/liabilities not recognised | (1,891,978) | (2,023,653) | | (3,915,631) |
| | **4,174,386** | **(942,346)** | **-** | **3,232,039** |

### (e) Movement in temporary differences during the year ended 30 June 2018:

| | Balance 1-Jul-17 US$ | Recognised in Income US$ | Recognised in OCI US$ | Balance 30-Jun-18 US$ |
|---|---|---|---|---|
| Borrowings | 27,057 | - | - | 27,057 |
| Other current assets | 24,450 | 186,370 | - | 210,820 |
| Property, plant and equipment | (861,822) | (108,970) | - | (970,792) |
| Cash and cash equivalents | (1,375) | (18,920) | - | (20,295) |
| Trade and other receivables | (27,520) | 28,672 | - | 1,152 |
| Prepayments | (677) | 677 | - | - |
| Trade and other payables | 40,251 | 39,684 | - | 79,935 |
| Provisions | 473,210 | 58,872 | - | 532,082 |
| Tax losses carried forward | 2,471,738 | 3,734,667 | - | 6,206,405 |
| Deferred tax (assets)/liabilities not recognised | (354,974) | (1,537,004) | | (1,891,978) |
| | **1,790,338** | **2,384,048** | **-** | **4,174,386** |

## 13. CASH AND CASH EQUIVALENTS

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| Cash at bank and on hand | 2,409,982 | 2,254,754 |
| Deposits | - | - |
| **Cash and cash equivalents in the statement of financial position** | **2,409,982** | **2,254,754** |
| | | |
| Bank overdrafts | (422,133) | (376,232) |
| **Cash and cash equivalents in the statement of cashflows** | **1,987,849** | **1,878,522** |

A secured bank overdraft facility of AUD$1,000,000 is currently in place, with an applicable floating charge rate based on an overdraft index rate plus a margin.

## 14. TRADE AND OTHER RECEIVABLES

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| ***Current asset*** | | |
| Trade receivables | 10,103,809 | 8,760,945 |
| Provision for impairment | - | - |
| **Trade receivables - net** | **10,103,809** | **8,760,945** |
| Indirect taxes receivable | 127,209 | 84,103 |
| Other receivables | 22,432 | - |
| **Current trade and other receivables** | **10,253,451** | **8,845,048** |

Credit terms for trade receivables average 30 days

The following table shows the movement in lifetime expected credit loss that has been recognised for trade and other receivables in accordance with the simplified approach set out in AASB 9: *Financial Instruments*.

### a. Expected Credit Loss Lifetime Credit: Impaired

| 30-Jun-19 | Opening balance under AASB 139 1-Jul-18 US$ | Adjustment for AASB 9 US$ | Net measurment of loss allowance US$ | Amounts written off US$ | Closing balance 30-Jun-19 US$ |
|---|---|---|---|---|---|
| Trade and other receivables | - | - | - | - | - |
| | **-** | **-** | **-** | **-** | **-** |

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties other than those receivables specifically provided for and mentioned within Note 10. The main source of credit risk to the Group is considered to relate to the class of assets described as "trade and other receivables".

The following table details the Group’s trade and other receivables exposed 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 counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table below) are considered to be of high credit quality.

The Group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision as at 30 June 2019 is determined as follows. The expected credit losses below also incorporate forward-looking information.

| 30-Jun-19 | Current<br>US$ | > 30 days due<br>US$ | > 60 days due<br>US$ | > 90 days due<br>US$ | Total<br>US$ |
|---|---|---|---|---|---|
| Expected loss rate | 0% | 0% | 0% | 0% | 0% |
| Gross carrying amount | 6,800,840 | 1,326,622 | 1,429,558 | 696,430 | 10,253,450 |
| Loss allowing provision | - | - | - | - | - |

The "amounts written off" column is all due to customers declaring bankruptcy or term receivables that have now become unrecoverable.

**b. Financial Assets Measured at Amortised Cost**

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| Trade and other receivables | | |
| - total current | 10,253,451 | 8,845,048 |
| - total non-current | - | - |
| **Total financial assets classified as loans and other receivables** | **10,253,451** | **8,845,048** |

**c. Collateral Pledged**

No collateral is held over trade and other receivables.

## 15. CONTRACT ASSETS

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| Contract assets relating to contracts | 761,012 | 2,803,412 |
| Loss allowance | - | - |
| | **761,012** | **2,803,412** |
| | | |
| Current | 761,012 | 2,803,412 |
| Non-current | - | - |
| | **761,012** | **2,803,412** |

The above relates to contracts where the Group has recognised the asset for work performed and payments happen on milestones achieved. A contract asset is recognised for work previously performed. When invoicing takes place, any amount that has previously been classified as a contract asset will be reclassified to trade receivables.

**Impairment of contract assets**

The Group applied the expected credit loss module based on lifetime expected loss allowance for contract assets.

Contract assets are in relation to unbilled work and the Group has applied previous historical expected loss rates, which have also been adjusted for factors such as unemployment.

Based on the above, the loss allowance as at 30 June 2019 was determined as follows:

| 30-Jun-19 | Current US$ | > 30 days due US$ | > 60 days due US$ | > 90 days due US$ | Total US$ |
|---|---|---|---|---|---|
| Contract assets | 761,012 | - | - | - | 761,012 |
| Expected loss rate | 0% | 0% | 0% | 0% | 0% |
| Loss allowing provision | - | - | - | - | - |

**Significant changes in contract assets**

There were no significant changes in the contract assets balances during the 2019 year.

## 16. OTHER CURRENT ASSETS

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| Bonds and security deposits | 1,236,240 | 1,148,383 |
| | **1,236,240** | **1,148,383** |

## 17. INTERESTS HELD IN ASSOCIATES

### (a) Associates

The Group has interests in the following associates:

| | 30-Jun 2019 | 30-Jun 2018 |
|---|---|---|
| Rouge Rock Pty Ltd | **49%** | **49%** |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2019

## 18. PROPERTY, PLANT & EQUIPMENT

| | Computer equipment US$ | Leasehold improvements US$ | Plant and equipment US$ | Motor Vehicles US$ | Under construction US$ | Total US$ |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at 1 July 2017 | 28,943,829 | 3,353,822 | 1,001,276 | 120,061 | 4,298,488 | 37,717,475 |
| Additions | 4,730,301 | 2,125,583 | 561,789 | - | 65,138 | 7,482,811 |
| Transfer between group | 33,472 | - | 10,282 | - | | 43,754 |
| Reclassification | 4,189,590 | 71,342 | 28,295 | - | (4,289,227) | - |
| Disposals | (114,020) | (634,973) | (29,708) | - | | (778,701) |
| **Balance at 30 June 2018** | **37,783,172** | **4,915,774** | **1,571,934** | **120,061** | **74,399** | **44,465,340** |
| Balance at 1 July 2018 | 37,783,172 | 4,915,774 | 1,571,934 | 120,061 | 74,399 | 44,465,340 |
| Additions | 14,005,469 | 7,568 | 1,783 | - | 1,843,362 | 15,858,182 |
| Assets recommissioned | 157,897 | - | - | - | - | 157,897 |
| Transfer between group | - | - | - | - | - | - |
| Reclassification | 13,201 | - | - | - | (13,201) | - |
| Disposals | (383,504) | - | (2,376) | - | - | (385,880) |
| **Balance at 30 June 2019** | **51,576,235** | **4,923,342** | **1,571,341** | **120,061** | **1,904,560** | **60,095,538** |
| **Accumulated depreciation** | | | | | | |
| Balance at 1 July 2017 | 17,376,272 | 1,333,792 | 621,082 | 75,038 | - | 19,406,184 |
| Depreciation | 6,834,194 | 504,185 | 319,213 | 30,015 | - | 7,687,607 |
| Transfer between group | 22,840 | - | 10,282 | - | - | 33,122 |
| Reclassification | - | - | - | - | - | - |
| Disposals | (61,477) | (634,969) | (25,991) | - | - | (722,437) |
| Balance at 30 June 2018 | 24,171,829 | 1,203,008 | 924,586 | 105,054 | - | 26,404,476 |
| Balance at 1 July 2018 | 24,171,829 | 1,203,008 | 924,586 | 105,054 | - | 26,404,476 |
| Depreciation | 6,117,299 | 566,145 | 318,609 | 15,007 | - | 7,017,060 |
| Assets recommissioned | 157,897 | - | - | - | - | 157,897 |
| Transfer between group | - | - | - | - | - | - |
| Reclassification | 5,820 | - | - | - | - | 5,820 |
| Disposals | (376,219) | - | (2,376) | - | - | (378,595) |
| **Balance at 30 June 2019** | **30,076,626** | **1,769,153** | **1,240,819** | **120,061** | **-** | **33,206,659** |
| **Carrying amounts** | | | | | | |
| **At 30 June 2018** | 13,611,342 | 3,712,766 | 647,348 | 15,007 | 74,399 | 18,060,863 |
| **At 30 June 2019** | **21,499,609** | **3,154,189** | **330,522** | **-** | **1,904,560** | **26,888,879** |

## 19. INTANGIBLE ASSETS

| | Multi-Client studies US$ | Website US$ | Software US$ | Patents and Trade marks US$ | Total US$ |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 1 July 2017 | 2,295,002 | 5,192 | 56,262 | 1,334,915 | 3,691,371 |
| Acquisitions | - | - | 35,001 | 50,478 | 85,479 |
| Disposals | - | - | - | - | - |
| Balance at 30 June 2018 | 2,295,002 | 5,192 | 91,263 | 1,385,393 | 3,776,850 |
| Balance at 1 July 2018 | 2,295,002 | 5,192 | 91,263 | 1,385,393 | 3,776,850 |
| Acquisitions | - | 19,707 | - | 71,336 | 91,043 |
| Disposals | - | (5,192) | - | - | (5,192) |
| **Balance at 30 June 2019** | **2,295,002** | **19,707** | **91,263** | **1,456,729** | **3,862,701** |
| **Accumulated amortisation** | | | | | |
| Balance at 1 July 2017 | 1,890,515 | 5,192 | 56,262 | 610,827 | 2,562,796 |
| Amortisation | 404,487 | - | 12,833 | 237,198 | 654,518 |
| Disposals | - | - | - | - | - |
| **Balance at 30 June 2018** | 2,295,002 | 5,192 | 69,095 | 848,025 | 3,217,314 |
| Balance at 1 July 2018 | 2,295,002 | 5,192 | 69,095 | 848,025 | 3,217,314 |
| Amortisation | - | 2,701 | 14,000 | 258,754 | 275,455 |
| Disposals | - | (5,192) | - | - | (5,192) |
| **Balance at 30 June 2019** | **2,295,002** | **2,701** | **83,095** | **1,106,779** | **3,487,577** |
| **Carrying amounts** | | | | | |
| **At 30 June 2018** | **-** | **-** | 22,168 | 537,368 | 559,536 |
| **At 30 June 2019** | **-** | **17,006** | **8,168** | **349,950** | **375,124** |

The Group generates a revenue stream from multi-client studies, which are available for sale. Development costs of the multi-client assets to-date have been capitalised and are being amortised over a period of 5 years.

## 20. OTHER ASSETS

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| Loans | 874,227 | 875,686 |
| | **874,227** | **875,686** |

## 21. TRADE AND OTHER PAYABLES

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| **Current liabilities** | | |
| Trade payables | 4,542,797 | 2,244,688 |
| Accruals | 887,102 | 1,056,366 |
| Other | 591,938 | 580,636 |
| **Current trade and other payables** | **6,021,837** | **3,881,690** |
| **Non-current liabilities** | | |
| Deferred rent | 1,994,699 | 2,156,292 |
| **Non-current trade and other payables** | **1,994,699** | **2,156,292** |

(1) The normal trade credit terms granted by trade creditors to the Company are 30 days.

## 22. PROVISIONS

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| **Current liability** | | |
| Provision for annual leave | 1,164,636 | 1,168,310 |
| Provision for long service leave | 469,977 | 414,715 |
| | **1,634,613** | **1,583,025** |
| **Non-current liability** | | |
| Provision for long service leave | 261,936 | 190,580 |
| | **261,936** | **190,580** |
| **Reconciliation of movements in provisions:** | | |
| **Provision for annual leave** | | |
| Balance at beginning of year | 1,168,310 | 1,029,658 |
| Provision movement during the financial year | (3,674) | 138,652 |
| **Balance at year end** | **1,164,636** | **1,168,310** |
| **Provision for long service leave** | | |
| Balance at beginning of year | 605,295 | 547,706 |
| Provision movement during the financial year | 126,618 | 57,589 |
| **Balance at year end** | **731,913** | **605,295** |

## 23. LOANS AND BORROWINGS

| 30-Jun-19 | Bank loan (i) US$ | Premium Funding (ili) US$ | Promissory Note (i11) US$ | Total US$ |
|---|---|---|---|---|
| Carrying Value | **21,682,517** | **-** | **2,858,662** | **24,541,179** |
| Current | - | - | 2,502,845 | 2,502,845 |
| Non-current | 21,682,517 | - | 355,817 | 22,038,334 |
| | **21,682,517** | **-** | **2,858,662** | **24,541,179** |

| 30-Jun-18 | Bank loan (i) US$ | Premium Funding (ili) US$ | Promissory Note (i11) US$ | Total US$ |
|---|---|---|---|---|
| Carrying Value | **11,683,940** | **-** | **5,401,650** | **17,085,590** |
| Current | 2,105,003 | - | 2,528,224 | 4,633,227 |
| Non-current | 9,578,937 | - | 2,873,426 | 12,452,363 |
| | **11,683,940** | **-** | **5,401,650** | **17,085,590** |

On the 16th November 2018, DownUnder GeoSolutions (Australia) Pty Ltd executed a deed of amendment relating to its debt facility with Commonwealth Bank of Australia (CBA) increasing its borrowing facilities from US$20.7m to US$24.8m. This provided the Group with US$13.5m in undrawn facilities to fund the new Data Centre. US$7.0m is subject to annual review and US$17.8m is interest only with a bullet repayment upon maturity being 3 years from financial close.

(i) The following facilities are currently in place:

(a) Revolving facility of US$7,000,000 (2018 – US$6,000,000):

This facility is comprised of two sub facilities covering growth capex and working capital purposes. Interest is calculated as LIBOR plus a margin.

(b) Term debt facilities of US$17,805,000 (2018 - US$14,700,000):

These facilities are key refinancing facilities comprised of three term debt components. Interest is calculated as LIBOR plus a margin.

The Group has provided the following security in relation to the bank facilities:

(i) A first ranking general security to CBA (Commonwealth Bank of Australia) over all present and future rights, property and undertakings;

(ii) General security deed and working capital guarantee recourse deed with EFIC (Export Finance Insurance Corporation) in Australia to partially guarantee facilities provided by CBA.

(iii) There is a fixed charge on all freehold, leasehold, book debts and other assets of the Group, in respect of a bank loan drawdown. The bank also has a floating charge over all the assets of the Group.

Covenants are imposed by the bank on a quarterly basis and include:

(a) A net leverage ratio based on financial indebtedness less cash reserves divided by Group EBITDA; and

(b) A debt service coverage ratio of after debt cashflows as a proportion of debt servicing

The weighted average effective interest rate on the bank loans is 5.53% per annum (2018: 4.98%).

(ii) The premium funding loan was taken out to cover the payment of premiums due under the funded policies.

(iii) Promissory note is due to Wells Fargo Equipment finance Inc and is secured by the underlying computer equipment in DownUnder GeoSolutions (America) LLC. Intel Corporation have also provided a guarantee to Wells Fargo through a recourse agreement. The carrying value of promissory notes is shown net of deferred finance charges of US$50,629 (June 30, 2018 – US$192,505).

## 24. CAPITAL AND RESERVES

### (a) Share Capital

Share capital comprises ordinary shares. The holders of these shares are entitled to receive dividends as declared from time to time.

| | 30-Jun-19 | | 30-Jun-18 | |
|---|---|---|---|---|
| | No. | US$ | No. | US$ |
| **Fully paid up shares** | | | | |
| Balance at beginning of year | 54,310,877 | 5,353,963 | 53,972,960 | 5,033,634 |
| Issued and fully paid shares(1) | 83,892 | 123,723 | 333,392 | 317,458 |
| Paid up under loan funded share plan (2) | - | - | 4,525 | 2,871 |
| Options excercised | - | - | - | - |
| **Balance at end of year** | **54,394,769** | **5,477,686** | **54,310,877** | **5,353,963** |
| **Issued under loan funded share plan** | | | | |
| Balance at beginning of year | 8,239,465 | - | 7,783,521 | - |
| Vesting conditions not met (4) | (51,316) | - | (205,964) | - |
| Paid up under loan funded share plan (2) | - | - | (4,525) | - |
| Issued during the year (3) | 771,910 | - | 666,433 | - |
| **Balance at end of year** | **8,960,059** | **-** | **8,239,465** | **-** |
| **Total shares issued** | **63,354,828** | **5,477,686** | **62,550,342** | **5,353,963** |

(1) 30,150 (FY18 – 48,000) fully paid ordinary shares were issued to the non-executive directors, as payment for services rendered and 53,742 (FY18 – 285,392) fully paid shares were issued to new employees.

(2) No shares (2018 – 4,525 shares) were exercised under the Loan Funded Share Plan.

(3) The Company offers key employees the opportunity to acquire shares in DownUnder GeoSolutions (Australia) Pty Ltd under a Loan Funded Share Plan (LFSP). During the year, the total number of shares taken up were 771,910 (2018: 666,433). The shares are purchased with the assistance of a limited recourse loan for a term of ten years. Any dividends payable in respect of these shares are repayable against the loan, until the loan is fully repaid. The balance of the recourse loan at 30 June 2019 is $7,906,517 (2018: $6,399,152)

The fair value of the shares granted under the LFSP was measured using the Black-Scholes method. Expected volatility is estimated by considering historic average share price volatility.

(4) During the year, 97% of shares under the 2014 Loan Funded Share Plan vested (2018 - 69% of shares under the 2014 Loan Funded Share Plan vested).

**(b) Reserves**

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| Share based payments reserve[1] | 893,452 | 736,570 |
| Translation reserve[2] | (2,177,270) | (2,177,270) |
| | **(1,283,818)** | **(1,440,700)** |
| **Reconciliation of movement in reserves:** | | |
| ***Share based payments reserve*** | | |
| Balance at beginning of year | 736,570 | 369,664 |
| Utilisation of dividend to repay loan funded share plan debt | - | - |
| Share based payments recognised | 156,882 | 366,906 |
| Options excercised | - | - |
| **Balance at end of year** | **893,452** | **736,570** |

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| ***Translation reserve*** | | |
| Balance at beginning of year | (2,177,270) | (2,177,490) |
| Change in control of subsidiary | - | 220 |
| Effect of translation of foreign currency operations to Group presentation | - | - |
| **Balance at end of year** | **(2,177,270)** | **(2,177,270)** |

(1) The share based payment reserve comprises expenses incurred from the issue of Company's options and shares under the employee loan funded share plan.

(2) The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Group where the functional currencies are different to the presentation currency for reporting purposes, including the translation of liabilities that hedge the Group's net investment in a foreign subsidiary.

## 25. DIVIDENDS PAID

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| **Distributions paid:** | | |
| Declared and paid unfranked ordinary dividend | - | - |

## 26. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

### (a) Financial risk management

The Group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable, loans and leases.

The total for each category of the financial instruments, measured in accordance with AASB 9: *Financial Instruments,* as detailed in the accounting policies to these financial statements, are as follows:

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 1,987,849 | 1,878,522 |
| Trade and other receivables | 10,253,451 | 8,845,048 |
| | **12,241,300** | **10,723,570** |
| **Financial liabilities** | | |
| Financial liabilities at amortised cost: | | |
| Trade and other payables | (6,021,837) | (3,881,690) |
| Loans and borrowings | (24,541,179) | (17,085,590) |
| | **(30,563,016)** | **(20,967,280)** |

### (b) Financial risk management policies

The directors' overall risk management strategy seeks to assist the Company in meeting its financial targets, while minimising potential adverse effects on financial performance. Risk management is reviewed by the Board of Directors (the **Board**) on a regular basis. This includes the credit risk and future cash flow requirements.

The main purpose of non-derivative financial instruments is to raise finance for company operations. The Company does not have any derivative instruments at 30 June 2019.

Risk management policies are approved and reviewed by the Board on a regular basis. These include credit risk policies and future cash flow requirements.

### (c) Specific financial risk exposures and management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk, and market risk relating to interest rate risk and another price risk. There have been no substantive changes in the types of risks the Group is exposed to, how these risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

*(i) Credit risk*

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through maintaining procedures ensuring, to the extent possible, that customers and counterparties to transactions are of sound credit worthiness, granting and renewal of credit limits, the regular monitoring of exposures against such limits and the monitoring of the financial stability of significant customers and counterparties. Such monitoring is used in assessing receivables for impairment. Credit terms are generally 30 days from the date of invoice.

Risk is also minimised through investing surplus funds into financial institutions that maintain a high credit rating.

The Group trades with recognised, creditworthy third parties. Receivable balances are monitored on an ongoing basis, with the result that the Group's bad debt exposure is not significant.

The Group has no significant concentrations of credit risk with any single counterparty or group of counterparties.

| 30-Jun-19 | Carrying amount | Past due and impaired | < 30 days | 31-60 days | 61-90 days | > 90 days | Within trade terms |
|---|---|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ | US$ | US$ |
| Trade and term receivables | 10,103,809 | - | 3,726,151 | 1,326,622 | 1,429,558 | 696,431 | 2,925,047 |
| Other receivables | 149,642 | - | - | - | - | - | 149,642 |
| | **10,253,451** | **-** | **3,726,151** | **1,326,622** | **1,429,558** | **696,431** | **3,074,689** |

| 30-Jun-18 | Carrying amount US$ | Past due and impaired US$ | < 30 days US$ | 31-60 days US$ | 61-90 days US$ | > 90 days US$ | Within trade terms US$ |
|---|---|---|---|---|---|---|---|
| Trade and term receivables | 8,760,945 | - | 3,354,743 | 1,206,091 | 680,835 | 1,224,823 | 2,294,453 |
| Other receivables | 84,103 | | | | | | 84,103 |
| | **8,845,048** | **-** | **3,354,743** | **1,206,091** | **680,835** | **1,224,823** | **2,378,556** |

*(ii) Liquidity risk*

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward-looking cash flow analyses in relation to its operating, investing and financing activities;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The table below reflects an undiscounted contractual maturity analysis for non-derivative financial liabilities.

Bank overdrafts have been deducted in the analysis as management does not consider that there is any material risk that the bank will terminate such facilities.

| 30-Jun-19 | Carrying amount US$ | Contractual cash outflows US$ | 6 months or less US$ | 6-12 months US$ | 1-2 years US$ | 2-5 years US$ | More than 5 years US$ |
|---|---|---|---|---|---|---|---|
| Bank loans | 21,682,517 | 21,682,517 | - | - | - | 21,682,517 | - |
| Promissory note | 2,858,662 | 2,858,662 | 1,297,078 | 1,205,768 | 192,783 | 163,034 | - |
| Trade and other payables | 6,021,837 | 6,021,837 | 6,021,836 | - | - | - | - |
| | **30,563,016** | **30,563,016** | **7,318,913** | **1,205,768** | **192,783** | **21,845,551** | **-** |

| 30-Jun-18 | Carrying amount US$ | Contractual cash outflows US$ | 6 months or less US$ | 6-12 months US$ | 1-2 years US$ | 2-5 years US$ | More than 5 years US$ |
|---|---|---|---|---|---|---|---|
| Bank loans | 11,683,940 | 11,683,940 | 1,711,289 | 1,975,896 | 1,138,460 | 6,451,359 | 406,936 |
| Promissory note | 5,401,650 | 5,401,650 | 1,194,188 | 1,216,656 | 2,387,776 | 603,030 | - |
| Trade and other payables | 3,881,690 | 3,881,690 | 3,660,478 | 221,212 | - | - | - |
| | **20,967,280** | **20,967,280** | **6,565,955** | **3,413,764** | **3,526,236** | **7,054,389** | **406,936** |

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timings of cash flows presented in the table to settle financial liabilities reflect the earliest contractual settlement dates and do not reflect management's expectations that banking facilities will be rolled forward.

*Financial assets pledged as collateral*

Certain financial assets have been pledged as security for debt and their realisation into cash may be restricted subject to terms and conditions attached to the relevant debt contracts (refer to Note 23 for further details).

*(iii) Market risk*

*Interest rate risk*

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments. The financial instruments that expose the Group to interest rate risk are limited to borrowings, and cash and cash equivalents.

The following table illustrates sensitivities to the Group's exposures to changes in interest rates. The table indicates the impact on how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variable that management considers to be reasonably possible.

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| **Impact on profit** | | |
| 2% increase in interest rates | (307,214) | (209,871) |
| 2% decrease in interest rates | 307,214 | 209,871 |

There have been no changes in any of the assumptions used to prepare the above sensitivity analysis from the prior year.

The Group also manages interest rate risk by ensuring that, whenever possible, payables are paid within any pre-agreed credit terms.

**(d) Capital management**

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issued.

Management controls the capital of the Company in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

There have been no changes in the strategy adopted by management to manage the capital of the Company.

## 27. KEY MANAGEMENT PERSONNEL COMPENSATION

The total of remuneration paid to key management personnel of the Group during the year is as follows:

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| Key management personnel compensation | 1,238,553 | 1,326,170 |

No remuneration was paid by the parent entity to key management personnel.

There are no other key management compensation transactions for the year ended 30 June 2019 or 30 June 2018.

## 28. COMMITMENTS

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| **Operating lease commitments** | | |
| *Non-cancellable operating lease rentals* | | |
| Within one year | 2,592,411 | 2,622,584 |
| One year or later and no later than five years | 10,517,698 | 8,221,327 |
| Later than five years | 6,478,398 | 4,971,386 |
| | **19,588,507** | **15,815,297** |
| **Capital expenditure commitments** | | |
| *Contracted but not provided for and payable* | | |
| Within one year | - | - |
| | **-** | **-** |

Operating lease rentals relate to premises.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2019

## 29. CONSOLIDATED ENTITIES

| | | Ownership interest | |
|---|---|---|---|
| **Name of entity** | **Country of incorporation** | **30-Jun 2019 %** | **30-Jun 2018 %** |
| ***Parent entity:*** | | | |
| DownUnder GeoSolutions (Australia) Pty Ltd | Australia | | |
| ***Subsidiaries:*** | | | |
| DownUnder GeoSolutions Pty Ltd | Australia | 100% | 100% |
| DownUnder GeoSolutions (UK) Ltd | United Kingdom | 100% | 100% |
| DownUnder GeoSolutions (London) Pty Ltd | United Kingdom | 100% | 100% |
| DownUnder GeoSolutions (America) LLC | USA | 100% | 100% |
| Dugeo (M) Sdn Bhd* | Malaysia | 100% | 100% |
| DownUnder GeoSolutions (Asia) Sdn Bhd | Malaysia | 100% | 100% |
| DownUnder GeoSolutions (Malaysia) Sdn Bhd | Malaysia | 49% | 49% |

*Deregistered effective 6 March 2019, pending approval from Companies Commission of Malaysia (CCM).

## 30. PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 30 June 2019 the parent entity of the Group was DownUnder GeoSolutions (Australia) Pty Ltd.

| | 30-Jun 2019 US$ | 30-Jun 2018 US$ |
|---|---|---|
| **Results of parent entity:** | | |
| Profit/(loss) for the year | (289,656) | (917,979) |
| Other comprehensive income/(expense) | - | - |
| **Total comprehensive expense for the year** | **(289,656)** | **(917,979)** |
| | | |
| **Financial position of parent entity at year end:** | | |
| Current assets | 2,188 | 2,467 |
| Total assets | 4,165,605 | 4,135,463 |
| | | |
| Current liabilities | 31,619 | 7,574 |
| Total liabilities | 31,619 | 7,574 |
| | | |
| **Total equity of parent entity comprising of:** | | |
| Share capital | 5,477,686 | 5,353,963 |
| Reserves | (186,627) | (343,509) |
| Retained earnings | (1,157,073) | (867,417) |
| **Total equity** | **4,133,986** | **4,143,037** |

### (a) Parent entity contingent liabilities

There were no contingent liabilities of the parent entity as at 30 June 2019 and as at 30 June 2018.

### (b) Parent entity capital commitments for acquisition of property, plant and equipment

There were no capital commitments of the parent entity as at 30 June 2019 and as at 30 June 2018.

## 31. FAIR VALUE MEASUREMENTS

The Group does not subsequently measure any liabilities at fair value on a recurring basis, or any assets or liabilities at fair value on a non-recurring basis.

## 32. CONTINGENT LIABILITIES

Contingent liabilities as at 30 June 2019 (30 June 2018: None) were as follows: -

- DownUnder GeoSolutions Pty Ltd (**DUG**) and DownUnder GeoSolutions (Asia) Sdn Bhd (**DUG Asia**) are defendants to proceedings in the Federal Court of Australia brought by PGS Australia Pty Ltd. Those proceedings, which were commenced against DUG in December 2018 and to which DUG Asia were joined in June 2019, involve allegations of patent infringement being made against DUG and DUG Asia in relation to the processing of seismic data acquired in the course of three maritime surveys. DUG and DUG Asia have challenged the validity of the two patents registered in the name of PGS which are relevant to the proceedings by way of cross-claim.

## 33. SUBSEQUENT EVENTS

The Directors are not aware of any significant events since the end of the reporting period.