DUG TECHNOLOGY LTD

(FORMERLY DOWNUNDER GEOSOLUTIONS (AUSTRALIA) PTY LTD)

ABN 99 169 944 334

# Consolidated Financial Report for the Six Month Period ended

## 31 DECEMBER 2019

**Expressed in US dollars unless otherwise stated**

CONTENTS

**DIRECTORS' REPORT** .......... 4

**DIRECTORS' DECLARATION** .......... 9

**INDEPENDENT AUDITOR'S REPORT** .......... 10

**LEAD AUDITOR'S INDEPENDENCE DECLARATION** .......... 12

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION** .......... 13

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME** .......... 14

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** .......... 15

**CONSOLIDATED STATEMENT OF CASH FLOWS** .......... 16

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** .......... 17

| | |
|---|---|
| DIRECTORS | WAYNE MARTIN (Non-Executive Chairman)<br>FRANK SCIARRONE (Non-Executive)<br>CHARLES RAMSDEN (Non-Executive)<br>MICHAEL MALONE (Non-Executive)<br>MARK PUZEY (Non-Executive)<br>MATTHEW LAMONT (Executive)<br>LOUISE BOWER (Executive)<br>PHIL SCHWAN (Executive) |
| COUNTRY OF INCORPORATION | AUSTRALIA |
| COMPANY REGISTRATION NUMBER | 99 169 944 334 |
| LEGAL FORM | 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<br>AUSTRALIA |

# DIRECTORS' REPORT

The Directors hereby present their report together with the consolidated financial statements of the Group comprising of DUG Technology Ltd (FORMERLY DownUnder GeoSolutions (Australia) Pty Ltd) (the **Company**), and its subsidiaries for the six month period ended 31 December 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 Principal activities

DUG Technology Ltd is a technology Company at the forefront of high-performance computing (HPC), with a strong foundation in applied physics. We provide innovative hardware and software solutions for the global technology and resource sectors enabling our clients to leverage vast and complex data sets ("big data").

Historically used in the oil and gas sector, technology opportunities are increasingly being found in other industry sectors such as astrophysics, academia and biomedical research.

## 2 Corporate changes

At a Shareholder Meeting held on the 6th January 2020, it was resolved to (i) terminate the Shareholders Agreement, (ii) adopt a Public Company Constitution and (iii) convert from a Proprietary Limited company to a Limited company.

On the 12th March 2020, the Shareholders resolved to change the company name from DownUnder GeoSolutions (Australia) Ltd to DUG Technology Ltd.

## 3 Directors

The Directors of the Company at any time during or since the half year ended 31 December 2019 are as follows:

Wayne Martin (appointed 1st February 2020) (Non-Executive Chairman)

Frank Sciarrone (Non-Executive)

Charles Ramsden (Non-Executive)

Michael Malone (appointed 9th June 2020) (Non-Executive)

Mark Puzey (appointed 9th June 2020) (Non-Executive)

Matthew Lamont (Executive)

Louise Bower (Executive)

Phil Schwan (appointed 26th February 2020) (Executive)

Troy Thompson (resigned 26th February 2020) (Executive)

## 4 Review of operations and results of those operations

The Group recorded a profit before finance expenses and tax for the six month period ended 31 December 2019 of US$ 273,448 (year ended 30 June 2019 – profit of US$ 2,539,777).

The Group recorded a net loss after finance expenses and tax of US$ 2,513,244 for the six month period ended 31 December 2019 (year ended 30 June 2019 - net loss after tax of US$ 2,633,238).

The Group has adopted IFRS 16 Leases retrospectively with the cumulative effect of initially applying IFRS 16 recognised at 1 July 2019. The adoption of this accounting standard is the primary driver for total assets increasing by US$ 11,661,913 and total liabilities increasing by US$ 14,193,493.

## 5 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 period under review.

## 6 New Accounting Standards Implemented

The Group has implemented one new Accounting Standard that is applicable for the current reporting period.

IFRS 16: *Leases* has been applied retrospectively, with the cumulative effect of initially applying the Standard recognised as an adjustment to the opening balance of retained earnings at 1 July 2019. Therefore, the comparative information has not been restated and continues to be reported under AASB 117: *Leases.*

## 7 Dividends

No dividends were declared after 31 December 2019 and up to the date of signing this report (year ended 30 June 2019: Nil).

## 8 Events subsequent to reporting date

At a Shareholder Meeting held on the 6th January 2020, it was resolved to (i) terminate the Shareholders Agreement, (ii) adopt a Public Company Constitution and (iii) convert from a Proprietary Limited company to a Limited company.

On the 1st February, Wayne Martin former Western Australian chief justice was appointed as chairman of the DUG Board. On the 26th 2020 February Troy Thompson resigned from the Board and Phil Schwan was appointed.

On the 12th March 2020, the Shareholders resolved to change the company name from DownUnder

## DIRECTORS' REPORT

GeoSolutions (Australia) Pty Ltd to DUG Technology Ltd.

The Group has taken a decision to list DUG Technology Ltd on the ASX stock exchange to gain access to growth capital. On the 26th February 2020, as part of the IPO process, the Group raised AU$ 18.2m in Pre-IPO funds using a convertible note instrument.

On the 11th March 2020, the World Health Organisation declared the Coronavirus or COVID 19 a pandemic. COVID 19 is a health risk that has global consequences which has significantly affected the world economy. The strategies adopted by governments in dealing with the virus at an international, domestic and local level are changing daily and re-assessments by governments and world leaders is ongoing. Various industries have and will continue to be impacted more than others for some time to come.

With respect to the six month financial reporting period ended 31 December 2019, the financial statements have been prepared based upon conditions existing as at that date, with no adjustments made for impacts of COVID 19.

There is general consensus that the effects of the COVID 19 outbreak are the result of an event that arose after the reporting date, ie it is a non-adjusting event as defined in AASB 110 Events After the Reporting Period, in which case the Group is required to disclose the nature of the event and an estimate of its financial effect subsequent to 31 December 2019, if possible to do so.

As the pandemic took hold, government shutdowns caused a 20% decline in oil usage. This in turn caused a significant slump in oil prices. Historically, DUG has achieved counter cyclical growth amidst oil price volatility. During these periods, the oil and gas services that the Group provides tend to pivot away from processing and imaging of newly acquired data to the reprocessing of legacy data with new technology which provides an uplift in the quality of the image. For this reason, the impacts of COVID 19 and the slump in oil prices have not significantly affected the financial position of the Group as at the date of this report nor the financial results for the period then ended. The Group has noted a marginal softening in revenue attributed to the delay in commencement of new services projects and the transition to working from home as a result of COVID 19. During the first four months of this calendar year, service project awards totalled US$ 12.8m, contributing to a strong back log of US$ 21.0m at 30th April 2020.

The Group's cloud based technology and High Performance Compute as a Service offering (HPCaaS) has a broad market focus and is expected to lead to significant opportunities in industries not adversely effected by COVID 19.

DUG has benefited from the receipt of US$1.5m from the Paycheck Protection Program (PPP), introduced in the USA, to assist businesses retain employees during the pandemic. This loan will be fully forgiven if the funds are utilised for payroll, insurance premiums, lease and utility payments. It is anticipated that DUG will qualify for 100% debt forgiveness.

The COVID 19 pandemic has created unprecedented uncertainty in terms of the overall economic environment such that economic events and conditions in future may be materially different from those experienced by the Group as at the date of this report. At this time, it is not possible for the Group to estimate the future effects of COVID 19 on its operations as any impact will depend on the magnitude and duration of any economic downturn, with the full range of possible effects unknown.

On the 9th June 2020, Michael Malone and Mark Puzey were appointed as a non-executive directors.

No other matters or circumstances have arisen since the end of the period 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.

## 9 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.

## 10 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 auditor of the Group. Subsequent to 31 Dec 2019, the Directors have entered into a Deed of Indemnity, Insurance and Access.

*Insurance premiums*

The Company has paid premiums in respect of directors' and officers' liability for the six month period ended 31 December 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.

## 11 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 a number of 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 six month period ended 31 December 2019, other than the proceeding described above.

## 12 Auditor's independence declaration

The Lead auditor's independence declaration is set out on page 12 and forms part of the Directors' report for the Financial Statements for the six month period ended 31 December 2019.

Dated at Perth this 15th June 2020.

Signed in accordance with a resolution of the directors.

| | |
|---|---|
| **Mark Puzey** | **Louise Bower** |
| ***Non-Executive Director*** | ***Executive Director*** |

## DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of DUG Technology Ltd (FORMERLY DownUnder GeoSolutions (Australia) Pty Ltd) (the Company), the Directors of the Company declare that:

The financial statements and notes, as set out on pages 13 to 60, are in accordance with the *Corporations Act 2001* and:

a comply with Australian Accounting Standards, which, as stated in accounting policy Note 2 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 31 December 2019 and of the performance for the six month period 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 15th June 2020.

Signed in accordance with a resolution of the directors.

**Mark Puzey**
***Non-Executive Director***

**Louise Bower**
***Executive Director***

MOORE STEPHENS

Level 15, Exchange Tower,
2 The Esplanade, Perth, WA 6000
PO Box 5785, St Georges Terrace,
WA 6831

T +61 (0)8 9225 5355
F +61 (0)8 9225 6181

www.moorestephens.com.au

# INDEPENDENT AUDITOR'S REPORT
# TO THE MEMBERS OF
# DUG TECHNOLOGY LTD

## Opinion

We have audited the financial report of DUG Technology Ltd (the Company) and Controlled Entities (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the 6 month period ended on that date, 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 DUG Technology 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 31 December 2019 and of its performance for the 6 month 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**
**DUG TECHNOLOGY 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
PARTNER

MOORE STEPHENS
CHARTERED ACCOUNTANTS

Signed at Perth this 15th day of June 2020.

MOORE STEPHENS

Level 15, Exchange Tower,
2 The Esplanade, Perth, WA 6000
PO Box 5785, St Georges Terrace,
WA 6831

T +61 (0)8 9225 5355
F +61 (0)8 9225 6181

www.moorestephens.com.au

## AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001* TO THE DIRECTORS OF DUG TECHNOLOGY LTD ABN 99 169 944 334

I declare that, to the best of my knowledge and belief, during the 6 month period ended 31 December 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 15th day of June 2020.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## As at 31 December 2019

| | Note | 31-Dec 2019 US$ | 30-Jun 2019 US$ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | *13* | 2,064,419 | 1,987,849 |
| Trade and other receivables | *14* | 12,958,212 | 10,253,451 |
| Prepayments | | 949,896 | 1,105,219 |
| Contract assets | *15* | - | 761,012 |
| Other current assets | *16* | 1,451,526 | 1,236,240 |
| **Total current assets** | | **17,424,053** | **15,343,771** |
| Deferred tax assets | *12* | 3,893,841 | 3,232,039 |
| Property, plant and equipment | *18* | 35,852,335 | 26,888,879 |
| Intangible assets | *19* | 316,417 | 375,124 |
| Other assets | *20* | 889,404 | 874,227 |
| **Total non-current assets** | | **40,951,997** | **31,370,269** |
| **Total assets** | | **58,376,050** | **46,714,040** |
| **LIABILITIES** | | | |
| Trade and other payables | *21* | 4,547,126 | 6,021,837 |
| Loans and borrowings | *23* | 1,350,577 | 2,502,845 |
| Contract liability | *15* | 589,806 | - |
| Lease Liability | *23* | 1,781,669 | - |
| Current tax liabilities | | 91,294 | 23,192 |
| Provisions | *22* | 1,704,161 | 1,634,613 |
| **Total current liabilities** | | **10,064,633** | **10,182,487** |
| Trade and other payables | *21* | 6,048 | 1,994,699 |
| Loans and borrowings | *23* | 24,379,547 | 22,038,334 |
| Lease Liability | *23* | 13,954,110 | - |
| Provisions | *22* | 266,707 | 261,936 |
| **Total non-current liabilities** | | **38,606,412** | **24,294,969** |
| **Total liabilities** | | **48,671,045** | **34,477,456** |
| **Net assets** | | **9,705,005** | **12,236,584** |
| **EQUITY** | | | |
| Share capital | *24* | 5,477,686 | 5,477,686 |
| Reserves | *24* | (776,904) | (1,283,818) |
| Retained earnings | | 5,004,223 | 8,042,716 |
| **Total equity** | | **9,705,005** | **12,236,584** |
| **Equity split as follows:-** | | | |
| Equity attributable to equity holders of the parent | | 9,676,797 | 12,253,323 |
| Non-controlling interest | | 28,208 | (16,739) |
| **Total equity** | | **9,705,005** | **12,236,584** |

*The consolidated statement of financial position is to be read in conjunction with the notes to the consolidated financial statements set out on pages 17 to 60.*

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

### For the six month period ended 31 December 2019

| | *Note* | **6 month period ended 31 Dec 2019 US$** | **12 month year ended 30 Jun 2019 US$** |
|---|---|---|---|
| **Sales revenue** | *7* | **26,840,300** | **52,134,877** |
| **Income/(Expenses)** | | | |
| Depreciation and amortisation | *18&19* | (4,815,704) | (7,292,515) |
| Employee benefits | *11* | (15,956,990) | (29,647,580) |
| Other income | *9* | - | 72,821 |
| Other expense | *9* | (5,794,158) | (12,727,826) |
| **Operating profit** | | **273,448** | **2,539,777** |
| Finance income | | 1,519 | 65,465 |
| Finance expense | | (1,323,766) | (951,192) |
| **Net finance expense** | *8* | **(1,322,247)** | **(885,727)** |
| (Loss) / Profit before tax | | (1,048,799) | 1,654,050 |
| Tax expense | *12* | (1,464,445) | (4,287,288) |
| **Loss for the period** | | **(2,513,244)** | **(2,633,238)** |
| **Attributable to:** | | | |
| Equity holders of the parent | | (2,558,191) | (2,632,399) |
| Non-controlling interest | | 44,947 | (839) |
| **Total Comprehensive Loss** | | **(2,513,244)** | **(2,633,238)** |

*The consolidated statement of comprehensive income is to be read in conjunction with the notes to the consolidated financial statements set out on pages 17 to 60.*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### For the six month period ended 31 December 2019

| 31-Dec-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 2019** | | 5,477,686 | (2,177,382) | 893,452 | 8,059,567 | 12,253,324 | (16,739) | 12,236,584 |
| (Loss) / Profit for the period | | - | - | - | (2,558,191) | (2,558,191) | 44,947 | (2,513,244) |
| Opening bal Adj (for IFRS16) | | - | 112 | - | (677,681) | (677,569) | - | (677,569) |
| Opening bal Adj (for Shares) | | - | - | (11,147) | - | (11,147) | - | (11,147) |
| Recognise movements in DTA | | - | - | - | 152,320 | 152,320 | - | 152,320 |
| **Total comprehensive (loss)/income for the period** | | - | 112 | (11,147) | (3,083,552) | (3,094,587) | 44,947 | (3,049,640) |
| **TRANSACTIONS WITH EQUITY HOLDERS** | | | | | | | | |
| Share based payments recognised | 24 | - | - | 518,061 | - | 518,061 | - | 518,061 |
| **Total transactions with equity holders** | | - | - | 518,061 | - | 518,061 | - | 518,061 |
| **Balance at 31 December 2019** | | 5,477,686 | (2,177,270) | 1,400,366 | 4,976,015 | 9,676,797 | 28,208 | 9,705,005 |

| 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 |
| Loss for the year | | - | - | - | (2,632,399) | (2,632,399) | (839) | (2,633,238) |
| **Total comprehensive loss 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 |
| 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 17 to 60.*

## CONSOLIDATED STATEMENT OF CASHFLOWS
**For the Six month period ended 31 December 2019**

| | 6 month period ended 31 Dec 2019 US$ | 12 month year ended 30 Jun 2019 US$ |
|---|---|---|
| **CASHFLOWS FROM OPERATING ACTIVITIES** | | |
| Loss after tax | (2,513,244) | (2,633,238) |
| Adjustments for: | | |
| - Depreciation | 4,719,872 | 7,017,060 |
| - Amortisation | 95,832 | 275,455 |
| - Net finance expense | 1,322,247 | 885,727 |
| - Tax expense | 1,464,445 | 4,287,288 |
| - Unrealised foreign exchange loss / (profit) | 93,101 | (72,821) |
| - Disposal of property, plant and equipment loss | 1,583 | 5,626 |
| - Equity-settled share-based payment transactions | 518,061 | 236,140 |
| - Research & development grant | (1,551,996) | (3,146,152) |
| | 4,149,901 | 6,855,085 |
| Changes in: | | |
| - Trade and other receivables | (2,704,761) | (1,408,403) |
| - Prepayments | 155,323 | (87,373) |
| - Contract assets / liabilities | 1,350,818 | 2,042,401 |
| - Other current assets | (215,286) | (87,857) |
| - Other assets | (15,178) | 1,459 |
| - Trade and other payables | (1,097,271) | 1,986,828 |
| - Provisions | 74,319 | 122,944 |
| Cash generated from operating activities | **1,697,865** | **9,425,083** |
| Tax paid | (506,148) | (52,885) |
| **Net cash from operating activities** | **1,191,717** | **9,372,198** |
| **CASHFLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of property, plant and equipment | (267,525) | (15,858,182) |
| Acquisition of intangible assets | (37,125) | (91,043) |
| Interest received | 1,519 | 65,465 |
| Proceeds from disposal of property, plant and equipment | 1,583 | - |
| **Net cash used in investing activities** | **(301,548)** | **(15,883,760)** |
| **CASHFLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from borrowings | 2,383,544 | 10,155,688 |
| Costs relating to borrowings | - | (284,880) |
| Repayment of borrowings | (1,194,599) | (2,415,219) |
| Lease payments on capitalised leases | (678,778) | - |
| Interest paid | (1,323,766) | (834,700) |
| **Net cash from financing activities** | **(813,599)** | **6,620,889** |
| Net increase in cash and cash equivalents | 76,569 | 109,327 |
| Cash and cash equivalents at the beginning of the period | 1,987,849 | 1,878,522 |
| **Cash and cash equivalents at end of the period** | **2,064,419** | **1,987,849** |

*The consolidated statement of cash flows is to be read in conjunction with the notes to the consolidated financial statements set out on pages 17 to 60.*

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the six month period ended 31 December 2019**

## 1. REPORTING ENTITY

The consolidated financial statements of DUG Technology Ltd (FORMERLY DownUnder GeoSolutions (Australia) Pty Ltd) as at and for the six month period ended 31 December 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 period was the provision of innovative high-performance computing (HPC) and software solutions for the global technology and resource sectors to enable clients to leverage vast and complex data sets ("big data").

Historically used in the oil and gas sector, technology opportunities are increasing being found in other industry sectors such as astrophysics, academia and biomedical research.

## 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.

## 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 has determined that the functional currency is US$ as 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 raised in 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. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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 amounts recognised in the financial information are described in the following notes:

a) Judgements Used in Estimating Revenue Recognised Over time

Services revenue is recognised over time by reference to the Company's progress towards completion of the contract. The measure of progress is determined based on outputs delivered to or consumed by the customer.

Services contract revenue comprises the initial amount of revenue agreed in the contract and subsequent variations to the extent that it is highly probable that a significant reversal of revenue recognised will not occur when any uncertainty associated with the variable consideration is subsequently resolved.

Whilst there is a degree of estimation and judgement applied by management in determining revenue recognised, such estimates and judgements applied are not overly critical to the timing of revenue recognised in the financial statements.

b) Provision for impairment of receivables

The provision for impairment of receivables assessment requires, in some cases, a significant degree of estimation and judgement. The level of provision is assessed by applying the Expected Credit Loss model (refer Note 6 (i)) which takes into account forward looking attributes of the individual debtor as well as historical data such as recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

c) Estimation of useful lives of assets

The Company determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will decrease where the useful lives are greater than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

The Company periodically reviews and changes the estimated useful lives of assets with any changes being treated as a change in accounting estimates and accounted for in a prospective manner.

d) Impairment of non-financial assets

The Company assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the company and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

e) Income tax

The Company is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The company recognises liabilities for anticipated tax audit issues based on the company's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

f) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the company considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

g) Employee benefits provisions

The liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

## 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, DUG Technology 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 are 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 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 material change in accounting policies (highlighted below) in respect of the periods reported in this section. Therefore, no adjustments were made to the Statement of profit or loss and other comprehensive income for the period ending 30 June 2018 and consequently revenue has been recognised on a consistent basis for the years ended 30 June 2018 and 2019 and for the half year ended 31 December 2019.

Revenue is recognised when the Company satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer gains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

*(i)* *HPCaaS revenue (high performance compute as a service)*

Through the DUG McCloud platform, clients connect to and access DUG's HPC and storage under a contracted, committed or burst business model.

For these contracts, revenue is recognised at the end of each month based on resource utilization. Compute is invoiced at an agreed rate per node hour. Storage is based on an agreed rate for petabytes used.

*(ii)* *Service revenue*

The Company provides services to customers by way of contracts.

For these contracts, revenue is recognised over time by reference to the Company's progress towards completion of the contract. The measure of progress is determined based on the proportion of services delivered to or consumed by the customer to date compared to the estimated total services to be delivered under the contract ("output method").

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

Contract modifications that do not add distinct goods or services are accounted for as a continuation of the original contract and the change is as a cumulative adjustment to revenue at the date of modification.

Variable consideration is typically constrained and only as revenue to the extent that it is highly probable that a significant reversal in the amount of revenue will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

*(iii)* *Software revenue*

Revenue from the sale of software is predominantly in the form of annual licence fees.

Revenues relating to non-refundable licence fees are recognised at the point of sale, as licence agreements provide customers with a right to use the Company's software products as they exist at any given time during the licence term.

*(iv)* *Government grants*

Grants from the government are 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 expensed to profit and loss (such as research and development concessions) are recognised in profit and loss, rather than being recorded as a tax offset in income tax expense, over the period necessary to match them with the costs that they are intended to compensate.

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.

*(v)* *Management fees*

The parent Company charges management fees for performing various services on behalf of the Subsidiaries.

*(vi)* *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 twelve months after the end of the half year 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' statutory long service leave and annual leave entitlements not expected to be settled wholly within twelve months after the end of the half year 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 statutory 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 twelve 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 DUG Technology 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 period and any adjustment to tax payable or receivable in respect of previous periods. 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
- temporary differences where that Company is unable to control the timing of the reversal 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 DUG Technology Ltd.

**(f) Goods and services tax (GST) and value added tax (VAT)**

Revenue, expenses and assets are recognised net of the amount of GST or VAT, except where the amount of GST or VAT incurred is not recoverable from the relevant tax authorities.

Receivables and payables are stated inclusive of the amount of GST or VAT receivable or payable. The net amount of GST or VAT recoverable from, or payable to, the relevant tax authorities is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST or VAT components of cash flows arising from investing or financing activities, which are recoverable from or payable to the relevant tax authorities, are presented as operating cash flows included in receipts from customers or payments to suppliers.

**(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 capitalised 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 HPC pool comprises compute, storage and data center infrastructure. The leasehold improvement pools is made up of the Group's office fit-out costs.

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

| | |
|---|---|
| • Compute and Storage | 5 years from 1 July 19 (Previously 3 to 4 years) |
| • Data Centre Infrastructure | 20 years from 1 July 19 (Previously no longer than period of lease) |
| • Leasehold improvements | No longer than period of lease |
| • Right of use asset | No longer than period of Lease |
| • Office equipment and motor vehicles | 3 to 4 years |

The impact on the statement of profit or loss for the 6 months ended 31 December 2019, as a result of the change in useful lives of the HPC pool, had it been applied to all such assets owned as at 1 July 2019, would have been to increase the net profit before tax by approximately US$ 550,000.

**(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) Multi-Client studies*

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.

*(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.

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.

*(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 IFRS 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 *IFRS 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 IFRS 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 investment's revaluation reserve is not reclassified to profit or loss but is transferred to retained earnings.

**Compound Financial Instruments**

Compound financial instruments (such as convertible notes) issued by the Group are classified as either financial liabilities or equity in accordance with the substance of the arrangement.

**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 IFRS 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.

### (j) 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.

### (k) 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.

### (l) 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 period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

### (m) Leases (the Company as a Lessee)

At inception of a contract, the Company assesses if the contract contains or is a lease. If there is a lease present, a right-of-use asset and a corresponding lease liability is recognised by the Company where the Company is a lessee. However, all contracts that are classified as short-term leases (ie a lease with a remaining lease term of 12 months or less) and leases of low-value assets are recognised as an operating expense on a straight-line basis over the term of the lease.

Initially, the lease liability is measured at the present value of the lease payments still to be paid at commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the Company uses the incremental borrowing rate.

Lease payments included in the measurement of the lease liability are as follows:

- fixed lease payments less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The right-of-use assets comprise the initial measurement of the corresponding lease liability as mentioned above, any lease payments made at or before the commencement date, as well as any initial direct costs. The subsequent measurement of the right-of-use assets is at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the shortest. Where a lease transfers ownership of the underlying asset, or the cost of the right-of-use asset reflects that the Company anticipates to exercise a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

### (n) 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.

### (o) 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.

### (p) 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.

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

The Group has adopted IFRS 16 Leases retrospectively with the cumulative effect of initially applying IFRS 16 recognised at 1 July 2019. In accordance with IFRS 16, the comparatives for the 2018 reporting period have not been restated.

The Group has recognised a lease liability and right-of-use asset for all leases (with the exception of short-term and low-value leases) recognised as operating leases under AASB 117 Leases where the Group is the lessee.

The lease liabilities are measured at the present value of the remaining lease payments. The Group's incremental borrowing rate as at 1 July 2019 was used to discount the lease payments.

The right-of-use assets for the leases were measured and recognised in the statement of financial position as at 1 July 2019 by taking into consideration the lease liability and prepaid and accrued lease payments previously recognised as at 1 July 2019 (that are related to the lease).

The following practical expedients have been used by the Group in applying IFRS 16 for the first time:

- for a portfolio of leases that have reasonably similar characteristics, a single discount rate has been applied;
- leases that have remaining lease term of less than 12 months as at 1 January 2019 have been accounted for in the same way as short-term leases;
- the use of hindsight to determine lease terms on contracts that have options to extend or terminate,

- applying IFRS 16 to leases previously identified as leases under AASB 117 and Interpretation 4: Determining whether an arrangement contains a lease without reassessing whether they are, or contain, a lease at the date of initial application;
- not applying IFRS 16 to leases previously not identified as containing a lease under AASB 117 and Interpretation 4.

The difference of $3,309,421 between the lease liabilities of $16,279,086 as at 1 July 2019 and the previously disclosed operating lease commitments as at 30 June 2019 of $19,588,507 comprises the effect of discounting as well as low value and short term leases.

#### (r) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group retrospectively applies an accounting policy, makes a retrospective restatement of items in the financial statements or reclassifies items in its financial statements, a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statement is presented.

## 7. SALES REVENUE

| | 6 month period ended 31 Dec 2019 US$ | 12 month year ended 30 Jun 2019 US$ |
|---|---|---|
| HPCaaS | 783,076 | 1,125,804 |
| Services | 19,919,281 | 40,227,421 |
| Software | 4,585,947 | 7,635,500 |
| Government grants | 1,551,996 | 3,146,152 |
| **Sales Revenue** | **26,840,300** | **52,134,877** |

## 8. FINANCE INCOME/(EXPENSE)

| | 6 month period ended 31 Dec 2019 US$ | 12 month year ended 30 Jun 2019 US$ |
|---|---|---|
| Interest income | 1,519 | 65,465 |
| **Finance income** | **1,519** | **65,465** |
| Interest expense | (1,038,776) | (834,700) |
| Debt Arrangement fees | (284,990) | (116,492) |
| **Finance expense** | **(1,323,766)** | **(951,192)** |
| **Finance expense - net** | **(1,322,247)** | **(885,727)** |

## 9. OTHER INCOME/(EXPENSE)

| | 6 month period ended 31 Dec 2019 US$ | 12 month year ended 30 Jun 2019 US$ |
|---|---|---|
| Unrealised foreign exchange profit - net | - | 72,821 |
| **Other income** | **-** | **72,821** |
| Sales and marketing | (1,171,821) | (2,035,261) |
| Office facilities | (631,656) | (3,088,697) |
| Consultants | (665,360) | (1,236,183) |
| Loss on disposal of property, plant and equipment | (1,583) | (5,626) |
| Realised foreign exchange loss - net | (45,276) | (10,581) |
| Unrealised foreign exchange loss - net | (93,101) | - |
| IT facilities and related costs | (1,254,691) | (4,458,298) |
| Other | (1,930,670) | (1,893,180) |
| **Other expense** | **(5,794,158)** | **(12,727,826)** |

The reduction in facilities costs in the six month period to 31 Dec 2019 reflects the adoption of IFRS 16.

## 10. AUDITOR'S REMUNERATION

| | 6 month period ended 31 Dec 2019 US$ | 12 month year ended 30 Jun 2019 US$ |
|---|---|---|
| **Audit and review services** | | |
| Auditors of the Group – Moore Stephens | | |
| Audit and review of financial statements | **85,583** | **135,128** |

## 11. EMPLOYEE BENEFITS

| | 6 month period ended 31 Dec 2019 US$ | 12 month year ended 30 Jun 2019 US$ |
|---|---|---|
| Salaries and fees | 12,740,135 | 24,320,063 |
| Superannuation | 932,375 | 1,846,503 |
| Payroll tax | 769,445 | 1,479,764 |
| Other benefits | 996,974 | 1,765,110 |
| Share based payments | 518,061 | 236,140 |
| | **15,956,990** | **29,647,580** |

## 12. INCOME TAXES

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

| | 6 month period ended 31 Dec 2019 US$ | 12 month year ended 30 Jun 2019 US$ (Note 2) |
|---|---|---|
| The components of tax expense/(benefit) comprise: | | |
| Current tax expense | 1,665,617 | 4,820,864 |
| Deferred Tax expense | (201,172) | (609,254) |
| Under/Over provision in respect of prior years | - | 75,678 |
| **Income Tax expense** | **1,464,445** | **4,287,288** |

### (b) Numerical reconciliation of tax expense

| | 6 month period 31 Dec 2019 US$ | 12 month year 30 Jun 2019 US$ (Note 2) |
|---|---|---|
| **Profit/(loss) before tax** | **(1,048,799)** | **1,654,050** |
| Tax using the Company's domestic tax rate of 30% | (314,640) | 496,215 |
| Add/(Less) the tax effect of: | | |
| - Effect of tax rates in foreign jurisdictions | 116,469 | 807,299 |
| - Change in tax rates | 3,170 | 55,721 |
| - Non-assessable income | | |
| - Research and development Tax Incentive | (465,599) | (943,845) |
| - Pioneer status income not subject to tax | (392,939) | (747,401) |
| - Other Non-assessable income | (10,116) | - |
| - Other allowable items | (46,762) | (124,260) |
| - Non-allowable items | | |
| - Other non-deductible expenses | 46,453 | 556,176 |
| - Research and Development expenditure | 1,339,846 | 2,450,965 |
| - Losses and other deferred tax items not recognised | 901,942 | 1,780,175 |
| - Under/Over provision in respect of prior years | - | (76,233) |
| - Recoupment of prior year tax losses not previously brought to account | (4,135) | - |
| - Withholding tax | 290,756 | 32,476 |
| **Income tax attributable to entity** | **1,464,445** | **4,287,288** |

DownUnder Geosolutions (America) LLC, has carried forward tax losses of US$ 37,532,751 (June 30, 2019 - US$35,604,661) available for future use. These tax losses have arisen due to the investment in data center infrastructure and compute and favourable capital allowances in this jurisdiction.

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

| | 6 month period 31 Dec 2019 US$ | 12 month year 30 Jun 2019 US$ |
|---|---|---|
| Net deferred tax assets | 3,893,841 | 3,232,039 |
| **Net deferred tax assets** | **3,893,841** | **3,232,039** |

**(d) Movement in temporary differences during the six month period ended 31 December 2019:**

| | Balance 1 Jul 2019 US$ (Note 2) | Recognised in Income US$ | Balance 31 Dec 2019 US$ |
|---|---|---|---|
| **Deferred tax liabilities** | | | |
| Property, plant and equipment | (3,023,460) | 427,137 | (2,596,323) |
| Cash and cash equivalents | (64,568) | 13,002 | (51,566) |
| Trade and other receivables | 4,549 | (36,645) | (32,096) |
| **Deferred tax assets** | | | |
| Leases | - | 542,250 | 542,250 |
| Trade and other payables | 131,580 | (8,050) | 123,530 |
| Provisions | 568,965 | 27,950 | 596,915 |
| Other current assets | 234,602 | 12,418 | 247,020 |
| Carry forward revenue losses/tax offsets | 5,380,372 | (316,261) | 5,064,111 |
| | **3,232,039** | **661,802** | **3,893,841** |
| Carry forward revenue losses and other deferred tax items not recognised | 4,130,548 | 1,029,469 | 5,160,017 |

**(e) Movement in temporary differences during the year ended 30 June 2019:**

| | Balance 1 Jul 2018 US$ (Note 2) | Recognised in Income US$ | Balance 30 Jun 2019 US$ (Note 2) |
|---|---|---|---|
| **Deferred tax liabilities** | | | |
| Property, plant and equipment | (970,792) | (2,052,668) | (3,023,460) |
| Cash and cash equivalents | (20,295) | (44,273) | (64,568) |
| **Deferred tax assets** | | | |
| Borrowings | 27,057 | (27,057) | - |
| Trade and other receivables | 1,152 | 3,397 | 4,549 |
| Trade and other payables | 79,935 | 51,645 | 131,580 |
| Provisions | 532,082 | 36,883 | 568,965 |
| Other current assets | 210,820 | 23,782 | 234,602 |
| Carry forward revenue losses/tax offsets | 4,314,427 | 1,065,945 | 5,380,372 |
| | **4,174,386** | **(942,346)** | **3,232,039** |
| Carry forward revenue losses and other deferred tax items not recognised | 1,891,978 | 2,238,570 | 4,130,548 |

Note 1 - Corporate tax rate

The corporate tax rate for eligible companies will reduce from 30% to 25% by 30 June 2022 providing certain turnover thresholds and other criteria are met. Deferred tax assets and liabilities are required to be measured at the tax rate that is expected to apply in the future income year when the asset is realised or the liability is settled. The Directors have determined that the deferred tax balances be measured at the tax rates stated.

Note 2 – Comparatives

The June 2019 comparative figures for income tax note have been reinstated to be consistent with the December 2019 year presentation format. The overall reported tax position has not changed.

## 13. CASH AND CASH EQUIVALENTS

| | 31-Dec 2019 US$ | 30-Jun 2019 US$ |
|---|---|---|
| Cash at bank and on hand | 2,583,467 | 2,409,982 |
| **Cash at bank and on hand** | **2,583,467** | **2,409,982** |
| Bank overdrafts | (519,048) | (422,133) |
| **Cash and cash equivalents in the statement of cashflows** | **2,064,419** | **1,987,849** |

A secured bank overdraft facility of AUD$1,000,000 (Dec 2019 available AUD$ 324,304; Jun 2019 available AUD$460,662) is in place, with an applicable floating charge rate based on an overdraft index rate plus a margin.

## 14. TRADE AND OTHER RECEIVABLES

| | 31-Dec 2019 US$ | 30-Jun 2019 US$ |
|---|---|---|
| ***Current asset*** | | |
| Trade receivables | 12,273,085 | 10,103,809 |
| Provision for impairment | - | - |
| **Trade receivables - net** | **12,273,085** | **10,103,809** |
| Indirect taxes receivable | - | 127,209 |
| Other receivables | 685,127 | 22,433 |
| **Current trade and other receivables** | **12,958,212** | **10,253,451** |

Credit terms for trade receivables average 30 days

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

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 26. The main source of credit risk to the Group is considered to relate to the class of assets described as "trade and other receivables" which at the end of 31 Dec 2019 is NIL (30 Jun 2019 – NIL).

The table below 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 31 December 2019 is determined as follows. The expected credit losses below also incorporate forward-looking information.

| 31-Dec-19 | Current | 31 - 60 days | 61 - 90 Days | > 90 days due | Total |
|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ |
| Expected loss rate | 0% | 0% | 0% | 0% | 0% |
| Gross carrying amount | 6,362,873 | 2,983,082 | 822,856 | 2,789,401 | 12,958,212 |
| Loss allowing provision | - | - | - | - | - |

| 30-Jun-19 | Current | 31 - 60 days | 61 - 90 Days | > 90 days due | Total |
|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ |
| Expected loss rate | 0% | 0% | 0% | 0% | 0% |
| Gross carrying amount | 6,800,841 | 1,326,622 | 1,429,558 | 696,431 | 10,253,451 |
| Loss allowing provision | - | - | - | - | - |

### b. Financial Assets Measured at Amortised Cost

| | 31-Dec 2019 US$ | 30-Jun 2019 US$ |
|---|---|---|
| Trade and other receivables | | |
| - total current | 12,958,212 | 10,253,451 |
| - total non-current | - | - |
| **Total financial assets classified as loans and other receivables** | **12,958,212** | **10,253,451** |

### c. Collateral Pledged

There is a fixed charge on all freehold, leasehold, book debts and other assets of the Group, in respect of a financing facilities referred to in Note 23.

## 15. CONTRACT ASSETS / LIABILITIES

| | 31-Dec 2019 US$ | 30-Jun 2019 US$ |
|---|---|---|
| Contract (Liabilities) / Assets relating to contracts | (589,806) | 761,012 |
| Loss allowance | - | - |
| | **(589,806)** | **761,012** |
| Current | (1,083,586) | 366,353 |
| Non-current | 493,780 | 394,659 |
| | **(589,806)** | **761,012** |

Contract liabilities relate to projects where the Group has invoiced the client in advance of progress towards project completion. When invoicing takes place, any amount that has previously been classified as a contract liability will be reclassified to trade receivables.

Contract assets are in relation to projects where the Group has progressed the project towards completion but contractually is not entitled to invoice the client.

### Impairment of contract assets

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

Based on the above, the loss allowance was determined as follows:

| 31-Dec-19 | Current<br>US$ | > 30 days due<br>US$ | > 60 days due<br>US$ | > 90 days due<br>US$ | Total<br>US$ |
|---|---|---|---|---|---|
| Contract liabilities | (1,083,586) | 1,458 | 0 | 492,321 | (589,806) |
| Expected loss rate | 0% | 0% | 0% | 0% | 0% |
| Loss allowing provision | - | - | - | - | - |

| 30-Jun-19 | Current<br>US$ | > 30 days due<br>US$ | > 60 days due<br>US$ | > 90 days due<br>US$ | Total<br>US$ |
|---|---|---|---|---|---|
| Contract assets | 366,353 | 87,913 | 0 | 306,745 | 761,012 |
| Expected loss rate | 0% | 0% | 0% | 0% | 0% |
| Loss allowing provision | - | - | - | - | - |

## 16. OTHER CURRENT ASSETS

| | 31-Dec 2019 US$ | 30-Jun 2019 US$ |
|---|---|---|
| Bonds and security deposits | 1,451,526 | 1,236,240 |
| | **1,451,526** | **1,236,240** |

## 17. INTERESTS HELD IN ASSOCIATES

The Group has interests in the following associates

| | 31-Dec 2019 | 30-Jun 2019 |
|---|---|---|
| Rouge Rock Pty Ltd | 49% | 49% |

DUG has a 49% interest in Rouge Rock Pty Ltd. Rouge Rock was incorporated in 2016 and non-executive director, Charles Ramsden holds the remaining interest. Rouge Rock was formed for the purposes of earning participation rights in exploration petroleum permits. DUG considers its interest in Rouge Rock to be a non-core asset.

## 18. PROPERTY, PLANT & EQUIPMENT

| | HPC | Leasehold improvements | Right of Use Asset | Office Equipment and and Motor Vehicles | Under construction | Total |
|---|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ | US$ |
| **Cost** | | | | | | |
| Balance at 1 July 2018 | 37,783,172 | 4,915,774 | - | 1,691,995 | 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 |
| Reclassification | 13,201 | - | - | - | (13,201) | - |
| Disposals | (383,504) | - | - | (2,376) | - | (385,880) |
| **Balance at 30 June 2019** | **51,576,235** | **4,923,342** | **-** | **1,691,402** | **1,904,560** | **60,095,539** |
| Balance at 1 July 2019 | 51,576,235 | 4,923,342 | - | 1,691,402 | 1,904,560 | 60,095,539 |
| Additions | 249,344 | 817 | 17,034,740 | 8,077 | 9,287 | 17,302,265 |
| Reclassification | - | 117,950 | - | 77,173 | (195,123) | - |
| Disposals | (20,041) | - | - | - | (3,350) | (23,391) |
| **Balance at 31 December 2019** | **51,805,538** | **5,042,109** | **17,034,740** | **1,776,652** | **1,715,374** | **77,374,413** |
| **Accumulated depreciation** | | | | | | |
| Balance at 1 July 2018 | 24,171,829 | 1,203,008 | - | 1,029,640 | - | 26,404,477 |
| Depreciation | 6,117,299 | 566,145 | - | 333,616 | - | 7,017,060 |
| Assets recommissioned | 157,897 | - | - | - | - | 157,897 |
| Reclassification | 5,820 | - | - | - | - | 5,820 |
| Disposals | (376,219) | - | - | (2,376) | - | (378,595) |
| Balance at 30 June 2019 | 30,076,626 | 1,769,153 | - | 1,360,880 | - | 33,206,658 |
| Balance at 1 July 2019 | 30,076,626 | 1,769,153 | - | 1,360,880 | - | 33,206,658 |
| Leased Assets | - | - | 3,613,252 | - | - | 3,613,252 |
| Depreciation | 3,362,171 | 290,242 | 931,086 | 136,372 | - | 4,719,872 |
| Disposals | (17,705) | - | - | - | - | (17,705) |
| **Balance at 31 December 2019** | **33,421,092** | **2,059,395** | **4,544,338** | **1,497,252** | **-** | **41,522,077** |
| **Carrying amounts** | | | | | | |
| **At 30 June 2019** | 21,499,609 | 3,154,189 | - | 330,522 | 1,904,560 | 26,888,881 |
| **At 31 December 2019** | **18,384,446** | **2,982,714** | **12,490,402** | **279,400** | **1,715,374** | **35,852,335** |

### Right of Use Assets

The Group's lease portfolio includes buildings. These leases have an average of 10 years as their lease term.

Options to Extend

The option to extend is contained in the property leases of the Group. These clauses provide the Group opportunities to manage leases in order to align with its strategies. All of the extension options are only exercisable by the Group. The extension options which were probable to be exercised have been included in the calculation of the right-of-use asset.

**IFRS 16 related amounts recognised in the balance sheet:**

| | 31-Dec 2019 US$ | 30-Jun 2019 US$ |
|---|---|---|
| **Right-of-use assets:** | | |
| Leased buildings | 17,034,740 | - |
| Accumulated depreciation | (4,544,338) | - |
| **Total right-of-use asset** | 12,490,402 | - |
| | | |
| **Movement in carrying amounts:** | | |
| Leased buildings: | | |
| Recognised on Initial application of IFRS 16 | 13,421,488 | - |
| Depreciation expense | (931,086) | - |
| | 12,490,402 | - |

**IFRS 16 related amounts recognised in the statement of profit and loss:**

| | 6 month period ended 31 Dec 2019 US$ | 12 month year ended 30 Jun 2019 US$ |
|---|---|---|
| Depreciation charge related to right-of-use assets | 931,086 | - |
| Interest expense on lease liabilities | 400,745 | - |
| Short term and low value asset lease expense | 99,216 | - |

**Total cash outflow for leases:**

| | 6 month period ended 31 Dec 2019 US$ | 12 month year ended 30 Jun 2019 US$ |
|---|---|---|
| Total cash outflow for leases | 1,084,339 | - |

## 19. INTANGIBLE ASSETS

| | Multi-Client studies US$ | Website US$ | Software US$ | Patents and Trade marks US$ | Total US$ |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at 1 July 2018 | 2,295,002 | 5,192 | 1,126,420 | 350,236 | 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 | 1,126,420 | 421,571 | 3,862,701 |
| Balance at 1 July 2019 | 2,295,002 | 19,707 | 1,126,420 | 421,571 | 3,862,701 |
| Acquisitions | - | - | - | 37,125 | 37,125 |
| **Balance at 31 December 2019** | **2,295,002** | **19,707** | **1,126,420** | **458,697** | **3,899,826** |
| **Accumulated amortisation** | | | | | |
| Balance at 1 July 2018 | 2,295,002 | 5,192 | 830,494 | 86,625 | 3,217,314 |
| Amortisation | - | 2,701 | 221,654 | 51,100 | 275,455 |
| Disposals | - | (5,192) | - | - | (5,192) |
| **Balance at 30 June 2019** | 2,295,002 | 2,701 | 1,052,149 | 137,725 | 3,487,577 |
| Balance at 1 July 2019 | 2,295,002 | 2,701 | 1,052,149 | 137,725 | 3,487,577 |
| Amortisation | - | 2,463 | 73,103 | 20,266 | 95,832 |
| **Balance at 31 December 2019** | **2,295,002** | **5,164** | **1,125,252** | **157,991** | **3,583,409** |
| **Carrying amounts** | | | | | |
| **AT 30 June 2019** | - | **17,006** | 74,271 | 283,847 | 375,124 |
| **At 31 December 2019** | - | **14,543** | **1,168** | **300,706** | **316,417** |

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 have been amortised over a period of 5 years.

## 20. OTHER ASSETS

| | 31-Dec 2019 US$ | 30-Jun 2019 US$ |
|---|---|---|
| Loans | 889,404 | 874,227 |
| | **889,404** | **874,227** |

Unsecured, interest bearing loan provided to Executive Director, Phil Schwan. The loan matures on 30th June 2022. Should the loan not be repaid in full by this date, the loan is subject to an agreed repayment schedule.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**For the six month period ended 31 December 2019**

## 21. TRADE AND OTHER PAYABLES

| | 31-Dec 2019 US$ | 30-Jun 2019 US$ |
|---|---|---|
| **Current liabilities** | | |
| Trade payables | 3,111,811 | 4,542,797 |
| Accruals | 656,586 | 887,102 |
| Other | 637,062 | 591,938 |
| Premium funding | 141,668 | - |
| **Current trade and other payables** | **4,547,126** | **6,021,837** |
| **Non-current liabilities** | | |
| Indirect taxes payables | 6,048 | - |
| Deferred rent | - | 1,994,699 |
| **Non-current trade and other payables** | **6,048** | **1,994,699** |

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

## 22. PROVISIONS

| | 31-Dec 2019 US$ | 30-Jun 2019 US$ |
|---|---|---|
| **Current liability** | | |
| Provision for annual leave | 1,108,712 | 1,164,636 |
| Provision for long service leave | 595,449 | 469,977 |
| | **1,704,161** | **1,634,613** |
| **Non-current liability** | | |
| Provision for long service leave | 266,707 | 261,936 |
| | **266,707** | **261,936** |
| **Reconciliation of movements in provisions:** | | |
| **Provision for annual leave** | | |
| Balance at beginning of year | 1,164,636 | 1,168,310 |
| Provision movement during the financial year | (55,924) | (3,674) |
| **Balance at year end** | **1,108,712** | **1,164,636** |
| **Provision for long service leave** | | |
| Balance at beginning of year | 731,913 | 605,295 |
| Provision movement during the financial year | 130,243 | 126,618 |
| **Balance at year end** | **862,156** | **731,913** |

## 23. LOANS AND BORROWINGS

| 31-Dec-19 | Bank loan US$ | Lease Liabiity US$ | Promissory Note US$ | Total US$ |
|---|---|---|---|---|
| Carrying Value | **24,166,789** | **15,735,779** | **1,563,335** | **41,465,903** |
| Current | - | 1,781,669 | 1,350,577 | 3,132,246 |
| Non-current | 24,166,789 | 13,954,110 | 212,758 | 38,333,657 |
| | **24,166,789** | **15,735,779** | **1,563,335** | **41,465,903** |

| 30-Jun-19 | Bank loan US$ | Lease Liabiity US$ | Promissory Note 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** |

(i) The following facilities are currently in place:

(a) Revolving facility of US$7,000,000 (2019 – US$7,000,000):

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 (2019 - US$17,805,000):

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 5.30% per annum (June 30 2019: 5.53%).

(ii) Promissory notes are payable to Wells Fargo Equipment Finance Inc and G Tower Sdn Bhd. The Wells Fargo debt is secured by compute reported in the US subsidiary, DownUnder GeoSolutions (America) LLC. Intel Corporation provided a guarantee to Wells Fargo through a recourse agreement. The Loan from G Tower relates to funding of data center fitout in DownUnder GeoSolutions (Asia) Sdn Bhd. The carrying value of promissory notes is shown net of deferred finance charges of US$85,688 (June 30 2019 –US$130,792).

## 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.

| | 31-Dec-19 | | 30-Jun-19 | |
|---|---|---|---|---|
| | **No.** | **US$** | **No.** | **US$** |
| **Fully paid up shares** | | | | |
| Balance at beginning of period | 54,394,769 | 5,477,686 | 54,310,877 | 5,353,963 |
| Issued and fully paid shares | - | - | 83,892 | 123,723 |
| **Balance at end of period** | **54,394,769** | **5,477,686** | **54,394,769** | **5,477,686** |
| **Issued under loan funded share plan** | | | | |
| Balance at beginning of period | 8,960,059 | - | 8,239,465 | - |
| Vesting conditions not met | (384,455) | - | (51,316) | - |
| Issued during the period | - | - | 771,910 | - |
| **Balance at end of period** | **8,575,604** | **-** | **8,960,059** | **-** |
| **Performance Shares** | | | | |
| Balance at beginning of period | - | - | - | - |
| Performance Shares issued for services | 375,000 | - | - | - |
| **Balance at end of period** | **375,000** | **-** | **-** | **-** |
| **Total shares issued** | **63,345,373** | **5,477,686** | **63,354,828** | **5,477,686** |

a) No fully paid ordinary shares were issued to the non-executive Directors for services rendered during the six month period ended 31st December 2019 (FY19 30,150 shares were issued).

b) A total of 375,000 fully paid performance shares were issued to a key technology advisor during the six month period ended 31st December 2019 (FY19 53,742 fully paid shares were issued to new employees.)

c) The Company invites key employees to acquire shares in DUG Technology Ltd under a Loan Funded Share Plan. During the period no shares were offered (FY19 771,910). The shares are granted at market value 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 limited recourse loan at 31 December 2019 is US$ 7,437,784 (FY19 US$ 7,906,517)

d) During the period, all shares, issued under the 2016 loan funded share plan, did not achieved the vesting conditions, resulting in the cancellation of 384,455 shares. (FY19 - 97% of shares under the 2015 loan funded share plan met the vesting conditions, resulting in the cancellation of 51,316 shares).

e) The fair value of the shares granted under the loan funded share plan are measured using the Black-Scholes method. Expected volatility is estimated by considering historic average share price volatility. A probability of 90% has been applied to the valuation of all unvested shares as at 31st December 2019, reflecting the liquidity event which could be triggered by the Company's intention of listing.

**(b) Reserves**

| | 31-Dec 2019 US$ | 30-Jun 2019 US$ |
|---|---|---|
| Share based payments reserve | 1,400,366 | 893,452 |
| Translation reserve | (2,177,270) | (2,177,382) |
| | (776,904) | (1,283,930) |
| **Reconciliation of movement in reserves:** | | |
| ***Share based payments reserve*** | | |
| Balance at beginning of period | 893,452 | 736,570 |
| Opening Balance Adjustment | (11,147) | - |
| Utilisation of dividend to repay loan funded share plan debt | - | - |
| Share based expense payments recognised | 518,061 | 156,882 |
| Options excercised | - | - |
| **Balance at end of period** | **1,400,366** | **893,452** |

| | 31-Dec 2019 US$ | 30-Jun 2019 US$ |
|---|---|---|
| ***Translation reserve*** | | |
| Balance at beginning of period | (2,177,382) | (2,177,382) |
| Opening balance adjustment | 112 | - |
| Change in control of subsidiary | - | - |
| Effect of translation of foreign currency operations to Group | - | - |
| **Balance at end of period** | **(2,177,270)** | **(2,177,382)** |

(1) The share based payment reserve comprises expenses incurred from the issue of Company's 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

| | 31-Dec 2019 US$ | 30-Jun 2019 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:

| | 31-Dec 2019 US$ | 30-Jun 2019 US$ |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 2,064,419 | 1,987,849 |
| Trade and other receivables | 12,958,212 | 10,253,451 |
| | **15,022,631** | **12,241,300** |
| **Financial liabilities** | | |
| Financial liabilities at amortised cost: | | |
| Trade and other payables | (4,547,126) | (6,021,837) |
| Lease Liability | (15,735,779) | - |
| Loans and borrowings | (25,730,124) | (24,541,179) |
| | **(46,013,029)** | **(30,563,016)** |

## (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 31 December 2019. (FY19 – none)

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.

| 31-Dec-19 | Carrying amount | Past due and impaired | Current | 31-60 days | 61-90 days | > 90 days | Within trade terms |
|---|---|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ | US$ | US$ |
| Trade and term receivables | 12,273,085 | - | 5,677,746 | 2,983,082 | 822,856 | 2,789,401 | 0 |
| Other receivables | 685,127 | - | - | - | - | - | 685,127 |
| | 12,958,212 | - | 5,677,746 | 2,983,082 | 822,856 | 2,789,401 | 685,127 |

| 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 | 3,074,690 |

*(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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the six month period ended 31 December 2019

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.

| 31-Dec-19 | Carrying amount | Contractual cash outflows | 6 months or less | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ | US$ | US$ |
| Bank loans | 24,166,789 | 24,166,789 | - | - | 17,796,236 | 6,370,553 | - |
| Lease Liability | 15,735,779 | 15,735,779 | 848,103 | 933,566 | 1,948,784 | 7,947,012 | 4,058,314 |
| Promissory note | 1,563,335 | 1,563,335 | 1,346,136 | 146,109 | 71,091 | | - |
| Trade and other payables | 4,547,126 | 4,547,126 | 4,547,126 | - | - | - | - |
| | 46,013,030 | 46,013,030 | 6,741,365 | 1,079,675 | 19,816,110 | 14,317,565 | 4,058,314 |

| 30-Jun-19 | Carrying amount | Contractual cash outflows | 6 months or less | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| | US$ | US$ | US$ | US$ | US$ | US$ | 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 | - |

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.

| | 31-Dec 2019 US$ | 30-Jun 2019 US$ |
|---|---|---|
| **Impact on profit** | | |
| 2% increase in interest rates | (240,314) | (307,214) |
| 2% decrease in interest rates | 240,314 | 307,214 |

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:

| | 6 month period ended 31 Dec 2019 US$ | 12 month year ended 30 Jun 2019 US$ |
|---|---|---|
| Short-term employee benefits | 451,321 | 1,042,196 |
| Other long term benefits | 26,687 | 55,779 |
| Share-based Payments | - | 53,237 |
| **Total KMP Compensation** | **478,008** | **1,151,212** |

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

There are no other key management compensation transactions for the half year ended 31 December 2019 or 30 June 2019.

## 28. RELATED PARTY TRANSACTIONS

The Group's main related parties are as follows:

**a) Entities exercising control over the Group**

The ultimate Parent Entity, which exercises control over the Group, is DUG Technology Ltd.

**b) Key management personnel**

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity, is considered key management personnel. Phil Schwan, an Executive Director of, DUG Technology Ltd, has an existing loan from the Company. The balance as at 31 Dec 2019 is US$889,404 (30 Jun 2019 US$874,227). Charles Ramsden, a Non-Executive Director of, DUG Technology Ltd is the Managing Director and a shareholder of Rouge Rock Pty Ltd.

For other details of disclosures relating to key management personnel, refer to Note 27.

**c) Entities subject to significant influence by the Group**

An entity that has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity that holds significant influence. Significant influence may be gained by share ownership, statute or agreement.

Rouge Rock Pty Ltd is an entity over which the Group exercises significant influence by holding 49% voting power.

For details of interests held in associates, refer to Note 17.

## 29. CONSOLIDATED ENTITIES

| | | Ownership interest | |
|---|---|---|---|
| **Name of entity** | **Country of incorporation** | **31-Dec 2019 %** | **30-Jun 2019 %** |
| ***Parent entity:*** | | | |
| DUG Technology 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% |
| DownUnder GeoSolutions (Asia) Sdn Bhd | Malaysia | 100% | 100% |
| DownUnder GeoSolutions (Malaysia) Sdn Bhd | Malaysia | 49% | 49% |

## 30. PARENT ENTITY DISCLOSURES

As at, and throughout, the six month period ended 31 December 2019 the parent entity of the Group was DUG Technology Ltd (formerly DownUnder GeoSolutions (Australia) Pty Ltd.)

| | 31-Dec 2019 US$ | 30-Jun 2019 US$ |
|---|---|---|
| **Results of parent entity:** | | |
| Loss for the period | (642,073) | (289,656) |
| Other comprehensive income/(expense) | - | - |
| **Total comprehensive expense for the period** | **(642,073)** | **(289,656)** |
| | | |
| **Financial position of parent entity** | | |
| Current assets | 2,200 | 2,188 |
| Total assets | 4,126,818 | 4,165,605 |
| | | |
| Current liabilities | 116,843 | 31,619 |
| Total liabilities | 116,843 | 31,619 |
| | | |
| **Total equity of parent entity comprising of:** | | |
| Share capital | 5,477,686 | 5,477,686 |
| Reserves | (175,002) | (186,627) |
| Retained earnings | (1,799,146) | (1,157,073) |
| **Total equity** | **3,503,538** | **4,133,986** |

### (a) Parent entity contingent liabilities

There were no contingent liabilities of the parent entity as at 31 December 2019 and as at 30 June 2019.

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

There were no capital commitments of the parent entity as at 31 December 2019 and as at 30 June 2019.

## 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 31 December 2019 (30 June 2019: No Changes) 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 a number of maritime surveys. DUG and DUG Asia deny the allegations of infringement that have been made and are challenging the validity of the two patents registered in the name of PGS which are relevant to the proceedings by way of cross-claim. Liability estimated at nil, contingent liability only. The claim is currently for an unliquidated amount.

## 33. SUBSEQUENT EVENTS

At a Shareholder Meeting held on the 6th January 2020, it was resolved to (i) terminate the Shareholders Agreement, (ii) adopt a Public Company Constitution and (iii) convert from a Proprietary Limited company to a Limited company.

On the 1st February, Wayne Martin former Western Australian chief justice was appointed as chairman of the DUG Board. On the 26th February Troy Thompson resigned from the Board and Phil Schwan was appointed.

On the 12th March 2020, the Shareholders resolved to change the company name from DownUnder GeoSolutions (Australia) Pty Ltd to DUG Technology Ltd.

The Group has taken a decision to list DUG Technology Ltd on the ASX stock exchange to gain access to growth capital. On the 26th February 2020, as part of the IPO process, the Group raised AU$ 18.2m in Pre-IPO funds using a convertible note instrument.

On the 11th March 2020, the World Health Organisation declared the Coronavirus or COVID 19 a pandemic. COVID 19 is a health risk that has global consequences which has significantly affected the world economy. The strategies adopted by governments in dealing with the virus at an international, domestic and local level are changing daily and re-assessments by governments and world leaders is ongoing. Various industries have and will continue to be impacted more than others for some time to come.

With respect to the six month financial reporting period ended 31 December 2019, the financial statements have been prepared based upon conditions existing as at that date, with no adjustments made for impacts of COVID 19.

There is general consensus that the effects of the COVID 19 outbreak are the result of an event that arose after the reporting date, i.e. it is a non-adjusting event as defined in AASB 110 Events After the Reporting Period, in which case the Group is required to disclose the nature of the event and an estimate of its financial effect subsequent to 31 December 2019, if possible to do so.

As the pandemic took hold, government shutdowns caused a 20% decline in oil usage. This in turn caused a significant slump in oil prices. Historically, DUG has achieved counter cyclical growth amidst oil price volatility. During these periods, the oil and gas services that the Group provides tend to pivot away from processing and imaging of newly acquired data to the reprocessing of legacy data with new technology which provides an uplift in the quality of the image. For this reason, the impacts of COVID 19 and the slump in oil prices have not significantly affected the financial position of the Group as at the date of this report nor the financial results for the period then ended. The Group has noted a marginal softening in revenue attributed to the delay in commencement of new services projects and the transition to working from home as a result of COVID 19. During the first four months of this calendar year, service project awards totalled US$ 12.8m, contributing to a strong back log of US$ 21.0m at 30th April 2020.The Group's cloud based technology and High Performance Compute as a Service offering (HPCaaS) has a broad market focus and is expected to lead to significant opportunities in industries not adversely effected by COVID 19.

DUG has benefited from the receipt of US$1.5m from the Paycheck Protection Program (PPP), introduced in the USA, to assist businesses retain employees during the pandemic. This loan will be fully forgiven if the funds are utilised for payroll, insurance premiums, lease and utility payments. It is anticipated that DUG will qualify for 100% debt forgiveness.

The COVID 19 pandemic has created unprecedented uncertainty in terms of the overall economic environment such that economic events and conditions in future may be materially different from those experienced by the Group as at the date of this report. At this time, it is not possible for the Group to estimate the future effects of COVID 19 on its operations as any impact will depend on the magnitude and duration of any economic downturn, with the full range of possible effects unknown.

On the 9th June 2020, Michael Malone and Mark Puzey were appointed as a non-executive directors.

No other matters or circumstances have arisen since the end of the period 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.