Terragen Holdings Ltd and Controlled Entities

ABN 36 073 892 636

Special purpose financial report for the financial year ended 30 June 2018

Special purpose financial statements for the year ended 30 June 2018

Directors' report

The directors of Terragen Holdings Ltd and controlled entities submit herewith the annual financial report of the company for the financial year ended 30 June 2018. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Directors

The names and detail of the Terragen Holdings Ltd who held office during the financial year are:

Name	Particulars	Responsibilities
Dr Gregory Robinson (BSc (Hons) PhD Physics, Uni of Melb F.Fin (Grad Dip Finance MAICD)	Appointed to the Board in Sep 2012 as Director. Chairman and CEO Zomojo, Exablaze (Financial Trading and Computer Networking Devices resp.) Formerly Director of Bellwether Funds Management; Formerly MD and CEO ITG Asia Pacific and member of Global Exec Committee (ITG NYSE listed "ITG") Responsible for running businesses in Aus, HK, Sing and Japan. Member ASX 1997.	Non-Executive Director.
Dr Wayne Finlayson (BSc (Hons) PhD Uni of Melbourne; Post Doctorate at California – Berkeley)	Appointed to the Board in June 2015. Current MD/CEO of Servatus Biopharmaceuticals Pty Ltd. Former MD/CEO Progen Pharmaceuticals Ltd (ASX Listed). Technology Director Infergene Inc (Nasdaq Listed).	Mr. Wayne Finlayson is the inventor of the current Terragen's Great Land Biological Solution; serves as technical advisor to Terragen's Research and Development and Production facilities; is a Non-Executive Director.
Mr Sam Brougham (Bcomm – (Economics, Accounting, and Business Management))	Mr Sam Brougham was appointed as Chairman of the Board in July 2017.Sam has over thirty years experience in private and public investment. He is currently a director of Ellerston Global Investments and Ceres Capital, a private global equity investment firm he co-founded in 1999. Sam also cofounded Structured Asset Management in 1993. After receiving an economics degree from Adelaide University, Sam spent his early career with Price Waterhouse, then JB Were where he became partner.	Sam Brougham chairs all Board meetings ensuring all KPI's from previous Board meetings are adhered to and are met. Offers guidance and advice regarding appropriate corporate governance and transparency.
Dr Paul Schober (MBA/PhD – University of Sydney)	Paul was appointed to the Board in June 2017. Paul's thirty year career in the animal health industry includes senior executive positons in which he established global distribution agreements and implemented commercial rigour for biotechnology research companies including Peptech Animal Health, Anatara Lifesciences and Apex Laboratories. Paul attained a science degree, PhD and MBA at the University of Sydney.	Non-Executive Director.

Mr Justus Homburg (MBA – University of Washington, Fulbright Scholar – University of Utrecht)	Justus joined the board and executive in June 2017. His thirty year business career focused on commercialization of new technologies in agriculture and human life sciences. Fifteen years with Monsanto included marketing, distribution and product development in USA and European markets. The latter half of Justus's business career include senior appointments at Nestle's Vital Foods, Progen Pharmaceuticals and Chirogen. Justus completed his undergraduate degree at Iowa State University, holds graduate degrees from Southern Illinois University and the University of Utrecht, was a faculty member at the University of Michigan and a Fulbright Scholar, and holds a MBA from the University of Michigan.	As CEO Mr Homburg is responsible for all the day to day running of Terragen Group of Companies comprising Production, Research & Development, Sales & Marketing as well as guidance in area of Administration and Accounting.
Mr David Ryan	David was appointed to the Board in August 2017. He has over 25 years' experience in investment banking and is currently a Partner of Barbon Advisors LLP, a UK regulated corporate advisory boutique. Prior to this, David was a Managing Director at Goldman Sachs International where he worked for 20 years in a variety of roles in Asia and Europe, primarily in the Securities Division. During that period he became a partner with responsibility for managing the Asian Equities distribution business and then the European Equities business. Most recently David was Head of Institutional Wealth Management (Family Offices) for Goldman Sachs in Europe. In his early career David spent seven years at Macquarie Bank Limited in the Bullion and Commodities Division.	Non-Executive Director.

Company Secretary

Mr. Nick Lee (Diploma in Business Studies) was appointed Company Secretary in June 2014.

Directors' meetings

During the financial year, 10 meetings were held. The number of Board meetings held during the financial year and the number of meetings attended by each Director are shown below.

	Board of Directors Meetings	
	Held while board member	Attended
Mr Gregory Robinson	10	10
Mr Wayne Finlayson	10	10
Mr Justus Homburg	10	10
Mr Paul Schober	10	9
Mr Sam Brougham	10	9
Mr David Ryan	10	9

Principal activities

The consolidated entity's principal activities during the course of the financial year were research, development and early market development of biological products in the agriculture sector.

No significant change in the nature of these activities occurred during the financial year.

Review of operations

The loss of the consolidated entity for the year ended 30 June 2018 after providing for income tax amounted to $3,441,921 (2017: $3,066,775)

Changes in state of affairs

No significant changes in the company's state of affairs occurred during the financial year.

Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Environmental regulations

The operations of the consolidated entity are subject to a number of environmental regulations. To the best of the directors' knowledge, all activities are performed in accordance with the requirements of relevant environmental regulations.

Dividends

In respect of the financial year ended 30 June 2018, no dividends were paid or declared (2017: $Nil).

Share options

At 30 June 2018 the Company had 6,645,000 options on issue. Details of the options are as follows:

Issuing entity	Number of shares under option	Class of shares	Exercise price	Expiry date
Terragen Holdings Pty Ltd	360,000	Ordinary Shares	0.050	24/01/2021
Terragen Holdings Pty Ltd	75,000	Ordinary Shares	0.050	1/02/2021
Terragen Holdings Pty Ltd	920,000	Ordinary Shares	0.050	16/08/2021
Terragen Holdings Pty Ltd	3,290,000	Ordinary Shares	0.005	No expiry
Terragen Holdings Pty Ltd	2,000,000	Ordinary Shares	0.050	No expiry

During the financial year 2,955,000 options were issued which are exerciseable at 0.05 per security

During the year the Company received applications and consideration for the conversion of 10,000 options at the exercise price of 0.005 per security and 60,000 options at the exercise price of 0.05 per security.

No share options were exercised subsequent to 30 June 2018, through to the date of this report.

Indemnification of officers and auditors

During or since the end of the financial year the company has indemnified or made a relevant agreement to indemnify the officers of the company against a liability incurred as such an officer. In addition, the company has paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Proceedings on behalf of the company

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 a party to any such proceedings during the financial year.

Auditor's independence declaration

The auditor's independence declaration is included on page 5 of the annual report.

Signed in accordance with a resolution of directors made pursuant to s.298(2) of the *Corporations Act 2001*.

On behalf of the Directors

Sam Brougham
Chairman
Melbourne, 10 October 2018

Deloitte.

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10 October 2018

The Board of Directors
Terragen Holdings Ltd and Controlled Entities
Level 2, 145 Flinders Lane
MELBOURNE VIC 3000

Dear Board Members

Terragen Holdings Ltd and Controlled Entities

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Terragen Holdings Ltd and controlled entities.

As lead audit partner for the audit of the financial statements of Terragen Holdings Ltd and controlled entities for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the members of Terragen Holdings Ltd and Controlled Entities

Opinion

We have audited the accompanying financial report, being a special purpose financial report, of Terragen Holdings Ltd and Controlled Entities, which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 9 to 27.

In our opinion, the financial report of Terragen Holdings Ltd and Controlled Entities is in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
(b) complying with Australian Accounting Standards to the extent described in Note 3, 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 Terragen Holdings Ltd and Controlled Entities in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Terragen Holdings Ltd and Controlled Entities would be in the same terms if given to the directors as at the time of this auditor's report.

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

Emphasis of Matter – Material Uncertainty Regarding the Continuation as Going Concern

We draw attention to Note 3 in the financial report, which indicates that for the twelve months ended 30 June 2018 the consolidated entity incurred a net loss after tax of $3,441,921 (2017: $3,066,775) and reported negative cash flows from operating activities of $2,837,865 (2017: $2,292,658). These conditions, along with other matters as set forth in Note 3, indicate the existence of a material uncertainty that may cast significant doubt about the company's and consolidated entity's ability to continue as going concerns and therefore, the company and consolidated entity may be unable to realise their assets and discharge their liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 3 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the Corporations Act 2001. As a result, the financial report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Directors' Responsibility 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 and have determined that the basis of preparation described in Note 3 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of the company are responsible for assessing the ability of the Terragen Holdings Ltd and Controlled Entities, 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 of the company either intend to liquidate the Terragen Holdings Ltd and Controlled Entities, or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities 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 influence the economic decisions of users taken on the basis of this financial report.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Terragen Holdings Ltd and Controlled Entities internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the director of the company.

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

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Bryan
Partner
Chartered Accountants
Melbourne, 10 October 2018

Directors' declaration

As detailed in Note 3 to the financial statements, the company is not a reporting entity because in the opinion of the directors there are unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, this 'special purpose financial report' has been prepared to satisfy the directors' reporting requirements under the *Corporations Act 2001*.

The directors declare that:

(a) 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; and

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the *Corporations Act 2001*.

On behalf of the Directors

Sam Brougham
Chairman
Melbourne, 10 October 2018

Statement of profit or loss and other comprehensive income for the year ended 30 June 2018

	Notes	2018 $	2017 $
Revenue	4	855,690	656,363
Cost of goods sold		(539,016)	(315,372)
Gross profit		316,674	340,991
Other income	4	358,504	15,605
Audit fees		(39,550)	(27,948)
Employee benefit expense		(2,198,157)	(2,361,328)
Depreciation, amortisation, and impairment write downs		(77,926)	(69,540)
General administrative expenses		(827,589)	(984,477)
Finance Cost		(63,710)	(38,203)
Lease expenses		(140,201)	(164,238)
Legal fees		(438,939)	(161,118)
Research & development expenses		(1,419,889)	(633,331)
Sales & marketing expenses		(65,356)	(132,471)
Other expenses		(67,256)	(26,396)
Loss before tax		(4,663,395)	(4,242,454)
Income tax benefit		1,221,474	1,175,679
Loss for the year		(3,441,921)	(3,066,775)
Other comprehensive income, net of income tax		-	-
Total comprehensive loss for the year		(3,441,921)	(3,066,775)

The accompanying notes form part of these financial statements.

Statement of financial position at 30 June 2018

	Notes	2018 $	2017 $
Current assets			
Cash and bank balances	6	1,677,868	226,739
Trade and other receivables	7	285,886	116,403
Inventories	8	37,965	82,920
Current tax asset		1,221,471	1,149,950
Total current assets		3,223,190	1,573,512
Non-current assets			
Property, plant and equipment	10	527,885	240,785
Other intangible assets	11	77,666	78,526
Other assets	9	119,696	-
Total non-current assets		725,247	319,311
Total assets		3,948,436	1,892,823
Current liabilities			
Trade and other payables	12	768,793	368,440
Borrowings	13	66,252	551,444
Provisions	14	153,204	143,982
Total current liabilities		988,249	1,063,866
Non-current liabilities			
Borrowings	13	165,845	82,042
Total non-current liabilities		165,845	82,042
Total liabilities		1,154,094	1,145,908
Net assets		2,794,342	749,415
Equity			
Issued capital	15	19,718,579	14,664,031
Reserves	16	1,129,170	696,870
Accumulated losses		(18,053,407)	(14,611,486)
Total equity		2,794,342	749,415

The accompanying notes form part of these financial statements.

Statement of changes in equity for the year ended 30 June 2018

	Issued capital	Accumulated losses	Reserves	Total
2017	**$**	**$**	**$**	**$**
Balance at 1 July 2016	13,012,164	(11,544,711)	-	1,467,453
Issue of share capital	1,681,867	-	-	1,681,867
Capital raising costs	(30,000)	-	-	(30,000)
Value of share options issued	-	-	696,870	696,870
Loss for the year	-	(3,066,775)	-	(3,066,775)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(3,066,775)	-	(3,066,775)
Balance at 30 June 2017	14,664,031	(14,611,486)	696,870	749,415
2018				
Balance at 1 July 2017	14,664,031	(14,611,486)	696,870	749,415
Issue of share capital	5,411,433	-	-	5,411,433
Capital raising costs	(356,885)	-	-	(356,885)
Value of share options issued	-	-	432,300	432,300
Loss for the year	-	(3,441,921)	-	(3,441,921)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(3,441,921)	-	(3,441,921)
Balance at 30 June 2018	19,718,579	(18,053,407)	1,129,170	2,794,342

The accompanying notes form part of these financial statements.

Statement of cash flows
for the year ended 30 June 2018

	Notes	2018 $	2017 $
Cash flows from operating activities			
Receipts from customers		773,828	744,197
Payments to suppliers and employees		(4,730,458)	(4,225,795)
Interest and other costs of finance paid		(63,710)	(38,203)
Interest received		32,525	1,414
Research and development tax concessions received		1,149,950	1,225,729
Net cash used in operating activities	17(b)	(2,837,865)	(2,292,658)
Cash flows from investing activities			
Payment for property, plant & equipment		(198,809)	-
Net cash (used in)/provided by investing activities		(198,809)	-
Cash flows from financing activities			
Proceeds from issue of share capital net of costs		5,054,548	1,651,867
Proceeds from /(repayments of) borrowings		(500,000)	500,000
Proceeds from lease liabilities		-	17,446
Repayment of lease liabilities		(66,745)	(14,591)
Net cash provided by financing activities		4,488,030	2,154,722
Net increase / (decrease) in cash and cash equivalents		1,451,129	(137,936)
Cash and cash equivalents at the beginning of the year		226,739	364,675
Cash and cash equivalents at the end of the year	17(a)	1,677,868	226,739

The accompanying notes form part of these financial statements.

1. General information

Terragen Holdings Ltd and Controlled Entities is a for-profit, unlisted public company, incorporated and domiciled in Australia. The financial statements include consolidated financial statements for the consolidated entity consisting of the company and its subsidiaries.

The consolidated entity's principal activities during the course of the financial year were the development and manufacture of Bio Fertilizer and the process of commercializing its products for the Australian market.

2. Adoption of new and revised Accounting Standards

2.1 New and revised AASBs affecting amounts reported and/or disclosures in the financial statements

In the current year, the Group has applied a number of amendments to AASBs and a new Interpretation issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017, and therefore relevant for the current year end.

- AASB 1048 Interpretation of Standards
- AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses
- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
- AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016

The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments	1 January 2018	30 June 2019
AASB 15 Revenue from Contracts with Customers, AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15, AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15, and AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020
AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	1 January 2018	30 June 2019

2. Adoption of new and revised Accounting Standards (Cont'd)

2.2 Standards and Interpretations in issue not yet adopted (cont'd)

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	1 January 2018	30 June 2019
AASB 2008-1 Amendments to Australian Accounting Standards – Annual Improvements 2015-2017 Cycle	1 January 2019	30 June 2020
Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018	30 June 2019
Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019	30 June 2020

The potential impact of the revised Standards/Interpretations on the Group's financial statements has not yet been determined.

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020	30 June 2021

3. Significant accounting policies

Financial reporting framework
The company is not a reporting entity because in the opinion of the directors there are unlikely to exist users of the financial statements who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, these special purpose financial statements have been prepared to satisfy the directors' reporting requirements under the *Corporations Act 2001.*

Statement of compliance
The financial statements have been prepared in accordance with the Corporations Act 2001, the recognition and measurement requirements specified by all Australian Accounting Standards and Interpretations, and the disclosure requirements of Accounting Standards AASB 101 'Presentation of Financial Statements', AASB 107 'Statement of Cash Flows', AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors' and AASB 1054 'Australian Additional Disclosures'.

Basis of preparation
The consolidated financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

For the purpose of preparing the financial statements, the Group is for-profit entity.

3. Significant accounting policies (Cont'd)

Going concern

The financial statements have been prepared on the basis of going concern, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

For the twelve months ended 30 June 2018, the consolidated entity incurred a loss after tax of $3,441,921 (2017: $3,066,775) and reported negative net cash flows from operating activities of $2,837,865 (2017: $2,292,658). The consolidated entity is currently in product research and development phase and in order to continue as a going concern, is therefore reliant on:

(i) successful commercialisation of product that generates incremental product sales over and above the budgeted revenues

(ii) raising additional equity capital funding pursuant to an Information Memorandum intended to be issued prior to the end of September 2018 and is not underwritten;

(iii) access to shareholder loans;

(iv) continuing compliance with the Australian Taxation Office's policies to be reimbursed for eligible Research and Development expenditure incurred by the consolidated entity; or

(v) a combination of the above where existing cash reserves are insufficient to fund the consolidated entity's forecast product research and development plan and corporate operating costs.

The directors have prepared a detailed cash flow forecast through to 31 October 2019 and based on budgeted expenditure the consolidated entity will be required to raise additional funds (through the methods set out above) by no later than January 2019. The cash flow forecast prepared by the directors assumes a capital raising of no less than $2.3m during the forecast period.

Cash flow forecasts prepared by management demonstrate that the Company and the consolidated entity have sufficient funds to meet their commitments over the next twelve months based on the above factors and for that reason the financial statements have been prepared on the basis that the Company and the consolidated entity are going concerns.

In the event that the Company and the Consolidated Entity are unsuccessful in the matters set out above, there is material uncertainty whether the Company and the Consolidated entity will continue as going concerns and therefore whether they will realise their assets and discharge their liabilities in the normal course of business and at the amounts stated in the financial report.

This financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Company and the Consolidated Entity not continue as going concerns.

3. Significant accounting policies (Cont'd)

Critical accounting judgements and key sources of estimation uncertainty
In the application of the consolidated entity's accounting policies, which are described below, the directors are required to make judgements, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Key sources of uncertainty and critical areas of judgements are disclosed in the relevant notes to the accounts.

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

(a) Principles of consolidation

A controlled entity is any entity Terragen Holdings Ltd has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities.

All controlled entities have a 30 June financial year end and are listed in note 20 to these financial statements.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits and losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

(b) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(c) Borrowings costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

(e) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to reporting date. Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

3. Significant accounting policies (Cont'd)

(f) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value net of transaction costs.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'available for sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(g) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

(h) Impairment of assets

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. Significant accounting policies (Cont'd)

(i) Income tax

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(j) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(k) Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Company as lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the company's general policy on borrowing costs.

Finance leased assets are amortised on a diminishing value basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the periods in which they are incurred.

(l) Payables

Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

3. Significant accounting policies (Cont'd)

(m) Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss during the financial period in which they are incurred.

The depreciable amounts of all fixed assets including buildings, but excluding freehold land, are depreciated over their estimated useful lives to the company commencing from the time the asset is held ready for use.

The following depreciation rates are used in the calculation of depreciation:

Class of Fixed Assets	*Depreciation Rate*	*Basis*
Plant and equipment	10 – 40%	Straight line
Furniture & fittings	10 – 50%	Straight line
Motor vehicles	25%	Straight line
Plant and Equipment R&D	30%	Straight line

(n) Provisions

Provisions are recognised when the company has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

<u>Sale of goods</u>
Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from the sale of goods is recognised when goods are delivered and legal title is passed.

<u>Interest revenue</u>
Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. Significant accounting policies (Cont'd)

(p) Intangible assets

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the
- development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(q) Comparative figures

Where necessary, the comparative figures have been adjusted to conform to changes in presentation in the current financial year.

4. Revenue and other income

	2018 $	2017 $
Sale of goods	855,690	656,363
Other income		
Grant Income	323,344	-
Interest received	32,525	1,414
Profit / (loss) on sale of property, plant and equipment	-	(11,852)
Other income	2,635	14,191
Total Other Income	358,504	15,605
Total revenue and other income	1,214,194	671,968

5. Remuneration of the auditors

Remuneration of the auditors for:

	2018 $	2017 $
- audit services	24,750	24,000
- tax services	36,500	30,000
- other services	1,800	1,750
	63,050	55,750

The auditor of Terragen Holdings Ltd is Deloitte Touche Tohmatsu.

6. Cash and cash equivalents

	2018 $	2017 $
Cash on hand	600	600
Cash at bank	1,677,268	226,139
	1,677,868	226,739

7. Trade and other receivables

	2018 $	2017 $
Trade receivables	213,479	99,889
Other receivables	72,407	14,014
	285,886	113,903

8. Inventories

	2018 $	2017 $
Finished goods	37,965	82,920
	37,965	82,920

	2018 $	2017 $
9. Other assets		
Security bond	119,696	-
	119,696	-
10. Property, plant and equipment		
Plant and equipment at cost	258,903	258,903
Accumulated depreciation	(182,598)	(165,951)
	76,305	92,952
Leased motor vehicles at cost	229,543	69,583
Accumulated depreciation	(61,390)	(42,792)
	168,153	26,791
Office equipment at cost	64,924	63,971
Accumulated depreciation	(52,277)	(48,858)
	12,647	15,113
Leased research equipment - at cost	286,608	131,588
Accumulated depreciation	(58,665)	(25,659)
	227,944	105,929
Work in progress	42,836	-
Total property, plant and equipment	527,885	240,785
11. Other intangible assets		
Patents & trademarks	103,553	98,158
Accumulated amortisation	(25,888)	(19,632)
Total intangible assets	77,665	78,526
12. Trade and other payables		
Trade payables	589,247	286,039
Accrued expenses	108,883	82,401
Other payables	70,663	-
	768,793	373,021

13. Borrowings	**2018 $**	**2017 $**
CURRENT		
Secured liabilities:		
R&D Loan [(i)]	-	500,000
Finance lease liabilities	66,252	51,444
	66,252	551,444
NON-CURRENT		
Unsecured liabilities:		
Finance lease liabilities	165,845	82,042
	165,845	82,042

(i) R&D Loan: The loan related to an agreement with Mitchell Asset Management. A $750,000 debt facility was granted and secured against the receipts of Terragen's 2017 R&D claim. Terragen has repaid the facility in full during October 2017.

14. Provisions

CURRENT		
Employee benefits	153,204	143,982

15. Issued capital

Ordinary shares	19,696,079	14,641,531
'B' Class shares	22,500	22,500
Total	19,718,579	14,664,031

15. Issued capital (cont'd)

Ordinary shares

At shareholder meetings, each ordinary share has the right to attend and vote, one vote for every share held. Each ordinary share has the right to participate in the dividends (if any) declared on that class of share.

In a winding up of the Company the right to repayment of capital paid upon such share and the right to Participate in the division of any surplus assets or profits of the company.

	Number of shares	Share capital $
Balance at 30 June 2017	63,940,180	14,664,031
Issue of shares	27,039,668	5,408,383
Shares issued as a result of exercise of options	70,000	3,050
Capital raising costs	-	(356,885)
Balance at 30 June 2018	91,049,848	19,718,579

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

(a) Ordinary Shares

Ordinary shares participate in the winding up of the company to the extent of the capital with respect to the number of shares held but subject to the rights of the holders of preference shares. At shareholder meetings, each ordinary share is entitled to attend and vote, one vote for every share held.

(b) Fully paid class B shares

Class B share has no right to participate in any dividends.

At shareholder meetings, each class B share is entitled to attend and vote, one vote for every share held. In a winding up of the Company class B shares have no right to repayment of capital upon such shares and no right to participate in the division of any surplus assets or profits of the Company.

16. Share options reserve

	2018 $	2017 $
Share options reserve	1,129,170	696,870

During the year, a total of 2,955,000 options were issued (these options were issued at an exercise price of $0.05 per share). A total of 70,000 options were exercised during the financial year, leaving 6,645,000 options on issue in total as at 30 June 2018.

Share options reserve

	Number of options	Option value
Balance at 30 June 2017	3,760,000	696,870
Share options issued	2,955,000	443,250
Share options exercised	70,000	10,950
Balance at 30 June 2018	6,645,000	1,129,170

17. Cash and cash equivalents

	2018 $	2017 $

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	2018 $	2017 $
Cash on hand	600	600
Cash at bank	1,677,268	226,139
Cash and bank balances	1,677,868	226,739

(b) Reconciliation of profit for the year to net cash flows from operating activities:

	2018 $	2017 $
Loss for the year	(3,441,921)	(3,066,775)
Adjustment for non-cash items		
Depreciation and amortisation	77,926	69,540
Share based payments	432,300	696,870
	(2,931,695)	(2,300,365)
Changes in net assets and liabilities:		
(Increase)/decrease in assets:		
Trade and other receivables	(169,483)	73,643
Inventories	44,955	9,196
Other assets	(119,696)	21,294
Current tax assets	(71,521)	50,050
Increase/(decrease) in liabilities:		
Trade and other payables	400,353	(179,156)
Provisions	9,222	32,680
Net cash used in operating activities	(2,837,865)	(2,292,658)

	2018 $	**2017 $**
18. Capital and leasing commitments		
Finance Lease Commitments		
Not longer than 1 year	72,709	36,451
Between 1 year and 5 years	181,179	98,715
More than 5 years	18,395	-
	253,888	**135,166**
Operating Lease Commitments		
Not longer than 1 year	68,548	-
Between 1 year and 5 years	265,789	-
More than 5 years	18,395	-
	352,732	-

The finance leases are in respect of items such as research and development equipment and motor vehicles.
The operating leases are in respect of items such as office space and research and development facilities.

19. Subsequent events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations or state of affairs of the consolidated entity in the financial year subsequent to 30 June 2018.

20. Company Details

The registered office and principal place of business of the holding company and the fully owned subsidiaries are:

Holding company:

Terragen Holdings Ltd

Level 1, 580 Church Street

Richmond VIC 3121

Fully owned subsidiary entities

Terragen Biotech Pty Ltd

Unit 6, 39 Access Crescent

Coolum Beach QLD 4573