

Titomic Limited

Appendix 4D Half-year ended 31 December 2019

| | |
|-------------------------|------------------|
| Name of Entity: | Titomic Limited |
| ABN: | 77 602 793 644 |
| Half-Year Ended: | 31 December 2019 |
| Previous Period: | 31 December 2018 |

Results for Announcement to the Market

| | | | | |
|---|----|--------|----|-------------|
| Revenue from ordinary activities | Up | 949.1% | to | 1,804,077 |
| Net loss from ordinary activities after tax attributable to members | Up | 31.3% | to | (4,701,828) |
| Net loss for the period attributable to members | Up | 31.3% | to | (4,701,828) |

Net tangible asset per security

| | 31 December 2019 | 30 June 2019 |
|--|------------------|--------------|
| Net tangible asset backing (per share) (cents) | 5.69 | 4.82 |

Explanation of Results

An explanation of the key financial elements contributing to the revenue and result above can be found in the review of operations included within the Directors' Report.

Distributions

No dividends have been paid or declared by the Company for the current financial period. No dividends were paid for the previous financial period.

Changes in Controlled Entities

There have been no changes in controlled entities during the half-year ended 31 December 2019.

Other Information Required by Listing Rule 4.2A

N/A

Interim Review

The interim financial statements have been reviewed by the Company's Independent Auditor - Pitcher Partners.

To be read in conjunction with the 30 June 2019 Annual Report

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Titomic Limited

ABN 77 602 793 644

Interim Financial Report

For the half-year ended 31 December 2019

Titomic Limited

ABN 77 602 793 644

Interim Financial Report - 31 December 2019

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Titomic Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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**Titomic Limited
Corporate Directory**

Directors

Mr Philip Vafiadis
Non-Executive Chairman

Mr Jeffrey Lang
Managing Director

Prof Richard Fox
Non-Executive Director

Mr Richard Willson
Independent Non-Executive Director

Company Secretary and Chief of Business (COB)

Mr Peter Vaughan

Principal registered office in Australia

Building 3
270 Ferntree Gully Road
Notting Hill Victoria 3168
Telephone: +61(0)3 9558 8822

Share Registry

Computershare
GPO Box 3224
Melbourne VIC Victoria 3001

Auditor

Pitcher Partners
Level 13, 664 Collins Street
Docklands Victoria 3008

Solicitors

Holding Redlich
GPO Box 2154
Melbourne Victoria 3001

Bankers

National Australia Bank
Level 2, 330 Collins Street
Melbourne Victoria 3000

Securities Quoted

Australian Securities Exchange
Ordinary Fully Paid Shares (Code: TTT)
Listed Options (Code: TTTO)

Website

<http://www.titomic.com/>

Directors' Report

The Directors present their report together with the condensed financial report of Titomic Limited (referred to hereafter as the Company) for the half-year ended 31 December 2019, and independent review report thereon.

DIRECTORS

The following persons held office as Directors of Titomic Limited during the financial period:

Mr Philip Vafiadis, Non-Executive Chairman
Mr Jeffrey Lang, Managing Director
Prof Richard Fox, Non-Executive Director
Mr Richard Willson, Independent Non-Executive Director

PRINCIPAL ACTIVITIES

Titomic Limited is an Australian public company specialising in manufacturing solutions for industrial scale metal additive manufacturing using its unique patented Titomic Kinetic Fusion® technology.

REVIEW OF OPERATIONS AND SIGNIFICANT EVENTS FOR THE REPORTING PERIOD

The Company reported a loss for the half-year ended 31 December 2019 of \$4,701,828 (31 December 2018: \$3,581,142)

Key Highlights

Supply Agreement with AP&C - September 2nd, 2019

- Titomic Limited signed a multi-faceted agreement with AP&C, a GE Additive company. Under the agreement, AP&C will provide a reliable, global supply of aerospace-grade titanium alloy powder, Ti-6Al-4V. The agreement also includes a memorandum of understanding, whereby Titomic Limited and AP&C will cooperate and co-develop titanium and titanium alloy powders optimised for use in Titomic Kinetic Fusion® systems. The agreement further establishes Titomic's strong global supply chain of metal powder feedstocks.

Melbourne TKF Bureau - September 2nd, 2019

- Titomic Limited has been digitising our TKF manufacturing process towards Industry 4.0 principles within our Melbourne TKF Bureau as a benchmark smart factory of the future for industrial scale metal additive manufacturing. Part of this process has seen the hiring of a new Production Manager and several Engineers to maximise utilisation of TKF Systems and ongoing improvements to best practices such as ISO 9001 quality assurance, cyber security and digital operational platforms.

Enhancing a High-Calibre Executive Team - September 23rd, 2019

- Titomic Limited continues to expand and grow its world-leading team, promoting business growth and heightened capability. In September of 2019, Titomic Limited was pleased to welcome Mr. Robert Turner as the company's Chief Financial Officer. Mr. Turner joins the Titomic team after holding numerous senior executive roles, including Chief Financial Officer of Crown Resorts Group and ASX listed company, Webjet.

Titomic Partners with Gilmour Space Technologies - October 3rd, 2019

- Titomic Limited signed a Statement of Strategic Intent with aerospace company Gilmour Space Technologies. The agreement will see the development of Titomic Kinetic Fusion® to manufacture high-performance rocket and aerospace componentry. The agreement facilitates cooperation across multiple exciting fields within the global space industry.

REVIEW OF OPERATIONS AND SIGNIFICANT EVENTS FOR THE REPORTING PERIOD (continued)

Titomic Kinetic Fusion® Surpasses ASTM Standards - October 28th, 2019

- Titomic Limited received overwhelmingly positive test results from a \$2.6M co-funded research project involving the IMCRC, CSIRO, and RMIT University. Independent results showed that parts built from titanium using Titomic Kinetic Fusion® provided an ultimate tensile strength of 634Mpa and elongation of 27.7%, surpassing requirements of ASTM International standards by 83.8% and 38.5% respectively. These conclusive results provide the evidence from an independent third party that Titomic Kinetic Fusion® can achieve the necessary mechanical properties for high-value applications within the aerospace and defence industries, and positions Titomic Limited as the global leader of industrial scale metal additive manufacturing.

World's Largest AM Part - Proven Aerospace Capability - November 21st, 2019

- At the world's most prominent additive manufacturing tradeshow, Formnext, Titomic Limited unveiled a 5.5-metre-long rocket; the world's largest additively manufactured titanium part. The rocket was manufactured using the TKF 9000 in just 27.6 hours, showcasing Titomic's ability to rapidly create aerospace parts from highly desirable materials such as titanium.
- The rocket is a scaled down replica of Gilmour Space Technologies' ERIS-S, a 27-metre rocket, and was produced in just four days - from design file to finished part.

Titomic Partners with Thales, a Global Defence Prime - February 10th, 2020

- Titomic Limited signed an agreement with global technology company, Thales. The agreement will see the development of advanced additive manufacturing methods in Australia to support Thales's development of next-generation soldier weapons systems for the Australian Defence Force. Titomic Limited will use Titomic Kinetic Fusion® to manufacture lighter, stronger, and better performing soldier system components to deliver advantages for the next-generation Australian soldier.

Titomic Enters Sales Agreement with Composite Technology - February 26th, 2020

- Titomic Limited entered into an agreement with Composite Technology, an international defence manufacturer for the sale of two Titomic Kinetic Fusion® Manufacturing Systems. The agreement has a potential contract value of USD \$16.8 million in sales for Titomic. The deal is the commercialisation of two years of R&D and quality assurance conducted by Titomic Limited and will see Composite Technology manufacture defence products using Titomic Kinetic Fusion® which will be certified as NATO replacement parts.

Titomic Completes AUD \$19 Million Oversubscribed Capital Raise - February 26th, 2020

- Titomic Limited completed a successful capital raise of AUD \$19 million through an oversubscribed private placement. The net proceeds raised will be used to provide additional capability to the existing TKF Bureau, secure additional human resources to support Titomic's expansion, establish Titomic's offshore operations, and provide additional working capital to support the Company's sales growth of both TKF Systems and powder feed stock inventory. A additional share purchase plan (SPP) has been offered to existing shareholders to raise an additional AUD \$1 million.

Significant changes in the state of affairs

There have been no other significant changes in the state of affairs of the Company during the period.

Matters subsequent to the end of the financial year

On Wednesday 26 February 2020 the Company announced it had concluded a binding agreement for the sale of two TKF machine systems ("Systems") to Composite Technology ("Composite") with a potential contract value of USD \$16.8 million (approximately \$25.5 million at an exchange rate of \$0.66). The sale is subject to various performance criteria and certification standards to be met. The purchaser will be allocated a total of 15 million options in the ordinary equity of the Company which will be subject to vesting hurdles related to milestones being achieved. The Company will also be entering into technology transfer agreement to govern the joint development of new material technology and manufacturing methodologies to develop products with Composite.

Also on Wednesday 26 February 2020, the company announced that it had successfully completed a private placement capital raising to institutional and sophisticated investors raising \$19.0 million before costs. A total of 23,750,000 new fully paid ordinary shares (ASX:TTT) will be issued at a price of \$0.80 per share. In addition to the private placement, the Company also announced that it would be offering existing shareholders in the company the opportunity to subscribe for shares via a share purchase plan to acquire shares under the same terms as the private placement for a total of up to \$1.0 million before costs.

Titomic Limited
Directors' Report
31 December 2019
(continued)

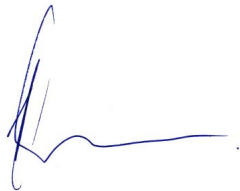
Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* in relation to the review for the half-year is provided with this report.

Rounding of amounts

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, the amounts in the directors' report and in the financial report have been rounded to the nearest dollar.

Signed in accordance with a resolution of the Directors.



Mr Philip Vafiadis
Non-Executive Chairman

Melbourne
28 February 2020

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TITOMIC LIMITED
ABN 77 602 793 644



**AUDITORS' INDEPENDENCE DECLARATION
TO THE DIRECTORS OF TITOMIC LIMITED**

In relation to the independent auditor's review for the half year ended 31 December 2019, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*

D A KNOWLES
Partner

28 February 2020

PITCHER PARTNERS
Melbourne

Titomic Limited
Condensed Statement of Profit or Loss and Other Comprehensive Income
For the half-year ended 31 December 2019

| | Notes | 31 December 2019 \$ | 31 December 2018 \$ |
|---|-------|---------------------------|---------------------------|
| Revenue and other income | | | |
| Revenue and other income | 4 | 1,804,077 | 171,967 |
| Expenses | | | |
| Production expenses | | (491,908) | (501,779) |
| Corporate expenses | | (555,570) | (449,379) |
| Consulting, employee and director expenses | | (2,831,153) | (2,041,068) |
| Marketing and promotion expenses | | (564,782) | (91,539) |
| Administration expenses | | (903,379) | (452,460) |
| Depreciation and amortisation expenses | | (1,159,113) | (216,884) |
| Loss before income tax | | (4,701,828) | (3,581,142) |
| Income tax expense | | - | - |
| Loss for the period | | (4,701,828) | (3,581,142) |
| Other comprehensive loss for the period | | - | - |
| Total comprehensive loss for the period | | (4,701,828) | (3,581,142) |
| | | Cents | Cents |
| Loss per share attributable to the ordinary equity holders of the Company: | | | |
| Basic loss per share | | (3.70) | (2.91) |
| Diluted loss per share | | (3.70) | (2.91) |

The above Condensed Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

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Titomic Limited
Condensed Statement of Financial Position
As at 31 December 2019

| | 31 December 2019 | 30 June 2019 |
|--------------------------------------|---------------------|-------------------|
| Notes | \$ | \$ |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 4,463,232 | 1,412,477 |
| Trade and other receivables | 5 371,855 | 1,226,979 |
| Inventories | 1,261,475 | 393,429 |
| Other current assets | 459,736 | 612,142 |
| Total current assets | 6,556,298 | 3,645,027 |
| Non-current assets | | |
| Property, plant and equipment | 6 5,064,982 | 5,543,658 |
| Intangible assets | 7 2,464,337 | 2,531,092 |
| Lease assets | 8 772,349 | - |
| Total non-current assets | 8,301,668 | 8,074,750 |
| Total assets | 14,857,966 | 11,719,777 |
| LIABILITIES | | |
| Current liabilities | | |
| Trade and other payables | 9 1,197,935 | 686,000 |
| Deferred revenue | 180,737 | 18,170 |
| Provisions | 139,166 | 132,488 |
| Other liabilities | 278,902 | 487,886 |
| Lease liabilities | 8 427,280 | 76,762 |
| Total current liabilities | 2,224,020 | 1,401,306 |
| Non-current liabilities | | |
| Provisions | 21,583 | 8,928 |
| Other liabilities | 1,589,531 | 1,689,303 |
| Lease liabilities | 8 553,875 | 151,399 |
| Total non-current liabilities | 2,164,989 | 1,849,630 |
| Total liabilities | 4,389,009 | 3,250,936 |
| Net assets | 10,468,957 | 8,468,841 |
| EQUITY | | |
| Issued capital | 10 26,949,929 | 20,404,638 |
| Reserves | 908,887 | 752,234 |
| Accumulated losses | (17,389,859) | (12,688,031) |
| Total equity | 10,468,957 | 8,468,841 |

The above Condensed Statement of Financial Position should be read in conjunction with the accompanying notes.

Titomic Limited
Condensed Statement of Changes in Equity
For the half-year ended 31 December 2019

| | Attributable to owners of Titomic Limited | | | Total \$ |
|---|---|----------------|--------------------------|--------------------|
| | Issued Capital \$ | Reserves \$ | Accumulated Losses \$ | |
| Balance at 1 July 2018 | 19,987,131 | 434,722 | (5,198,954) | 15,222,899 |
| Loss for the period | - | - | (3,581,142) | (3,581,142) |
| Total comprehensive income for the period | - | - | (3,581,142) | (3,581,142) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Share based payment | - | 120,822 | - | 120,822 |
| | - | 120,822 | - | 120,822 |
| Balance at 31 December 2018 | 19,987,131 | 555,544 | (8,780,096) | 11,762,579 |
| Balance at 1 July 2019 | 20,404,638 | 752,234 | (12,688,031) | 8,468,841 |
| Loss for the period | - | - | (4,701,828) | (4,701,828) |
| Total comprehensive income for the period | - | - | (4,701,828) | (4,701,828) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Shares issued, net of costs | 6,545,291 | - | - | 6,545,291 |
| Share based payment | - | 156,653 | - | 156,653 |
| | 6,545,291 | 156,653 | - | 6,701,944 |
| Balance at 31 December 2019 | 26,949,929 | 908,887 | (17,389,859) | 10,468,957 |

The above Condensed Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Titomic Limited
Condensed Statement of Cash Flows
For the half-year ended 31 December 2019

| | 31 December 2019 | 31 December 2018 |
|--|-----------------------------|---------------------|
| | \$ | \$ |
| Cash flows from operating activities | | |
| Receipts from customers | 45,280 | 211,234 |
| Payments to suppliers and employees | (4,980,349) | (2,875,013) |
| Interest received | 27,611 | 77,487 |
| Other grants | 2,509,705 | 212,917 |
| Net cash (outflow) from operating activities | (2,397,753) | (2,373,375) |
| Cash flows from investing activities | | |
| Payments for property, plant and equipment | (753,630) | (1,244,433) |
| Loans to other entities | (107,451) | - |
| Net cash (outflow) from investing activities | (861,081) | (1,244,433) |
| Cash flows from financing activities | | |
| Proceeds from issues of shares and other equity securities | 7,000,002 | - |
| Payments for the principal portion of lease liabilities | (235,702) | - |
| Share issue transaction costs | (454,711) | - |
| Net cash inflow from financing activities | 6,309,589 | - |
| Net increase (decrease) in cash and cash equivalents | 3,050,755 | (3,617,808) |
| Cash and cash equivalents at the beginning of the financial year | 1,412,477 | 10,347,168 |
| Cash and cash equivalents at end of period | 4,463,232 | 6,729,360 |

The above Condensed Statement of Cash Flows should be read in conjunction with the accompanying notes.

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1 Basis of Preparation of Half-Year Report

The Condensed Financial Report for the half-year reporting period ended 31 December 2019 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The Financial Report also complied with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Condensed Financial Report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Titomic Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(a) New and amended standards adopted by the Company

The AASB has issued a number of new and amended Australian Accounting Standards and Interpretations that have mandatory application dates for the current reporting period, some of which are relevant to the Company as set out below.

Impacts of AASB 16 on the financial statements

Titomic Limited adopted AASB 16 Leases from 1 July 2019.

AASB 16 has replaced AASB 117: Leases and introduces a single lessee accounting model that requires a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at their cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:

- (a) right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for in accordance with a cost model unless the underlying asset is accounted for on a revaluation basis, in which case if the underlying asset is:
 - (i) investment property, the lessee applies the fair value model in AASB 140: Investment Property to the right-of-use asset; or
 - (ii) property, plant or equipment, the lessee can elect to apply the revaluation model in AASB 116: Property, Plant and Equipment to all of the right-of-use assets that relate to that class of property, plant and equipment; and
- (b) lease liabilities are accounted for on a similar basis as other financial liabilities, whereby interest expense is recognised in respect of the liability and the carrying amount of the liability is reduced to reflect lease payments made.

AASB 16 substantially carries forward the lessor accounting requirements of the predecessor standard, AASB 117. Accordingly, under AASB 16 a lessor continues to classify its leases as operating leases or finance leases subject to whether the lease transfers to the lessee substantially all of the risks and rewards incidental to ownership of the underlying asset, and accounts for each type of lease in a manner consistent with the current approach under AASB 117.

In accordance with the transition requirements of AASB 16, the Company has elected to apply AASB 16 retrospectively to those contracts that were previously identified as leases under the predecessor standard, with the cumulative effect of initially applying the new standard recognised at the beginning of the current reporting period (i.e., at 1 July 2019). Accordingly, comparative information has not been restated.

The application of AASB 16 resulted in the recognition of right-of-use assets with an aggregate carrying amount of \$949,828 (referred to in these financial statements as "lease assets") and corresponding lease liabilities with an aggregate carrying amount of \$1,177,989. The weighted average incremental borrowing rate determined to be applicable in the calculation of the initial carrying amount of lease liabilities is 7%.

1 Basis of Preparation of Half-Year Report (continued)

(a) New and amended standards adopted by the Company (continued)

Further details of the Company's accounting policy for leases, for the half-year period ended 31 December 2019, is as follows:

Lease assets

At the commencement date of a lease (other than leases of 12-months or less and leases of low value assets), the Company recognises a lease asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Lease assets are initially recognised at cost, comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date of the lease, less any lease incentives received, any initial direct costs incurred by the Company, and an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Subsequent to initial recognition, lease assets are measured at cost (adjusted for any remeasurement of the lease liability), less accumulated depreciation and any accumulated impairment loss.

Lease assets are depreciated over the shorter of the lease term and the estimated useful life of the underlying asset, consistent with the estimated consumption of the economic benefits embodied in the underlying asset.

Lease liabilities

Lease liabilities are initially recognised at the present value of the future lease payments (i.e., the lease payments that are unpaid at the commencement date of the lease). These lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using the Company's incremental borrowing rate.

Subsequent to initial recognition, lease liabilities are measured at the present value of remaining lease payments (i.e., the lease payments that are unpaid at the reporting date). Interest expense on lease liabilities is recognised in profit or loss (presented as a component of finance costs). Lease liabilities are remeasured to reflect changes to lease terms, changes to lease payments and any lease modifications not accounted for as separate leases.

Variable lease payments not included in the measurement of lease liabilities are recognised as an expense when incurred.

Leases of 12-months or less and leases of low value assets

Lease payments made in relation to leases of 12-months or less and leases of low value assets (for which a lease asset and a lease liability has not been recognised) are recognised as an expense on a straight-line basis over the lease term.

(b) Going concern

The Directors have prepared the Financial Report on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Company incurred a loss from ordinary activities of \$4,701,828 during the year ended 31 December 2019 (30 June 2019: \$7,489,077 loss). The Company had a net asset position of \$10,468,957 (30 June 2019: \$8,468,841). The Company had a net cash outflow from operating activities of \$2,397,753 (30 June 2019: \$6,029,601).

1 Basis of Preparation of Half-Year Report (continued)

(b) Going concern (continued)

On Wednesday 26 February 2020 the Company announced that it had successfully completed a private placement capital raising to institutional and sophisticated investors raising \$19.0 million before costs. A total of 23,750,000 new fully paid ordinary shares (ASX:TTT) will be issued at a price of \$0.80 per share. On the same day as the private placement, the Company also announced that it would be offering existing shareholders in the Company the opportunity to subscribe for shares via a share purchase plan to acquire shares at \$0.80 per share, to raise a maximum of \$1.0 million before costs. Also refer to Note 14.

In determining that the basis for preparation of the interim financial report on a going concern basis is appropriate, the Directors have reviewed the Company's current financial performance, future operating plans (including cashflow forecasts), customer pipeline opportunities, financial position and existing cash resources available. The Directors are confident that the Company will be able to continue as a going concern for at least 12 months from the date of authorisation of this interim financial report, which contemplates continuity of the Company's normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

Should the budgeted and estimated revenues of the Company as projected be delayed or come on slower than anticipated, the need may arise for the Company to seek additional funding.

The financial report does not include any adjustment relating to the recoverability or classification of recorded asset amounts nor to the amounts or classification of liabilities that might be necessary should the Company not be able to trade as forecast or to secure sufficient funding to continue as a going concern. If the going concern basis of accounting is found to no longer be appropriate, the recoverable amount of the assets shown in the Statement of Financial Position are likely to be significantly less than the amounts disclosed, and the extent of liabilities may differ significantly from those reflected.

(c) Revenue

Revenue is measured at an amount that reflects the consideration to which the Company expects to be entitled in exchange for the goods or services. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Revenue from contracts with customers:

The Company derives revenue from:

- Advisory and Prototyping Consulting Services
- OEM Manufacturing Services
- TKF Systems and Spare Sales
- Metal Powders Sales

The following specific revenue criteria must be met before revenue is recognised:

- (i) *Sale of goods and manufacturing*
Revenue from the sale of goods (e.g., systems and spare parts, metal powders, OEM manufacturing) is recognised at the point in time when control of the goods is transferred to the customer.
- (ii) *Service income*
Revenue from the rendering of services (e.g., advisory and prototyping consultancy) is recognised over time, as the services are provided to the customer, based on costs incurred as a percentage of the total estimated costs.
- (iii) *Interest*
Interest revenue is recognised using the effective interest rate method.

1 Basis of Preparation of Half-Year Report (continued)

(c) Revenue (continued)

(iv) *Grant and R&D Incentives*

The Company may undertake R&D activities under competitive grants and be part-funded by other incentive program (for example: R&D tax incentives). There is no certainty that grants or incentive programs will continue to be available to the Company, and changes in government policy may reduce their applicability. R&D tax incentives are recorded as revenue when the Company has determined that it has a valid claim.

(v) *Receivables from contracts with customers*

A receivable from a contract with a customer represents the Company's unconditional right to consideration arising from the transfer of goods or services to the customer (i.e., only the passage of time is required before payment of the consideration is due). Subsequent to initial recognition, receivables from contracts with customers are measured at amortised cost and are tested for impairment.

All revenue is measured net of the amount of Goods and Services Tax (GST).

2 Significant accounting policies

The Company has applied all new and revised Australian Accounting Standards that apply to annual reporting periods beginning on or after 1 July 2019, including AASB 16 Leases, refer to *Note 1(a)*.

Rounding of amounts

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, the amounts in the directors' report and in the financial report have been rounded to the nearest dollar.

3 Segment information

The Company continues to operate in one segment, being the development and sale of additive manufacturing technology. It does not have any reportable business or geographic segments. Segment details therefore are fully reflected in the body of the interim financial report.

4 Revenue and other income

| | 31 December 2019 \$ | 31 December 2018 \$ |
|---------------------------------------|---------------------------|---------------------------|
| Revenue from contracts with customers | 108,151 | 94,480 |
| Non-operating income | 1,695,926 | 77,487 |
| | <u>1,804,077</u> | <u>171,967</u> |

5 Trade and other receivables

| | 31 December 2019 \$ | 30 June 2019 \$ |
|-----------------------------|---------------------------|-----------------------|
| Trade receivables | 411,278 | 190,092 |
| Other receivables | 133,827 | 1,205,287 |
| Allowance for credit losses | (173,250) | (168,400) |
| | <u>371,855</u> | <u>1,226,979</u> |

Titomic Limited
Notes to the Condensed Financial Statements
31 December 2019
(continued)

6 Property, plant and equipment

| Property, plant and equipment | 31 December 2019 | 30 June 2019 |
|--|-----------------------------|-------------------------|
| | \$ | \$ |
| Building fitouts | 810,533 | 832,760 |
| Factory equipment | 525,666 | 328,070 |
| Furniture and fittings | 295,140 | 284,400 |
| Machinery | 2,851,611 | 3,404,285 |
| Other property, plant and equipment | 582,032 | 694,143 |
| Total property, plant and equipment | 5,064,982 | 5,543,658 |

| | Building fitouts | Factory equipment | Furniture & fittings | Machinery | Other property, plant and equipment | Total |
|--------------------------------|-----------------------------|------------------------------|-------------------------------------|------------------|--|------------------|
| Year ended 30 June 2019 | \$ | \$ | \$ | \$ | \$ | \$ |
| Opening net book amount | 570,605 | 95,239 | 72,402 | 2,966,025 | 589,675 | 4,293,946 |
| Additions | 304,264 | 220,012 | 288,346 | 346,336 | 1,465,772 | 2,624,730 |
| Transfers | - | - | - | 1,303,236 | (1,303,236) | - |
| Impairment loss | - | - | (7,934) | - | - | (7,934) |
| Depreciation charge | (42,109) | (45,249) | (68,414) | (1,211,312) | - | (1,367,084) |
| Closing net book amount | 832,760 | 270,002 | 284,400 | 3,404,285 | 752,211 | 5,543,658 |

| | Building fitouts | Factory equipment | Furniture & fittings | Machinery | Other property, plant and equipment | Total |
|--|-----------------------------|------------------------------|-------------------------------------|------------------|--|------------------|
| Period ended 31 December 2019 | \$ | \$ | \$ | \$ | \$ | \$ |
| Opening net book amount | 832,760 | 270,002 | 284,400 | 3,404,285 | 752,211 | 5,543,658 |
| Additions | - | 254,574 | 70,749 | 93,778 | 21,488 | 440,589 |
| Transfers | - | 58,068 | - | 133,599 | (191,667) | - |
| Disposals | - | - | (4,386) | - | - | (4,386) |
| Depreciation charge | (22,227) | (56,978) | (55,623) | (780,051) | - | (914,879) |
| Closing net book amount | 810,533 | 525,666 | 295,140 | 2,851,611 | 582,032 | 5,064,982 |

7 Intangible assets

Intellectual property

| | 31 December 2019 \$ | 30 June 2019 \$ |
|---------------------------------------|---------------------------|-----------------------|
| Licenses | | |
| Opening balance at 1 July | 2,531,092 | 220,669 |
| Additions | - | 2,387,018 |
| Amortisation expense | (66,755) | (76,595) |
| Closing balance at 31 December | 2,464,337 | 2,531,092 |

The Company has three core pieces of Intellectual Property (IP) around its Titomic Kinetic Fusion (TKF) Cold Spray robotic technology manufacturing process. TKF is the process of spraying metal powders at supersonic speed (up to two times the speed of sound) onto a scaffold surface, resulting in the powder particles plastically deforming at the edges and, on impact, bonding at a particle level with the surrounding particles.

The Company has exclusively licensed the IP for three royalty-bearing licenses owned by the Commonwealth Scientific and Industrial Research Organisation (CSIRO). The licenses are in respect of:

- (1) Patent Application No PCT/AU2013/000318 "A Process For Producing A Titanium Load-bearing Structure", and any applicable Know-How and relevant subject matter;
- (2) Patent Application No PCT/AU2009/000276 "Manufacture of Pipes" using Titanium and Titanium Alloys; and any applicable Know-How and relevant subject matter; and
- (3) Patent Application No PCT/AU2013/001382 "Method of forming seamless pipe of titanium and/or titanium alloys", and any applicable Know-How and relevant subject matter.

The term of these licenses is to the expiration, lapsing or cessation of all licensed patents, a maximum of 20 years or life of the underlying patent.

Under the agreement, the Company must pay CSIRO 1.5% of attributable gross sales revenue attributed to products produced utilising the licensed patented technologies within the licensed field, and 20% of non-sales revenue attributable to products produced using the licensed patented process within the licensed field.

To remain exclusive, the license agreement is further subject to satisfying the following performance criteria:

- A minimum of \$350,000 of research fees payable by the Company to CSIRO from Commencement Date to 30 June 2021; and
- A minimum of \$200,000 of research fees per financial year commencing 1 July 2018 and finishing on 30 June 2021
- Minimum royalty payments structured as following:

| Period | Minimum royalty |
|--|------------------------|
| 2017 - 2018 | \$25,000 |
| 2018 - 2019 | \$50,000 |
| 2019 - 2020 | \$75,000 |
| 2020 - 2021 | \$75,000 |
| Year 4 and every subsequent agreement year until the end of the license term | \$150,000 |

The above performance criteria is discounted using an indicative discount rate of 6.00% pa and has been spread over the period to determine the value of the intangible asset acquired.

8 Lease assets and lease liabilities

At the commencement date of a lease (other than leases of 12-months or less and leases of low value assets), the Company recognises a lease asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company leased a warehouse on 1 April 2017 for a term of 5 years and a head office and car park on 15 August 2018 for a term of 3 years.

| | 31 December 2019 \$ |
|--|---------------------------|
| Carrying amount of lease assets, by class of underlying asset: | |
| Buildings | 949,828 |
| Accumulated depreciation | <u>(177,479)</u> |
| | <u>772,349</u> |
| Reconciliation of the carrying amount of lease assets at the beginning and end of financial year: | |
| Carrying amount at 1 July 2019 | 949,828 |
| Depreciation expense | <u>(177,479)</u> |
| Carrying amount at 31 December 2019 | <u>772,349</u> |
| Lease liabilities | |
| Current lease liabilities | 427,280 |
| Non-current lease liabilities | <u>553,875</u> |
| Total carrying amount of lease liabilities | <u>981,155</u> |

9 Trade and other payables

| | 31 December 2019 \$ | 30 June 2019 \$ |
|------------------|---------------------------|-----------------------|
| Trade payables | 785,706 | 484,819 |
| Accrued expenses | 115,787 | 115,269 |
| Other payables | <u>296,442</u> | 85,912 |
| | <u>1,197,935</u> | <u>686,000</u> |

10 Equity

(a) Issued capital

| | 31 December 2019 No. of shares | 31 December 2019 \$ | 30 June 2019 No. of shares | 30 June 2019 \$ |
|------------------------------|--------------------------------------|---------------------------|----------------------------------|-----------------------|
| Ordinary shares | | | | |
| Ordinary shares - fully paid | 127,215,865 | 26,949,929 | 123,098,217 | 20,404,638 |
| Total ordinary shares | <u>127,215,865</u> | <u>26,949,929</u> | 123,098,217 | 20,404,638 |

Titomic Limited
Notes to the Condensed Financial Statements
31 December 2019
(continued)

10 Equity (continued)

(a) Issued capital (continued)

(i) Movements in issued capital

| Details | Number of shares | \$ |
|---|---------------------|-------------------|
| Balance at 1 July 2019 | 123,098,217 | 20,404,638 |
| Issue of share capital at \$1.70 each (4 July 2019) | 4,117,648 | 7,000,002 |
| Less: Transaction costs arising on share issuances | - | (454,711) |
| Balance at 31 December 2019 | 127,215,865 | 26,949,929 |

(b) Rights of each type of share

Ordinary shares participate in dividends and the proceeds on winding up of the entity in proportion to the number of shares held. At shareholders meetings each ordinary share owned entitles each shareholder to one vote.

11 Share-based payments

Expenses recognised from share-based payment transactions

The expense recognised in relation to the share-based payment transactions was recognised within employee benefits expense within profit or loss amounting to \$156,653 during the period ended 31 December 2019 (31 December 2018: \$120,822).

12 Contingencies

The Company had no contingent liabilities at 31 December 2019 (30 June 2019: nil).

13 Commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

| | 31 December 2019 | 30 June 2019 |
|-------------------------------|---------------------|-----------------|
| Property, plant and equipment | \$ - | \$ 80,515 |

14 Events occurring after the reporting period

On Wednesday 26 February 2020 the Company announced it had concluded a binding agreement for the sale of two TKF machine systems (“Systems”) to Composite Technology (“Composite”) with a potential contract value of USD \$16.8 million (approximately \$25.5 million at an exchange rate of \$0.66). The sale is subject to various performance criteria and certification standards to be met. The purchaser will be allocated a total of 15 million options in the ordinary equity of the Company which will be subject to vesting hurdles related to milestones being achieved. The Company will also be entering into technology transfer agreement to govern the joint development of new material technology and manufacturing methodologies to develop products with Composite.

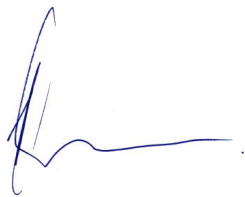
Also on Wednesday 26 February 2020, the company announced that it had successfully completed a private placement capital raising to institutional and sophisticated investors raising \$19.0 million before costs. A total of 23,750,000 new fully paid ordinary shares (ASX:TTT) will be issued at a price of \$0.80 per share. In addition to the private placement, the Company also announced that it would be offering existing shareholders in the company the opportunity to subscribe for shares via a share purchase plan to acquire shares under the same terms as the private placement for a total of up to \$1.0 million before costs.

**Titomic Limited
Directors' Declaration
31 December 2019**

In the Directors' opinion:

- (a) the Interim Financial Report and notes set out on pages 7 to 19 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001*, and AASB134 Interim Financial Reporting, and
 - (ii) giving a true and fair view of the Company's financial position as at 31 December 2019 and of its performance for the half-year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors for and on behalf of the Company.



Mr Philip Vafiadis
Non-Executive Chairman

Melbourne
28 February 2020

TITOMIC LIMITED
ABN 77 602 793 644

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF TITOMIC LIMITED**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Titomic Limited "the Company", which comprises the condensed statement of financial position as at 31 December 2019, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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TITOMIC LIMITED
ABN 77 602 793 644

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF TITOMIC LIMITED

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Titomic Ltd is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of Matter

We draw attention to Note 1(b) and Note 14 of the financial report which describes the recently completed capital raising. Our conclusion is not modified in respect of this matter.



D A KNOWLES
Partner



PITCHER PARTNERS
Melbourne

28 February 2020

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