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**Babylon Pump & Power Limited**

**ACN 009 436 908**

**and its controlled entities**

**2020 Financial Report**

**Year ended 30 June 2020**

## Corporate Directory

### Directors

Mr Michael Shelby  
Executive Chairman

Mr Patrick Maingard  
Executive Director

Mr Michael Kenyon  
Non-Executive Director

### Company Secretary

Mr Michael Kenyon

### Registered & Principal Office

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FORRESTFIELD WA 6309  
AUSTRALIA

Telephone: +61 8 9454 6309

Email: [admin@babylonpumpandpower.com](mailto:admin@babylonpumpandpower.com)

Website: [www.babylonpumpandpower.com](http://www.babylonpumpandpower.com)

### Postal Address

PO Box 31  
COMO WA 6952  
AUSTRALIA

### Share Registry

Automic Registry Services  
Level 2, 267 St Georges Terrace  
PERTH WA 6000  
AUSTRALIA

Telephone: 1300 288 664  
Fax: (02) 8583 3040

### Auditor

BDO Audit (WA) Pty Ltd  
38 Station Street  
SUBIACO WA 6008  
AUSTRALIA

### Bankers

National Australia Bank Limited  
100 St Georges Terrace  
PERTH WA 6000  
AUSTRALIA

### Solicitor

Gilbert + Tobin  
Brookfield Place Tower 2  
123 St Georges Terrace  
PERTH WA 6000  
AUSTRALIA

### Stock Exchange Listing

Australian Securities Exchange  
ASX Code: BPP

### Corporate Governance Statement

A copy of the Corporate Governance Statement is located on the website.



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# Directors' report

## For the year ended 30 June 2020



The directors present their report on the consolidated entity comprising Babylon Pump & Power Limited and its controlled entities ("Babylon" or "the Group" or "The Company") for the year ended 30 June 2020 and the auditor's report thereon.

### 1. Directors and Officers

The names and details of the Group's directors in office during the financial year and until the date of this report are set out below. Directors were in office for the entire period unless otherwise stated.

#### **Mr Michael Shelby** *Executive Chairman*

Mr Shelby has over two decades of experience in oil & gas, mining and specialty rental markets spanning commercial, technical and project management roles. He obtained a Bachelor of Science in Chemical Engineering from Louisiana State University and began work for major oil service companies in his native United States.

In 2007 he moved his family to Perth where he has spent the last decade in various management positions at international oil service and specialty rental companies. Mr Shelby has an extensive network across Australian, Asian and Middle Eastern markets.

Whilst General Manager Oil & Gas at Resource Equipment Ltd (ASX:RQL) he had management responsibility for growing the oil & gas service business of RQL from inception until RQL was acquired by Pump Services LLC by way of cash on market takeover offer completed in 2015, recruited key personnel and launched an overseas branch to complement Australian business activities. Mr Shelby has 10 years of experience in Australia leading multifunction teams across mining and oil & gas during most recent market cycles.

Mr Shelby has completed the Senior Executive MBA program at Melbourne Business School, and the AICD Company Directors Course.

During the three years prior to the end of the year, Mr Shelby has not held any directorships in any other listed companies.

Mr Shelby was appointed Executive Chairman on 18 December 2017.

#### **Mr Patrick Maingard** *Executive Director*

A graduate member of the Australian Institute of Company Directors (AICD), Mr Maingard has 30 years of management experience with a strong SME background with Director and Managing Director portfolios.

Mr Maingard was a Director/co-owner of plastics manufacturing business Omni Manufacturing Pty Ltd, (acquired April 1999). Key milestones included increasing profitability via organic growth and acquisitions, overhaul of manufacturing plant and equipment, achieving ISO certification and Australian Standards accreditation and assisting in establishing and managing relationships with Bunnings, Reece Plumbing, Masters, Australian Defence Force, Constellation Wines, Matrix Asia Pacific and other clients. The business was sold to a European multinational, with Mr Maingard retained on contract as Managing Director until December 2015.

Patrick holds a MSc Management from Oxford University.

During the three years prior to the end of the year, Mr Maingard has not held any directorships in any other listed companies.

Mr Maingard was appointed Executive Director on 18 December 2017.

#### **Mr Michael Kenyon** *Non-Executive Director and Company Secretary*

Mr Kenyon has extensive experience in senior finance executive roles in Australian listed companies, holding Chief Financial Officer and Company Secretarial roles at private and public companies over the past 20 years.

Mr Kenyon holds a Bachelor of Business degree from the Edith Cowan University, is a Chartered Accountant, graduate member of the Australian Institute of Company Directors, and a certificated member of the Governance Institute.

He has had significant exposure to manufacturing, engineering and contracting sectors through roles in ASX listed corporations. Mr Kenyon was Chief Financial Officer & Company Secretary of Resource Equipment Ltd (ASX:RQL) for almost 2 years prior to its takeover.

During the three years prior to the end of the year, Mr Kenyon has not held any directorships in any other listed companies.

### 1. Directors and Officers (continued)

Mr Kenyon was appointed as a Director on 18 December 2017.

### 2. Interests in shares and options of The Company and related bodies corporate

As at the date of this report, the direct and indirect interests of the directors and their related parties in the shares and options of Babylon Pump & Power Limited were:

Director	Performance Rights	Ordinary shares	Options over ordinary shares
Michael Shelby	13,000,000	10,796,827	-
Patrick Maingard	5,200,000	4,889,446	-
Michael Kenyon	-	1,329,816	-
	<b>18,200,000</b>	<b>17,016,089</b>	-

### Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Group during the financial year are:

Director	Board meetings	
	Held	Attended
Michael Shelby	12	12
Patrick Maingard	12	12
Michael Kenyon	12	12

*Given the size of the Board and The Company, the Directors also fulfilled the roles required in the Audit Committee*

### 3. Principal activities

The Group is primarily focused on two areas, being rental of specialty diesel driven pumping and power generation equipment and rebuild and maintenance services for large diesel driven equipment of a similar type to the Group's owned fleet.

Group business operations comprise;

3.1) A rental and diesel maintenance business; Babylon Operations Pty Ltd ("Babylon Operations"), which includes the (i) heavy diesel maintenance, (ii) pumping and dewatering, and (iii) equipment rental and servicing located at a number of mine sites across WA.

3.2) Effective 12 September 2019, the Group acquired Primepower Queensland based in Mackay, Queensland. This business provides diesel engine rebuilding, service and spare parts to the mining, oil and gas and other industries with a modern fully equipped workshop.

### 4. Dividends

No dividends have been paid or declared by the Group since the end of the previous financial year. No dividend in respect to the current financial year.

### 5. Industry and Geographic Exposures

The Group is exposed to the Australian mining and oil and gas industries. On a geographic basis, the Group is predominantly exposed to Western Australia and Queensland.

## Directors' report

For the year ended 30 June 2020



### 6. Significant changes in the state of affairs

The following significant events took place during the financial year.

- The company raised \$2,969,645 through the issue of ordinary shares.
- Converted \$4,022,575 convertible loans to ordinary shares.
- Acquired 100% of the equity in Primepower Queensland Pty Ltd.
- Raised \$4,675,000 in unsecured loans which have since year end been approved as convertible loans (refer subsequent events note 7 below).
- On 31 January 2020, the World Health Organisation (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. Because of the rapid increase in exposure globally, on 11 March 2020, the WHO classified the COVID-19 outbreak as a pandemic.

The full impact of the COVID-19 outbreak continues to evolve at the date of this report. The Group is therefore uncertain as to the full impact that the pandemic will have on its financial condition, liquidity, and future results of operations during the 2021 financial year.

Management is actively monitoring the global situation and its impact on the Group's financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Group is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for the 2021 financial year.

Although the Group cannot fully estimate the length or gravity of the COVID-19 effect, from its initial assessment, the impact over the next twelve months is not anticipated to be significant, indicating the entity will be able to continue as a going concern.

In the opinion of the directors, other than as outlined above and in this report, there were no other significant changes to the state of affairs of the Group that occurred during the financial year.

### 7. Matters subsequent to the end of the financial year

As per the Group's recent ASX announcements, the Group:

- Held a General Meeting on 1 September 2020 at which it was resolved to approve the issue of convertible loans and to amend the Company's constitution to accommodate changes to Listing Rules.

No other matters or circumstance have arisen since the end of the financial year that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future years.

### 8. Likely developments and expected results of operations

The Group will continue to pursue new contract opportunities both in Australia and internationally.

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

### 9. Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth, State or Territory law.

**10. Operating and financial review**

**Review of financial results**

The Board is delighted to have overseen rapid growth by Babylon Pump & Power Limited ("Babylon" or "Company") since reinstatement on the ASX on 10 January 2018. Babylon is now servicing major mineral producers as well as top tier resource service providers throughout Western Australia and Queensland. It is a great achievement and a testament to the hard work of staff and management to report annual revenue of \$17.2M for FY20 representing an increase of 49% over the previous year.

The Company reported positive earnings before interest, taxation, depreciation and amortisation (EBITDA) of \$1.1 million (FY19 \$0.1 million) and a reduced net loss after tax of \$1.8 million (FY19 net loss \$2.2 million), a significant improvement over the prior year.

Babylon is proud to have achieved a major milestone of positive operational cashflow. Net cash from operating activities of \$0.9M (FY19 -\$1.4 million) represents a significant achievement in the growth trajectory of the business.

Summary of group results for FY20 and change from previous year are as follows:

- Revenue \$17.2 million (+49% change)
- EBITDA \$1.1 million (+864% change)
- NPAT (loss) \$1.8 million (+20% improvement)
- Net Tangible Assets \$6.0 million (+328% change)
- Net Operating Cashflow \$0.9 million (+166% change)

The table below provides a comparison of the key results for the year ended 30 June 2020 to the preceding year ended 30 June 2019:

<b>Statement of Profit or Loss</b>	<b>% Change</b>	<b>2020 (\$)</b>	<b>2019 (\$)</b>
Revenue from operations	49%	17,199,633	11,509,158
EBITDA	864%	1,059,070	109,814
Reported loss after tax attributable to members	19.54%	(1,777,623)	(2,209,222)

**Review of operations**

The Company's trading entities include Babylon Operations and Primepower Queensland which was acquired during the year. Increased rental revenue is key in the growth of Babylon Operations resulting in a strong EBITDA result of \$2.03 million for the entity.

Primepower Queensland was acquired effective 12 September 2019. Although costs were incurred during the period to improve efficiency, process and output within the business, a positive EBITDA contribution of \$0.14 million was achieved.

**Operating and financial review (Continued)**

**(i) Babylon Operations**

Babylon's core activity comprises the operations of the Babylon Operations business. Babylon Operations has an in-demand, bespoke business model focusing on two complementary areas being (i) rental of specialty diesel driven pumping and power generation equipment, and (ii) maintenance and rebuild services for large diesel driven equipment. Babylon Operations continues to receive strong and growing demand from major mining and oil & gas service companies.

<i>Babylon Operations Pty Ltd</i>	
<i>Trading Summary - Year ended 30 June 2020</i>	
	<i>Amount</i>
	<i>\$</i>
Sales	9,078,958
Cost of Sales	(6,599,515)
<b>Gross Profit</b>	<b>2,479,443</b>
Other Income	121,205
Loss on disposal of property plant and equipment	(24,985)
Employee Benefits Expense	(161,493)
Admin & Corporate Costs	(383,523)
<b>EBITDA</b>	<b>2,030,647</b>

**(ii) Primepower Queensland**

Primepower Queensland Pty Ltd was acquired during the year as a wholly owned subsidiary. The results of its operations are included in the consolidated Group's results from 12 September 2019. Since acquisition management has improved upon the efficiency of the operation and achieved its successful integration into the business of the Group.

<i>Primepower Queensland Pty Ltd</i>	
<i>Trading Summary - for the period from 12 September 2019 to to 30 June 2020</i>	
	<i>Amount</i>
	<i>\$</i>
Sales	8,120,674
Cost of Sales	(7,236,109)
<b>Gross Profit</b>	<b>884,565</b>
Other Income	75,165
Employee Benefits Expense	(633,563)
Admin & Corporate Costs	(181,240)
<b>EBITDA</b>	<b>144,927</b>

**New and Ongoing Works**

During the year, material project works for Babylon Operations included the following:

- Secured a power generation and dewatering rental contract with BHP Nickel West Pty Ltd extending services to 31 January 2023.
- Secured an extension of power generation rental contract with BHP Iron Ore Pty Ltd to April 2021.
- Rental, installation, and maintenance of power generation equipment for at Vestas Yandin Wind Farm Project.
- Pump rental and repair & maintenance of portable diesel power generation assets for Pilbara Iron.
- Pump rental and diesel engine rebuilds for Chichester Metals Pty Ltd.
- Multiple 730E module rebuilds for a Queensland mining services contractor.
- Multiple large Cummins and Caterpillar diesel engine and heavy component rebuilds for various clients in the iron, coal, and gold resource sectors.

# Directors' report

For the year ended 30 June 2020



## 11. Executive Chairman's Report

This is the third annual report from Babylon Pump & Power Limited ("Babylon" or "the Group") since the Group was reinstated on the ASX on 10 January 2018 and commenced operations as a specialist resources services business. This is Babylon's second full year of operations since that date and I am pleased to present our results and this annual report to you.

Babylon via its executive team continues to focus on the following core business revenue streams:

- Heavy diesel maintenance;
- Diesel engine rebuilds;
- Sale of diesel-related goods;
- Pumping and dewatering projects; and
- Equipment rental and servicing.

I am delighted to have overseen Babylon's rapid growth since commencing operations. Babylon is now servicing major mining and oil & gas service companies as well as major iron ore and coal producers and equipment providers. It is a great achievement and a testament to the hard work of our staff and management to report annual revenue of \$17.2 million for FY20 representing an increase of 49% over the previous year.

I am pleased to report earnings before interest, tax, depreciation and amortisation ("EBITDA") of \$1.1 million for the year, an increase of 864% compared to the previous year's \$0.1 million.

Noting the Company commenced from a nil revenue base upon acquisition of Babylon Operations in only December 2017, this is further validation the Company is on a positive growth trajectory, supported by a strong and committed management and operations team.

As per the Company's business strategy, Babylon is currently in the growth phase of its business lifecycle where net losses are expected for the short to medium term as the Company continues to grow, invest in assets and build its revenue base. Accordingly, we are continuing to actively review potential acquisition and growth opportunities to justify our corporate entity overhead.

### *Opportunities for Growth*

The nature of the industry provides an opportunity for Babylon to expand its geographic footprint and grow its business through the acquisition of specialised operators. Noting this and as part of the Company's growth strategy, the board and I have been evaluating a number of opportunities to expand the business domestically through acquisition.

To this end the Group successfully acquired Primepower Queensland Pty Ltd ("Primepower") during the year. Operating since 2004 and based in MacKay, Queensland, Primepower is highly respected throughout the diesel maintenance industry, specialising in Cummins engine repairs and rebuilds.

Primepower represents an attractive and strategic opportunity to expand into the Queensland market, increasing both the revenue base and scale of Babylon.

Further, Primepower provides:

- An ideal entry point to establish and develop Babylon on the east coast of Australia;
- A complementary business with no overlap;
- Ongoing access to Primepower's first class customer base of major resource companies operating in Queensland; and
- With investment, an opportunity to introduce Babylon's specialty rental business model to Primepower's established customer base for rapid market penetration and revenue growth.

Babylon has established a strong operational foundation in key geographical hubs for the resource industry from which to grow organically. The time since reinstatement on the ASX has shown that there is clear market demand for specialized rental and heavy diesel maintenance services. The Company will continue to invest in rental assets and key personnel to drive organic growth whilst continuing to evaluate opportunities to grow through acquisition.

As reported in the Company's most recent 4C quarterly cash flow report, Babylon has circa \$9.0 million of available cash and funding to support future growth.

The Company's directors are excited and optimistic about the Company's outlook, with solid fundamentals and strong growth prospects, which will deliver revenue growth and sustainable profitability.

**Directors' report**  
For the year ended 30 June 2020



**Lead Auditor's Independence Declaration**

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 19 and forms part of the directors' report for the twelve months ended 30 June 2020.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'Michael Shelby'.

**Michael Shelby**  
*Executive Chairman*

Dated at Perth this 30<sup>th</sup> day of September 2020

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## 12. Remuneration report - audited

The information provided in this Remuneration Report has been audited as required by section 308(c) of the *Corporations Act 2001*.

This report outlines the remuneration arrangements in place for directors and other key management personnel of the Group. Remuneration is referred to as compensation throughout this report.

### 12.1 Key management personnel included in this report

<i>Name of Key Management Personnel</i>	<i>Position held</i>	<i>Appointment / Resignation</i>	<i>Date</i>
Michael Shelby	Executive Chairman	Appointment	18-Dec-17
Patrick Maingard	Executive Director	Appointment	18-Dec-17
Michael Kenyon	Non-Executive Director and Company Secretary	Appointment	18-Dec-17
Mark Lagemann	Operations Manager	Appointment	01-Aug-17
Alan Ings	Chief Financial Officer	Appointment	01-Mar-20

### 12.2 Principles of compensation

#### Non-Executive Director remuneration policy

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities, having regard to the level of fees paid to non-executive directors by other companies of similar size in the industry.

Total compensation for all non-executive directors are set within the maximum aggregate amount approved by shareholders at the 2004 AGM, being \$250,000 per annum. Currently non-executive directors do not receive performance related compensation, however to create alignment with shareholders non-executive directors are encouraged to hold equity securities in the Group. Directors' fees cover all main Board activities.

For the year ended 30 June 2020, exclusive of superannuation guarantee, the annual cash remuneration for non-executives was \$40,000. The total remuneration paid to the Group's non-executive director during the year is set out in this report.

In addition to these fees, non-executive directors are entitled to reimbursement of reasonable travel, accommodation and other expenses incurred attending meetings of the Board, committees or shareholders, or while engaged on the Group's business. Non-executive directors are not entitled to compensation or retirement benefits on termination of their directorships.

#### Executive remuneration policy

Compensation levels for executives of the Group are competitively set to attract and retain appropriately qualified and experienced executives. The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives and achieve the broader outcome of creation of value for shareholders.

Board fees are not paid to either the Executive Chairman or the Executive Director, as the time spent on Board work and the responsibilities of Board membership are included when determining the remuneration package provided as part of their normal employment responsibilities.

The compensation structures take into account:

- The capability and experience of the executive;
- The executive's ability to control the relevant segment's performance; and
- The Group's performance including:
  - The Group's earnings; and
  - The growth in share price and delivering constant returns on shareholder wealth.

#### Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any Fringe Benefits Tax charges related to employee benefits) and employer contributions to superannuation funds. Compensation levels are reviewed annually by the Board through a process that considers individual, segment and overall performance of the Group.

## Directors' report

For the year ended 30 June 2020



### 12. Remuneration report – audited (continued)

#### Performance linked compensation

Performance linked compensation includes both short-term and long-term incentives, and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is a discretionary 'at risk' bonus provided in the form of cash or shares that is paid upon the achievement of pre-determined key performance indicators set by the Board. No STI objectives were set or paid during the year-ended 30 June 2020. The long-term incentive (LTI) is provided as performance rights over ordinary shares of the Group as outlined below. The objective of this form of reward is to align the behaviour of executives to maximise shareholder value. Performance evaluations of senior executives have taken place during the reporting period in accordance with the process disclosed above.

#### Key performance indicators of the Group over the last 5 years

Consolidated	2020 (\$)	2019 (\$)	2018 (\$)	2017 (\$)	2016 (\$)
Revenue	17,199,633	11,509,158	1,628,357	-	24
Net Loss before tax	(1,777,623)	(2,209,222)	(1,122,333)	(298,267)	(381,135)
Net loss after tax	(1,777,623)	(2,209,222)	(1,122,333)	(298,267)	(381,135)
Share price at start of year	0.017	0.016	0.001	0.001	0.001
Share price at end of year	0.018	0.017	0.016	0.001	0.001
Interim and final dividend	-	-	-	-	-
Basic loss per share (cents)	(0.0025)	(0.0059)	(0.0013)	(0.0002)	(0.0003)

#### Employment contracts of key management personnel

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group, including directors of the Group and other executives. A summary of the agreements are set out below:

M Shelby, *Executive Chairman*

- Term of agreement – commencing 18 December 2017 with indefinite duration;
- Base salary of \$240,000 per annum exclusive of superannuation;
- Eligible for annual cash bonus payment upon the achievement of key performance criteria to be agreed with the Board;
- Is capable of termination by individual with three months notice;
- Is capable of termination by the Group with twelve months notice;
- The agreement may be terminated for serious misconduct, in which case the Group is not required to pay any compensation.
- Implied performance condition performance rights will be granted at discretion of the board upon termination.

P Maingard, *Executive Director*

- Term of agreement – commencing 18 December 2017 with indefinite duration;
- Base salary of \$150,000 per annum exclusive of superannuation;
- Eligible for annual cash bonus payment upon the achievement of key performance criteria to be agreed with the Board;
- Is capable of termination by both parties on four weeks notice;
- The agreement may be terminated for serious misconduct, in which case the Group is not required to pay any compensation;
- Implied performance condition performance rights will be granted at discretion of the board upon termination.

M Kenyon, *Non-Executive Director & Company Secretary*

- Term of agreement – commencing 18 December 2017 with an initial term of three years, subject to re-election provisions contained within the Group's constitution;
- Board fees are \$43,800 per annum inclusive of superannuation;
- Is capable of termination by both parties on four weeks notice; and
- The agreement may be terminated for serious misconduct, in which case the Group is not required to pay any compensation.

**12. Remuneration report – audited (continued)**

M Lagemann, *Operations Manager*

- (a) Term of agreement – commencing 1<sup>st</sup> August 2017.
- (b) Base salary \$220,000 per annum exclusive of superannuation;
- (c) Entitled to a company supplied motor vehicle.
- (d) Eligible for quarterly Board authorised discretionary bonus payments;
- (e) Is capable of termination by either party on a six months notice period;
- (f) Termination without notice at the sole discretion of the Company on the occurrence of certain conditions;

A Ings, *Chief Financial Officer*

- (a) Term of agreement – commencing 1<sup>st</sup> March 2020;
- (b) Base salary \$200,000 per annum exclusive of superannuation;
- (c) Eligible for quarterly Board authorised discretionary bonus payments;
- (d) Issue of \$20,000 ordinary shares after the first full year of service and annually thereafter;
- (e) Is capable of termination by either party on a one month notice period;
- (f) Termination without notice at the sole discretion of the Company on the occurrence of certain conditions;

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## Directors' report

For the year ended 30 June 2020



### 12. Remuneration report – audited (continued)

#### 12.3 Directors' remuneration

Details of the nature and amount of each major element of remuneration of each director of the Group and key management personnel for the year ended 30 June 2020 are as follows:

<i>In AUD</i>	<i>Year</i>	<i>Salary &amp; fees (\$)</i>	<i>Salary non- cash (\$)</i>	<i>Employee bonus (\$)</i>	<i>Employee allowances (\$)</i>	<i>Post- employment superannuation (\$)</i>	<i>Share-based payments (\$)</i>	<i>Notes</i>	<i>Total (\$)</i>	<i>Long term incentive % of remuneration</i>
<b>Directors</b>										
Michael Shelby	2020	240,000	-	-	-	22,800	24,848	1	287,648	9%
	2019	240,440	-	-	-	22,841	135,273	1	398,554	34%
Patrick Maingard	2020	150,000	-	-	-	14,250	9,939	1	174,189	6%
	2019	150,275	-	-	-	14,276	54,109	1	218,660	25%
Michael Kenyon	2020	40,000	-	-	-	3,800	-		43,800	0%
	2019	40,000	-	-	-	3,800	-		43,800	0%
<b>Other key management personnel</b>										
Mark Lagemann	2020	228,461	23,585	15,000	996	23,129	14,908	1	306,079	5%
Alan Ings	2020	67,564	-	-	-	6,418	-	2	73,982	0%
	<b>2020</b>	<b>726,025</b>	<b>23,585</b>	<b>15,000</b>	<b>996</b>	<b>70,397</b>	<b>49,695</b>		<b>885,698</b>	
	<b>2019</b>	<b>430,715</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,917</b>	<b>189,382</b>		<b>661,014</b>	

Note 1: Expense relates to performance rights issued. Refer to notes 12.4(b) and 14 in the Remuneration Report.

Note 2: Mr. Ings commenced employment on 1<sup>st</sup> March 2020.

## Directors' report

For the year ended 30 June 2020



### 12. Remuneration report – audited (continued)

#### 12.4 Equity instruments

During the reporting period no options over ordinary shares have been granted to key management personnel as remuneration. Further, during the reporting period, there were no shares issued on the exercise of options previously granted as compensation.

Since the end of the financial year no options over ordinary shares have been granted to key management personnel.

##### (a) Movements in shares

The movement during the reporting period in the number of ordinary shares in Babylon held, directly, indirectly or beneficially, by each key management personnel, including their related parties, is as follows:

Key Management Personnel	Opening balance	Purchases	Received on vesting of performance rights	Sales	Closing balance
Michael Shelby	2,807,381	989,446	7,000,000	-	10,796,827
Patrick Maingard	1,100,000	989,446	2,800,000	-	4,889,446
Michael Kenyon	1,000,000	329,816	-	-	1,329,816
Mark Lagemann	3,075,000	134,287	4,200,000	(500,000)	6,909,287
	<b>7,982,381</b>	<b>2,442,995</b>	<b>14,000,000</b>	<b>(500,000)</b>	<b>23,925,376</b>

##### (b) Movements in performance rights

The movement during the reporting period in the number of performance rights in Babylon Pump & Power Limited held, directly, indirectly or beneficially, by each key management personnel, including their related parties, is as follows:

Key Management Personnel	Opening balance	Granted as compensation	Vested	Cancelled	Closing balance	Vested during the year	Vested and exercise-able at the end of the year
Michael Shelby	20,000,000	-	(7,000,000)	-	13,000,000	3,500,000	-
Patrick Maingard	8,000,000	-	(2,800,000)	-	5,200,000	1,400,000	-
Michael Kenyon	-	-	-	-	-	-	-
Mark Lagemann	12,000,000	-	(4,200,000)	-	7,800,000	2,100,000	-
	<b>40,000,000</b>	<b>-</b>	<b>(14,000,000)</b>	<b>-</b>	<b>26,000,000</b>	<b>7,000,000</b>	<b>-</b>

For further details on the performance rights outstanding and vesting conditions, refer to note 18 to the financial statements.

## Directors' report

### For the year ended 30 June 2020



#### 13. Share options

All unissued ordinary shares of the Group under option expired on 31 March 2019.

#### Shares issued on exercise of options

During and since the end of the financial year, the Group did not issue ordinary shares as a result of the exercise of options.

#### 14. Performance Rights

At 30 June 2020, the unissued ordinary shares of the Group under performance rights are as follows:

Class	Grant Date	Vesting Period	Number Under Performance Rights	Value at Grant Date (\$)	Date of Vesting	Management Probability Assessment 30-Jun-19	Management Probability Assessment 30-Jun-20	Fair Value (\$)
B	18-Dec-17	30-Sep-20	7,000,000	140,000	30-Sep-20	100%	100%	140,000
D	18-Dec-17	30-Sep-20	7,000,000	140,000	30-Sep-20	0%	0%	-
			<b>14,000,000</b>	<b>280,000</b>				<b>140,000</b>

The performance rights were fair valued at \$280,000 based on a share price of \$0.02 at grant date. Management have applied varying probabilities of the performance conditions being met, resulting in the fair value of the performance rights at 30 June 2020 to be \$140,000. An expense of \$49,695 has been recognised in line with the vesting periods per class.

Share Based Payment Expense	2020 (\$)	2019 (\$)
Share based payments	49,695	270,546
	<b>49,695</b>	<b>270,546</b>

Number	Class	Performance Condition	Vesting Period
7,000,000	Class B	The Group achieving operating revenue of at least \$9.2 million in the second full financial year following issue.	3 months from the end of the second full financial year following issue.
7,000,000	Class D	The Group achieving earnings before interest, tax, depreciation and amortization of at least \$2.6 million in the second full financial year following issue.	3 months from the end of the second full financial year following issue.

## Directors' report

For the year ended 30 June 2020



### 15. Indemnification and insurance of directors, officers and auditors

The Group has indemnified the directors and executive officers of the Group for costs incurred, in their capacity as a director or executive officer, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Group paid a premium in respect of a contract to insure the directors and executive officers of the Group against a liability 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 Group has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Group or any related entity against a liability incurred by the auditor. During the financial year, the Group has not paid a premium in respect of a contract to insure the auditor of the Group or any related entity.

### 16. Other transactions with key management personnel

The following loan to the Group from a director occurred during the year.

<i>Director loans</i>	<i>Opening balance</i>	<i>Issued (\$)</i>	<i>Repaid (\$)</i>	<i>Closing balance</i>
Patrick Maingard	-	200,000	(200,000)	-
	-	<b>200,000</b>	<b>(200,000)</b>	-

Terms of the loan from a director are outlined below:

- Security: unsecured;
- Term: from 14<sup>th</sup> February 2020 to 31<sup>st</sup> March 2020; and
- Annual interest rate: 8%.

### 17. Voting of shareholders at last year's annual general meeting

Babylon received 95.6% of "yes" votes on its remuneration report for the 2020 financial year. The Group did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

### 18. Non-audit services

During the financial year BDO Audit (WA) Pty Ltd continued as the Group's auditor, no non-assurance services were engaged.

### 19. Use of remuneration consultants

During the year ended 30 June 2020 the Group engaged remuneration consultants to conduct a remuneration policy review. The scope included the comparison of the current remuneration arrangements of the executive and other key management personnel. This assignment has been completed and the report is undergoing review by the Board.

### 20. Proceedings on behalf of The Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the *Corporations Act 2001*.

**21. Lead auditor's independence declaration**

The lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after the Director's report and forms part of the Directors' report for the financial year ended 30 June 2020.

**This is the end of the audited remuneration report.**

This report is made with a resolution of the directors:



Michael Shelby  
*Executive Chairman*

Dated this 30<sup>th</sup> day of September 2020

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DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF BABYLON PUMP & POWER LIMITED

As lead auditor of Babylon Pump & Power Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Babylon Pump & Power Limited and the entities it controlled during the period.



Jarrad Prue  
Director

BDO Audit (WA) Pty Ltd  
Perth, 30 September 2020

# Consolidated statement of profit or loss and other comprehensive income



For the year ended 30 June 2020

	Notes	30 June 2020 (\$)	30 June 2019 (\$)
Revenue from contracts with customers	4	17,199,633	11,509,158
Cost of sales		(13,835,625)	(8,645,454)
<b>Gross Profit</b>		<b>3,364,008</b>	<b>2,863,704</b>
Other income		246,369	56,560
Loss on disposal of property plant and equipment		(24,985)	-
Employee benefits expense	5	(1,474,886)	(2,109,715)
Administration and corporate expense	6	(1,051,436)	(700,734)
<b>Earnings before interest, tax, depreciation and amortisation</b>		<b>1,059,070</b>	<b>109,814</b>
Depreciation and amortisation	9	(1,746,192)	(1,267,147)
<b>Results from operating activities</b>		<b>(687,122)</b>	<b>(1,157,333)</b>
Finance income		104	6,758
Finance expense	8	(1,090,605)	(1,058,648)
<b>Net financing expense</b>		<b>(1,090,501)</b>	<b>(1,051,890)</b>
<b>Loss before tax</b>		<b>(1,777,623)</b>	<b>(2,209,222)</b>
Income tax benefit / (expense)	7	-	-
<b>Loss after income tax for the year</b>		<b>(1,777,623)</b>	<b>(2,209,222)</b>
Other comprehensive Income		-	-
<b>Total comprehensive loss for the year attributable to the members of Babylon Pump &amp; Power Limited</b>		<b>(1,777,623)</b>	<b>(2,209,222)</b>
<b>Loss attributable to:</b>			
Equity holders of the company		(1,777,623)	(2,209,222)
<b>Loss for the year</b>		<b>(1,777,623)</b>	<b>(2,209,222)</b>
<b>Loss per share for loss attributable to the members of Babylon Pump &amp; Power Limited:</b>			
Basic loss per share (cents)	19	(0.0025)	(0.0059)

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

# Consolidated statement of financial position



As at 30 June 2020

	Notes	30 June 2020 (\$)	30 June 2019 (\$)
<b>Current Assets</b>			
Cash and cash equivalents	14	3,563,601	504,490
Trade receivables	13	2,837,227	2,741,763
Inventories	12	6,308,536	814,886
Prepayments and other assets		106,414	20,926
<b>Total Current Assets</b>		<b>12,815,778</b>	<b>4,082,065</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	9	7,322,596	6,486,832
Deposits		125,309	17,500
Goodwill	10	1,867,118	817,885
Right-of-use assets	11	842,084	-
<b>Total Non-Current assets</b>		<b>10,157,107</b>	<b>7,322,217</b>
<b>Total Assets</b>		<b>22,972,885</b>	<b>11,404,283</b>
<b>Current Liabilities</b>			
Borrowings	20	7,881,225	2,143,033
Deferred consideration	21	1,040,957	-
Trade and other payables	23	3,161,043	1,427,266
Employee liabilities	22	416,523	180,955
Accruals	24	63,685	470,227
<b>Total Current Liabilities</b>		<b>12,563,433</b>	<b>4,221,480</b>
<b>Non-Current Liabilities</b>			
Borrowings	20	1,429,887	4,926,404
Deferred consideration	21	229,104	-
Employee liabilities	22	48,311	4,906
Lease liabilities	25	864,159	-
<b>Total Non-Current Liabilities</b>		<b>2,571,461</b>	<b>4,931,310</b>
<b>Total Liabilities</b>		<b>15,134,894</b>	<b>9,152,790</b>
<b>Net Assets</b>		<b>7,837,991</b>	<b>2,251,493</b>
<b>Equity</b>			
Share capital	16	35,577,677	27,983,251
Reserves	17	140,000	777,950
Accumulated losses		(27,879,686)	(26,509,708)
<b>Total Equity</b>		<b>7,837,991</b>	<b>2,251,493</b>

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

# Consolidated statement of changes in equity



For the year ended 30 June 2020

Attributable to equity holders of the Group

	Share Capital (\$)	Share based Payment Reserve (\$)	Options Reserve (\$)	Accumulated Losses (\$)	Total Equity (\$)
<b>Balance at 1 July 2018</b>	<b>27,970,323</b>	<b>99,759</b>	<b>407,645</b>	<b>(24,293,113)</b>	<b>4,184,614</b>
<b>Transactions with owners, in their capacity as owners:</b>					
Adjustments	-	-	-	(7,373)	(7,373)
Loss for the period	-	-	-	(2,209,222)	(2,209,222)
Issue of ordinary shares	15,000	-	-	-	15,000
Costs of share issue	(2,072)	-	-	-	(2,072)
Share based payments	-	270,546	-	-	270,546
<b>Balance at 30 June 2019</b>	<b>27,983,251</b>	<b>370,305</b>	<b>407,645</b>	<b>(26,509,708)</b>	<b>2,251,493</b>
<b>Balance at 1 July 2019</b>	<b>27,983,251</b>	<b>370,305</b>	<b>407,645</b>	<b>(26,509,708)</b>	<b>2,251,493</b>
<b>Total comprehensive income for the period</b>					
Loss for the period	-	-	-	(1,777,623)	(1,777,623)
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,777,623)</b>	<b>(1,777,623)</b>
<b>Transactions with owners, in their capacity as owners:</b>					
Issue of ordinary shares	7,592,220	-	-	-	7,592,220
Vesting of performance rights	280,000	(280,000)	-	-	-
Costs of share issue	(277,794)	-	-	-	(277,794)
Transfer to accumulated losses on expiry of options	-	-	(407,645)	407,645	-
Share based payments	-	49,695	-	-	49,695
<b>Total transactions with owners</b>	<b>7,594,426</b>	<b>(230,305)</b>	<b>(407,645)</b>	<b>407,645</b>	<b>7,364,121</b>
<b>Balance at 30 June 2020</b>	<b>35,577,677</b>	<b>140,000</b>	<b>-</b>	<b>(27,879,686)</b>	<b>7,837,991</b>

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

# Consolidated statement of cash flows



For the year ended 30 June 2020

	Notes	30 June 2020 (\$)	30 June 2019 (\$)
<b>Cash flows from operating activities</b>			
Receipts from customers		18,873,813	10,258,921
Payments to suppliers and employees		(17,257,838)	(10,904,185)
Interest received		104	6,757
Interest and other costs of finance paid		(482,269)	(460,281)
Other income		96,370	-
Government grants and tax incentives		150,000	-
GST paid		(473,702)	(274,422)
<b>Net cash inflow from / (used in) operating activities</b>	<b>15</b>	<b>906,478</b>	<b>(1,373,210)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(2,258,233)	(5,227,354)
Proceeds on disposal of property plant and equipment		59,159	-
Prepayments and purchase of other assets		-	(50,791)
Business acquisition (net of cash acquired)	<b>32</b>	(2,522,632)	-
<b>Net cash used in investing activities</b>		<b>(4,721,706)</b>	<b>(5,278,145)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		2,372,015	4,553,707
Repayment of borrowings		(2,133,134)	(2,122,565)
Repayment of lease liabilities		(238,013)	-
Proceeds from issue of shares		2,750,765	-
Proceeds from issue of convertible loans		4,675,000	4,500,000
Transaction costs for ordinary shares and convertible loans		(552,294)	(302,072)
Other financing		-	20,657
<b>Net cash provided by financing activities</b>		<b>6,874,339</b>	<b>6,649,727</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>3,059,111</b>	<b>(1,628)</b>
Cash and cash equivalents at the beginning of the year		504,490	506,118
<b>Cash and cash equivalents at the end of the year</b>	<b>14</b>	<b>3,563,601</b>	<b>504,490</b>

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

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 1. Reporting entity

Babylon Pump & Power Limited ("The Company") is a company domiciled in Australia. The Company is a for-profit entity and the address of The Company's registered office is 74 Harrison Road, Forrestfield, WA 6058. The consolidated financial statements of The Company as at and for the twelve months ended 30 June 2020 comprise The Company and its subsidiaries (together referred to as the "Group"). The Group is primarily focused on two areas being rental of specialty diesel driven pumping and power generation equipment and engine rebuild and maintenance services for large diesel-powered equipment.

The separate financial statements of the parent entity, Babylon Pump & Power Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001*.

The financial statements were authorised for issue on 30<sup>th</sup> September 2020 by the Directors of the Group.

## 2. Basis of preparation

### (a) Statement of compliance

The financial report is a general-purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial report of the Group complies with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The Group is a for-profit entity for financial reporting purposes under AASB. The consolidated financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business.

### (b) New standards and interpretations for current year

The Group has adopted all the new, revised or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Refer to note 3(s).

Any new, revised or amended Accounting Standards and Interpretations that are not mandatory have not been early adopted.

### (c) Basis of measurement

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss and derivative financial instruments.

### (d) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 2. Basis of preparation (continued)

### (e) Going concern

The financial statements for the year ended 30 June 2020 have been prepared on the basis that the Group is a going concern which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business.

During the year the Group recorded a loss of \$1,777,623 (2019: loss of \$2,209,222) and had net cash inflows from operating activities of \$906,479 (2019: cash outflow \$1,373,210). At balance sheet date the Group has working capital surplus of \$252,345 (2019: deficiency \$139,414).

Based on the Group's future cashflow forecast, the Group will require additional funding in the next twelve months to enable it to continue its normal business activities and to ensure the realisation of assets and extinguishment of liabilities as and when they fall due.

The group's ability to continue as a going concern and pay its debts as and when they fall due is dependent on the following:

- Maintaining underlying levels of business activity.
- Maintaining operational throughput and efficiency across operations.
- Maintaining levels of utilisation for rental assets.

On 31 January 2020, the COVID-19 pandemic announced by the World Health Organisation is having a negative impact on world stock markets, currencies and general business activity. The Group has developed a policy and is evolving procedures to address the health and wellbeing of employees, consultants and contractors in relation to COVID-19. The timing and extent of the impact and recovery from COVID-19 is unknown but it may have an impact on activities and potentially impact the ability for the entity to raise capital in the current prevailing market conditions.

These conditions indicate a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The directors believe that the Group has the capacity to raise additional funding and therefore are satisfied that the going concern basis for preparing the financial statements is appropriate. In arriving at this position, the Directors expect that the Group will:

- Raise additional finance from debt or equity as and when required to contribute to the Group's working capital position in the near term
- Continue to benefit from ongoing demand for the Group's products and services.
- Continue to yield a high conversion rate from its tender and pricing pipeline.
- Access current capacity in its debt finance facilities.
- Benefit from the ongoing support of investors throughout the business' current growth stage.

Should the entity not be able to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts, nor the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

Should the entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 2. Basis of preparation (continued)

### (f) Use of critical accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

#### **Impact of Coronavirus (COVID-19) pandemic**

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the company based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain and staffing. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the company unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

#### **Incremental borrowing rate**

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

#### **Inventories**

Net realisable value is determined using the estimated selling price in ordinary course of business less estimated costs to complete less estimated costs to sell which requires a degree of estimation and judgement. The quality of inventory is also taken into account in the assessment of net realisable value. The impact of COVID-19 has been considered in the ability to sell the inventory.

#### **Revenue from contracts with customers involving sale of goods**

When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the consolidated entity is considered to be the point of delivery of the goods to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access.

#### **Fair value of assets acquired and liabilities assumed in a business combination**

Estimates and judgements were made in determining the fair value of assets acquired and liabilities assumed in a business combination. Business combinations are accounted for on a provisional basis and when finalised may have a retrospective impact. Assets and liabilities in which judgements were made in determining the fair value were:

**Assets:** Inventories, Right of use assets and Property Plant and Equipment

**Liabilities:** Lease liabilities

#### **Expected credit losses of financial asset at amortised cost**

Loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

#### **Recoverability of intangibles**

In accordance with AASB 136 Impairment of Assets, intangible assets with an indefinite useful life and goodwill are required to be tested for impairment annually. In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows and uses an interest rate to discount them (where applicable). Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (if applicable). Details of the key assumptions and inputs are disclosed in note 10.

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 2. Basis of preparation (continued)

### *Estimation of useful lives of assets*

The Group determines the estimated useful lives and related depreciation for its property, plant and equipment. The useful lives could change significantly as a result of technical innovations or other events. The depreciation charge will increase where the useful lives are less than previously estimated, or technically obsolete or non-strategic assets have been abandoned or sold will be written off or written down.

### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

### (a) Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies have been changed where necessary to align them with the policies adopted by the Group.

The acquisition method of accounting is used to account for business combinations by the Group.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised when the contributed assets are consumed or sold by the equity accounted investees or, if not consumed or sold by the equity accounted investee, when the Group's interest in such entities is disposed of.

### (b) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

### (c) Share capital

#### *Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

### 3. Significant accounting policies (continued)

#### (d) Property, plant and equipment

##### (i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income / (expense) in the statement of profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

##### (ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

##### (iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

##### Power generation assets

Power generation assets comprise the plant, equipment, fixtures and fittings. In the opinion of the directors, these assets comprise a separate class of assets.

The power generation assets have been componentised in the following categories and are being depreciated over their estimated useful lives as follows:

- Plant & Equipment: 10 years

Power generation assets of the Group require ongoing maintenance and minor / major overhaul works over time. This is managed as part of an ongoing major cyclical maintenance program. The cost of this maintenance is charged as an expense as incurred, except where the cost relates to the replacement of a component of an asset, in which case costs are capitalised and depreciated in accordance with the component classifications above. Other routine maintenance, repair costs and minor renewals are also charged as expenses as incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The estimated useful lives of other classes of assets for current and comparative periods are as follows:

- Office and computer equipment: 3 years
- Motor Vehicles 8 years

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

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 3. Significant accounting policies (continued)

### (e) Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. Negative goodwill arising on an acquisition is recognised directly in the income statement.

### (f) Leases

For the year ended 30 June 2020

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- leases of low value assets; and
- leases with a term of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the group if it is reasonable certain to assess that option; and
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate (being the interest rate implicit in the lease for the remainder of the lease term or, if that cannot be readily determined, the Group's incremental borrowing rate at the re-assessment date). An equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

The carrying value of lease liabilities is also revised when the variable element of future lease payments dependent on a rate or index is revised or there is a revision to the estimate of amounts payable under a residual value guarantee. In both cases an unchanged discount rate is used. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 3. Significant accounting policies (continued)

### *Leases (continued)*

When the group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount.
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial of full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are items such as IT-equipment and small items of office furniture.

### *For the year ended 30 June 2019*

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged on a straight-line basis over the length of the lease.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

### **(g) Inventories**

Consumables and spare parts and engine trading stock are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity.

Cost includes the reclassification from equity of any gains or losses on qualifying cash flow hedges relating to purchases of raw material but excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchases of inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 3. Significant accounting policies (continued)

### (h) Impairment

#### *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such impairment exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("the cash-generating unit" ("CGU")). For the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the acquisition synergies.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (i) Employee benefits

#### *(i) Short-term benefits*

Short-term employee benefit obligations are those benefits expected to be settled within 12 months of the reporting date. They are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

#### *(ii) Other long-term employee benefits*

The Group's net obligation in respect of long-term employee benefits are those not expected to be settled within 12 months of the reporting date and are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

### (j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year from reporting date. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 3. Significant accounting policies (continued)

### (k) Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

### (l) Revenue recognition

The accounting policies for the Group's revenue recognition from customers are explained in note 4.

### (m) Government grants

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate. This includes Cash boost income received due to COVID-19 during the year which has been presented as other income.

### (n) Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

#### *Tax consolidation*

The Group and its wholly owned Australian resident entity are part of a tax-consolidated group. As a consequence all members of the tax-consolidated group are taxed as a single entity from that date. The head entity within the tax-consolidated group is Babylon Pump & Power Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the "separate taxpayer within group" approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised by the Group as amounts payable (receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Group as an equity contribution or distribution.

The Group recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 3. Significant accounting policies (continued)

### (o) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the Statement of Financial Position.

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

### (p) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to directors, employees and shareholders.

### (q) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

### (r) Financial instruments

#### *Classification and measurement*

Under AASB 9 financial assets are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's financial assets are, as follows:

- Debt instruments at amortised cost, for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the 'SPPI criterion'. This category includes the Group's trade and other receivables.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows meet the SPPI criterion.

#### *Impairment*

From 1 July 2019 the group assesses on a forward looking basis the expected credit losses (ECLs) associated with its debt instruments carried at amortised cost and FVOCI. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets including long term loan receivables, the ECL is based on either the 12-month or lifetime ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. When there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. In all cases, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payment are 120 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 3. Significant accounting policies (continued)

### (s) Adoption of new and amended accounting standards

#### AASB 16 Leases

AASB 16 Leases replaces AASB 117 Leases and Interpretation 4 Determining whether an Arrangement contains a Lease.

In accordance with the transitional provisions of AASB 16, the Group has elected to adopt AASB 16 using the modified retrospective approach, where the lease liability is measured at the present value of future lease payments on the initial date of application, being 1 July 2019. In determining the present value, the discount rate is determined by reference to the group's incremental borrowing rate on the date of initial application of the standard (1 July 2019).

On transition to AASB 16 the Group has chosen to measure right of use assets at the amount of the lease liability, adjusted for any lease prepayments or accruals recognised under the old leasing standard, AASB 117. The Group has used this method for its sole lease in existence at the time.

In applying the modified retrospective approach, the Group has taken advantage of the following practical expedients:

- A single discount rate has been applied to the lease.
- Impairment losses on right-of-use assets as at 1 July 2019 have been measured by reference to the amount of any onerous lease provision recognised on 30 June 2019.
- Leases with a remaining term of 12 months or less from the date of application have been accounted for as short-term leases (i.e. not recognised on balance sheet) even though the initial term of the leases from lease commencement date may have been more than 12 months.
- Initial direct costs have not been included in the measurement of the right-of-use asset as at the date of initial application.
- For the purposes of measuring the right-of-use asset hindsight has been used. Therefore, it has been measured based on prevailing estimates at the date of initial application and not retrospectively by making estimates and judgements (such as the term of leases) based on circumstances on or after the lease commencement date.

The weighted average incremental borrowing rate applied to lease liabilities on 1 July 2019 was 7.0%.

The Group's operating lease commitment at 30 June 2019 can be reconciled to the aggregate lease liability recognised in the statement of financial position at 1 July 2019 as follows:

<i>Lease liability recognised as at 1 July 2019</i>		(\$)
Operating lease commitment at 30 June 2019		238,000
Effect of discounting those lease commitments at an annual rate of 7.0%		(20,871)
Lease liability recognised as at 1 July 2019		<u>217,129</u>

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 3. Significant accounting policies (continued)

### (t) New standards and interpretations not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2020. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:

- Chapter 1 – The objective of financial reporting
- Chapter 2 – Qualitative characteristics of useful financial information
- Chapter 3 – Financial statements and the reporting entity
- Chapter 4 – The elements of financial statements
- Chapter 5 – Recognition and derecognition
- Chapter 6 – Measurement
- Chapter 7 – Presentation and disclosure
- Chapter 8 – Concepts of capital and capital maintenance

AASB 2019-1 has also been issued, which sets out the amendments to Australian Accounting Standards, Interpretations and other pronouncements in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of accounting standards in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying AASB 3 and developing accounting policies for regulatory account balances using AASB 108, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the Framework for the Preparation and Presentation of Financial Statements (July 2004), and not the definitions in the revised Conceptual Framework.

The amendments apply prospectively on or after 1 January 2020, with no material effect to the Group.

#### Amendments to AASB 101: Definition of Material

This Standard amends AASB 101 Presentation of Financial Statements and AAS 108 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments apply prospectively on or after 1 January 2020, with no material effect to the Group.

#### Amendments to IAS 1: Presentation of Financial Statements

This Standard aims to improve presentation in financial statements by clarifying the criteria for the classification of a liability as either current or non-current.

This amendment is to:

- Clarify that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period
- Clarify the link between the settlement of the liability and the outflow of resources from the entity

The amendments apply prospectively on or after 1 January 2022. The client has not yet determined the impact of this amendment.

#### AASB 2018-6 Amendments to the Australia Accounting Standards – Definition of a business

This standard amends AASB 3 Business Combinations' ("AASB 3") definition of a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contributes to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present. The revisions to AASB 3 also introduced an optional concentration test. If the concentration test is met, the set of activities and assets acquired is determined not to be a business combination and asset acquisition accounting is applied. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 4. Reporting Segment

Babylon has two reportable segments, Babylon Operations Pty Ltd and Primepower Queensland Pty Ltd.

AASB 15 requires an entity to recognise revenue in a manner that represents the transfer of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled. This means that revenue will be recognised when control of goods and/or services is transferred, rather than on transfer of risks and rewards.

The Group derives revenue from the service and repair, sale of goods and equipment rental disaggregated as follows;

Revenue From External Customers	Service and Repair		Sale of Goods		Equipment Rental		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Segment revenue	5,178,918	7,873,256	8,179,522	1,654,322	3,841,192	1,981,580	17,199,633	11,509,158
<b>Timing of revenue recognition</b>								
At a point in time	5,178,918	7,873,256	8,179,522	1,654,322	-	-	13,358,441	9,527,578
Over time	-	-	-	-	3,841,192	1,981,580	3,841,192	1,981,580

- *Service and Repair*

Revenue from providing services is recognised in the accounting period in which the services are rendered and at the point in time in which the performance obligation is complete. Revenue is recognised when the product being serviced is delivered back to the customer. Delivery occurs when the product has left the Group's warehouse where the risks of obsolescence and loss have been transferred to the customer. Warranties on service and repairs are within commercial terms with no option of extension, therefore are accounted for under AASB 137 Provisions, Contingent Liabilities and Contingent Assets. Management have determined the warranties to be immaterial.

- *Sale of Goods*

Revenue is recognised when control of the product has transferred, being when the products are delivered to the customer. Delivery occurs when the product has left the Group's warehouse where the risks of obsolescence and loss have been transferred to the customer. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Revenue from these sales is recognised based on the price specified in the contract. Warranties on goods sold are within commercial terms with no option of extension, therefore are accounted for under AASB 137 Provisions, Contingent Liabilities and Contingent Assets. Management have determined the warranties to be immaterial.

- *Equipment Rental*

Revenue from equipment rental comprises short-term hire arrangements and is included in the statement of profit or loss due to its operating nature. Installation revenue is deemed to be not material.

The disaggregation of Group revenue by Australian state or territory is as follows;

Revenue by state	2020	2019
	\$	\$
Western Australia	9,078,959	11,509,158
Queensland	8,120,674	-
	<b>17,199,633</b>	<b>11,509,158</b>

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 5. Employee benefits expense

<i>Employee Benefits Expense</i>	2020 (\$)	2019 (\$)
Wages and salaries	1,297,001	1,622,288
Employment related taxes	78,361	146,236
Share-based payment expense	49,695	285,546
Other employment related expenses	49,829	55,645
	<b>1,474,886</b>	<b>2,109,715</b>

## 6. Administration and corporate expense

<i>Administration and Corporate Expense</i>	2020 (\$)	2019 (\$)
Office expenses	197,217	70,877
Corporate costs and compliance	476,950	404,892
Other expenses	8,964	35,947
Consumables and operational costs	280,776	189,018
Business acquisition expense	87,529	-
	<b>1,051,436</b>	<b>700,734</b>

## 7. Income tax expense

<i>Income Tax Benefit</i>	2020 (\$)	2019 (\$)
<b>Reconciliation of income tax benefit and tax at the statutory rate</b>		
Loss before income tax benefit	(1,777,623)	(2,209,222)
Tax at the statutory rate of 27.5% (2019: 27.5%)	(488,846)	(607,536)
<b>Tax effect amounts which are not deductible in calculating taxable income</b>		
Entertainment	1,015	941
Share based payments	13,666	78,525
Interest - convertible notes (tax equity)	-	129,525
Non assesable income - cash flow boost	(27,500)	
Capital expenditure	24,070	
Unused tax losses and temporary differences not recognised as deferred tax assets	477,595	398,545
<b>Income tax benefit</b>	<b>-</b>	<b>-</b>
<b>Deferred tax assets not recognised attributable to</b>		
Tax losses	3,390,202	2,448,402
Temporary differences	(350,048)	(177,440)
<b>Total deferred tax assets not recognised</b>	<b>3,040,154</b>	<b>2,270,962</b>

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 8. Finance expense

<i>Finance Expense</i>	2020 (\$)	2019 (\$)
Bank and other finance charges	97,925	26,945
Convertible loan interest expense	254,710	405,000
Convertible loan conversion to equity	608,336	-
Convertible loan fees	-	300,000
Foreign exchange loss	(132,508)	25,248
Interest expense	262,142	301,455
	<b>1,090,605</b>	<b>1,058,648</b>

## 9. Property, plant and equipment

<i>Property, Plant and Equipment Summary</i>	2020 (\$)	2019 (\$)
Cost	8,808,700	7,753,979
Accumulated depreciation	(1,486,104)	(1,267,147)
	<b>7,322,596</b>	<b>6,486,832</b>

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year:

<i>Property, Plant and Equipment</i>	<i>Leasehold Improvements</i> (\$)	<i>Plant &amp; Equipment</i> (\$)	<i>Office Equipment</i> (\$)	<i>IT Equipment</i> (\$)	<i>Motor Vehicles</i> (\$)	<i>Capital Work in Progress</i> (\$)	<i>Total</i> (\$)
<b>Consolidated Group Carrying amount at 30 June 2019</b>	-	6,261,857	856	15,473	208,646	-	6,486,832
Disposal	-	(84,144)	-	-	-	-	(84,144)
Additions	30,727	2,005,536	436	6,260	68,977	146,297	2,258,233
Business acquisition	-	146,187	-	-	1,592	-	147,779
Depreciation expense	(873)	(1,412,323)	(721)	(11,596)	(60,591)	-	(1,486,104)
<b>Balance at 30 June 2020</b>	<b>29,854</b>	<b>6,917,113</b>	<b>571</b>	<b>10,137</b>	<b>218,624</b>	<b>146,297</b>	<b>7,322,596</b>

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the previous financial year:

<i>Property, Plant and Equipment</i>	<i>Engines</i> (\$)	<i>Plant &amp; Equipment</i> (\$)	<i>Office Equipment</i> (\$)	<i>IT Equipment</i> (\$)	<i>Motor Vehicles</i> (\$)	<i>Capital Work in Progress</i> (\$)	<i>Total</i> (\$)
<b>Consolidated Group Carrying amount at 30 June 2018</b>	1,305,940	1,640,232	1,370	28,053	109,273	83,000	3,167,867
Disposal	-	-	-	-	-	(83,000)	(83,000)
Additions	221,482	5,358,324	443	9,340	146,559	-	5,736,148
Transfer to inventory	(1,439,468)	372,432	-	-	-	-	(1,067,036)
Depreciation expense	(87,954)	(1,109,131)	(957)	(21,919)	(47,186)	-	(1,267,147)
<b>Balance at 30 June 2019</b>	<b>-</b>	<b>6,261,857</b>	<b>856</b>	<b>15,473</b>	<b>208,646</b>	<b>-</b>	<b>6,486,832</b>

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 10. Goodwill

Impairment of intangible assets is recognised in impairment expense on the statement of profit or loss. No impairment charges have been deemed necessary for the current period.

For the purposes of impairment testing, goodwill is not amortised. The aggregate carrying amounts of goodwill is as follows:

<b>Intangible Assets</b>	<b>Note</b>	<b>2020</b> <b>(\$)</b>	<b>2019</b> <b>(\$)</b>
Goodwill	<b>3(e)</b>	1,867,118	817,885
		<b>1,867,118</b>	<b>817,885</b>

10.1 Goodwill is monitored by management at the level of the two cash generating units identified in the table below.

<b>Intangible Assets (cash generating units)</b>	<b>2020</b> <b>(\$)</b>	<b>2019</b> <b>(\$)</b>
Babylon Operations Pty Ltd	817,885	817,885
Primepower Queensland Pty Ltd	1,049,233	-
	<b>1,867,118</b>	<b>817,885</b>

### i) Impairment tests for goodwill

Significant estimate: key assumptions used for value-in-use calculations.

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of the cash-generating units was based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on approved financial budgets. The following table sets out the key assumptions used to assess the value-in-use for those cash generating units that have significant goodwill allocated to them.

<b>Key assumptions - goodwill impairment assesment</b>	<b>Primepower Queensland</b>	<b>Babylon Operations</b>
<b>2020</b>		
EBITDA %	9.8%	21.9%
Pre-tax discount rate	11.4%	11.4%
Inflation rate	2.0%	2.0%
Short-term growth rate	2.0%	0.0%
Long-term growth rate	0.0%	0.0%
Capital expenditure outlay (% of EBITDA)	20.0%	27.5%

Management has determined the values assigned to the values assigned to each of the above key assumptions as follows:

- EBITDA % - sourced from the budget for year ended 30 June 2021 with inclusion of an adjustment to include corporate support overhead.
- Pre-tax discount rate - includes the cost of capital, debt, gearing ratio and corporate tax rate. The risk-free rate was ascertained with reference to the ten-year Australian government bond rate. An average of a low and high scenario was used in the value-in-use modelling.
- Inflation rate – sourced from the Reserve Bank of Australia using the lower end of the target inflation rate range of 2% to 3%. Use of the lower end of the range is in management's view supported by the low inflation rate of the preceding twelve months.
- Short-term growth rate – the rate set for each entity is based on management's assessment of the anticipated growth that is readily achievable. It is noted that a conservative approach has been adopted due to market uncertainties regarding Covid-19.
- Long-term growth rate – this rate has been conservatively set at zero while general market uncertainty persists regarding the impact of Covid-19.
- Capital expenditure outlay – anticipated level at which assets will need to be replaced in order to maintain the business

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 10. Goodwill (continued)

- ii) Significant estimate: impact of possible changes in key assumptions

The following table sets out the sensitivities of the key assumptions to the recoverable value calculated by the value in use model for each cash generating unit:

<i>Primepower Queensland Pty Ltd</i>	<i>Sensitivity based on reasonable possible change</i>	<i>Positive impact</i>	<i>Negative impact</i>	<i>Observed impact on impairment</i>
EBITDA %	+ / -10%	920,404	(920,404)	No
Pre-tax discount rate	+ / -10%	1,083,334	(881,001)	No
Inflation rate	+ / -10%	56,086	(55,787)	No
Short-term growth rate	+ / -10%	56,086	(55,787)	No
Long-term growth rate	+ / -10%	-	-	No
Capital expenditure outlay (% of EBITDA)	+ / -10%	230,101	(230,101)	No

<i>Babylon Operations Pty Ltd</i>	<i>Sensitivity based on reasonable possible change</i>	<i>Positive impact</i>	<i>Negative impact</i>	<i>Observed impact on impairment</i>
EBITDA %	+ / -10%	1,589,976	(1,589,976)	No
Pre-tax discount rate	+ / -10%	1,843,383	(1,499,972)	No
Inflation rate	+ / -10%	95,659	(95,150)	No
Short-term growth rate	+ / -10%	-	-	No
Long-term growth rate	+ / -10%	-	-	No
Capital expenditure outlay (% of EBITDA)	+ / -10%	603,095	(603,095)	No

The Company has considered and assessed reasonable possible changes for these key assumptions and other than those disclosed above have not identified any instances that could cause the carrying amount of the cash generating unit to exceed its recoverable amount.

## 11. Right-of-use assets

<i>Right of use asset</i>	<i>2020</i>	<i>2019</i>
	<i>(\$)</i>	<i>(\$)</i>
Harrison Road Lease - Babylon Operations	142,969	-
Walters Way Lease - Babylon Operations	100,125	-
Len Shield Street Lease - Primepower Queensland (main premises)	453,340	-
Len Shield Street Lease - Primepower Queensland (storage)	145,650	-
	<b>842,084</b>	<b>-</b>

## 12. Inventories

<i>Inventories</i>	<i>2020</i>	<i>2019</i>
	<i>(\$)</i>	<i>(\$)</i>
Consumables and spare parts	4,217,454	-
Engine trading stock	305,280	620,855
Work in progress	1,785,802	194,031
	<b>6,308,536</b>	<b>814,886</b>

Inventory is stated at the lower of cost or net realisable value.

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 13. Trade and other receivables

<b>Trade and Other Receivables</b>	<b>2020</b>	<b>2019</b>
	<b>(\$)</b>	<b>(\$)</b>
Trade debtors	2,837,227	2,741,763
	<b>2,837,227</b>	<b>2,741,763</b>

Current trade and other receivables are non-interest bearing and generally on 30-day end of month terms.

### *Impairment and risk exposure*

Trade and other receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or other receivable is impaired. No impairment provision was recorded at 30 June 2020 based on management's assessment.

Information about the impairment of trade receivables and the group's exposure to credit risk, foreign currency risk and interest rate risk can be found in note 26.

## 14. Cash and cash equivalents

<b>Cash and Cash Equivalents</b>	<b>2020</b>	<b>2019</b>
	<b>(\$)</b>	<b>(\$)</b>
<b>Current</b>		
Bank balances	3,563,601	515,813
Commercial credit card facility	-	(11,323)
	<b>3,563,601</b>	<b>504,490</b>

Cash and cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## 15. Reconciliation of cash flows from operations

<b>Reconciliation of Cash Flows from Operations with Profit / (Loss) after Income Tax</b>	<b>2020</b>	<b>2019</b>
	<b>(\$)</b>	<b>(\$)</b>
Loss after income tax	(1,777,623)	(2,209,222)
<b>Cash flows excluded from profit / (loss) from continuing activities attributable to operating activities</b>		
Finance costs	608,336	1,058,648
<b>Non-cash flows in result from continuing activities</b>		
Share based payments (benefit) / expense	49,695	285,546
Depreciation and amortisation	1,746,192	1,267,147
Loss on disposal of property plant and equipment	24,985	-
(Increase) / decrease in inventories	(2,249,356)	(479,636)
(Increase) / decrease in trade receivables	1,200,479	(2,273,980)
Increase / (decrease) in employee entitlements	144,356	151,699
Increase / (decrease) trade payables	423,837	490,039
Increase / (decrease) in borrowings	1,335,416	-
Increase / (decrease) in other assets and liabilities	(599,839)	336,549
<b>Net cash inflow from / (used in) operating activities</b>	<b>906,478</b>	<b>(1,373,210)</b>

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 16. Share Capital

### a) Ordinary shares

During the twelve-month period ended 30 June 2020, the Group issued 195,886,953 Babylon shares (30 June 2019: 750,000).

All issued Babylon shares are fully paid.

	2020	2020	2019	2019
<i>Ordinary Shares</i>	<i>No.</i>	<i>\$</i>	<i>No.</i>	<i>\$</i>
At the beginning of the reporting period	372,719,632	27,983,251	371,969,632	27,970,323
Issue of shares	195,886,953	2,969,645	750,000	15,000
Issued for business acquisition	29,556,651	600,000	-	-
Vesting performance rights	14,000,000	280,000	-	-
Issue of shares to convertible loan holders	225,213,684	4,022,575	-	-
Transaction costs	-	(277,794)	-	(2,072)
	<b>837,376,920</b>	<b>35,577,677</b>	<b>372,719,632</b>	<b>27,983,251</b>

## 17. Reserves

### a) Options

The Company did not issue any Babylon options during the year.

All previously issued options expired on 31 March 2019 with no options exercised.

The full amount of the reserve associated with expired options was transferred to accumulated losses on 30 June 2020.

	2020	2020	2019	2019
<i>Options</i>	<i>No.</i>	<i>\$</i>	<i>No.</i>	<i>\$</i>
At the beginning of the reporting period	-	407,645	289,977,667	407,645
Options lapsed	-	-	(289,977,667)	-
Transfer to accumulated losses	-	(407,645)	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>407,645</b>

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 17. Reserves (continued)

### b) Share Based Payment Reserve

On 18 December 2017 the Group issued 40,000,000 Performance Rights to senior management of the Group, exercisable to shares on a 1 for 1 basis on the satisfaction of certain performance conditions relating to the performance of the Group by specified periods.

Noting several performance rights have already been achieved and the upcoming expiration of the balance of performance rights, management's estimated probability of achieving the below performance conditions are set out below in note 18. This is reflected in the share-based payment expense of the performance rights as at 30 June 2020.

During the year ended 30 June 2020, the Company issued 14,000,000 ordinary shares in relation to performance rights which had vested (class A and C). Class E performance rights lapsed during the year.

No additional performance rights were issued during the year ended 30 June 2020 (30 June 2019: Nil).

	2020	2020	2019	2019
<i>Share Based Payment Reserve</i>	<i>No.</i>	<i>\$</i>	<i>No.</i>	<i>\$</i>
At the beginning of the period	40,000,000	370,305	40,000,000	99,759
Performance rights issued as ordinary shares	(14,000,000)	(280,000)	-	-
Share based payments	-	49,695	-	270,546
	<b>26,000,000</b>	<b>140,000</b>	<b>40,000,000</b>	<b>370,305</b>

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted.

The grant date fair value of equity instruments granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the equity instrument. The amount recognised as an expense is adjusted to reflect the number of equity instruments for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of equity instruments that do not meet the related service and non-market performance conditions at the vesting date. For equity instruments with non-vesting conditions, the grant date fair value of the equity instruments is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

When the Group grants equity instruments to employees of subsidiaries, the fair value at grant date is recognised as a receivable from subsidiaries, with a corresponding increase in equity over the vesting period of the grant.

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 18. Performance Rights

As set out in note in 17 (b) the Company issued 14,000,000 ordinary shares during the year for performance rights which had vested.

The remaining performance rights were fair valued at \$280,000 based on a share price of \$0.02 at grant date. As outlined below, management have revised the probability assessment noting performance conditions for Class B performance rights have been met, resulting in a fair value of \$140,000 at 30 June 2020.

Class	Grant Date	Vesting Period	Number Under Performance Rights	Value at Grant Date (\$)	Date of Vesting	Management Probability Assessment 30-Jun-19	Management Probability Assessment 30-Jun-20	Fair Value (\$)
B	18-Dec-17	30-Sep-20	7,000,000	140,000	30-Sep-20	100%	100%	140,000
D	18-Dec-17	30-Sep-20	7,000,000	140,000	30-Sep-20	0%	0%	-
			<b>14,000,000</b>	<b>280,000</b>				<b>140,000</b>

### i) Terms of Performance Rights

The terms of the Class A and C performance rights issued as ordinary shares during the year as well as the remaining Class B and D performance rights are set out below.

Class	Number	Performance Condition	Vesting Period
Class A	7,000,000	The Group achieving operating revenue of at least \$4.6 million in the first full financial year following issue.	30-Sep-19
Class B	7,000,000	The Group achieving operating revenue of at least \$9.2 million in the second full financial year following issue.	30-Sep-20
Class C	7,000,000	The Group achieving earnings before interest, tax, depreciation and amortization of at least \$0 (i.e. breakeven) in the first full financial year following issue.	30-Sep-20
Class D	7,000,000	The Group achieving earnings before interest, tax, depreciation and amortization of at least \$2.6 million in the second full financial year following issue.	30-Sep-20

Share Based Payment Expense	2020 (\$)	2019 (\$)
Share based payments	49,695	270,546
	<b>49,695</b>	<b>270,546</b>

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 19. Earnings per share

The following reflects the income used in the basic earnings per share computations:

<i>Consolidated Group</i>	2020 (\$)	2019 (\$)
Reconciliation of earnings to net loss	(1,777,623)	(2,209,222)
Net loss from continuing operations attributable to ordinary shareholders	<b>(1,777,623)</b>	<b>(2,209,222)</b>

## Weighted average number of ordinary shares

<i>Weighted average number of ordinary shares</i>	2020 (\$)	2019 no.
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	720,365,109	372,156,618

<i>Earnings per share</i>	2020 (\$)	2019 (\$)
Basic earnings per share	(0.0025)	(0.0059)

## 20. Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. Loans and borrowings relate to asset financing and insurance premium funding.

<i>Loans and Borrowings</i>	2020 (\$)	2019 (\$)
<b>Current</b>		
Invoice finance facility	641,239	496,329
Trade finance facility	1,662,084	-
Insurance premium funding	49,727	21,305
Asset finance facilities	860,794	1,625,399
Convertible loans (1)	4,667,381	-
<i>Sub-total</i>	<b>7,881,225</b>	<b>2,143,033</b>
<b>Non-current</b>		
Asset finance facilities	1,429,887	426,404
Convertible loans (1)	-	4,500,000
<i>Sub-total</i>	<b>1,429,887</b>	<b>4,926,404</b>
<b>Total</b>	<b>9,311,112</b>	<b>7,069,437</b>

- (1) \$250,000 of the loans were repaid on 17 August 2020 and \$4,675,000 comprise Loans received by the Company on 30 June 2020 which were approved as Convertible Loans by Shareholders on 1<sup>st</sup> September 2020. The amount is stated net of raising fees of \$274,500 and inclusive of accrued interest of \$16,881. The terms of the June 2020 Convertible Loans are set out in note e) below.

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 20. Borrowings (continued)

<i>Movements in Borrowings</i>	<i>Opening balance</i> 2019 (\$)	<i>Acquisition</i> (\$)	<i>Cash flows</i> (\$)	<i>Closing balance</i> 2020 (\$)
<b>Short term borrowings</b>				
Invoice finance facility	496,329	-	144,910	641,239
Trade finance facility	-	498,055	1,164,029	1,662,084
Insurance premium funding	21,305	-	28,422	49,727
Asset finance facilities	1,625,399	-	(764,605)	860,794
Convertible loans	-	-	4,667,381	4,667,381
<b>Long term borrowings</b>				
Asset finance facilities	426,404	-	1,003,483	1,429,887
Convertible loans	4,500,000	-	(4,500,000)	-
Lease liabilities	-	549,193	314,966	864,159
<b>Total liabilities arising from financing activities</b>	<b>7,069,437</b>	<b>1,047,248</b>	<b>2,058,586</b>	<b>10,175,271</b>

### a) Insurance Premium

The insurance premium funding bears interest at prevailing market rates and is repayable over 10 months.

### b) Invoice finance facility

The invoice finance facility bears interest at prevailing market rates and on a rolling loan term. The invoice finance facility is secured via a registered General Security Agreement ("GSA") over all of the present and future rights, property and undertaking of Babylon Operations and is used to assist with working capital requirements.

### c) Asset finance facilities

The asset finance facilities bears fixed interest at prevailing market rates (ranging from 4.95% to 7.95%) and are primarily repayable over 1 to 3 years (ranging from 1 to 4 years). The asset finance facilities are secured via a registered GSA over all of the present and future rights, property and undertaking of Babylon Operations and have been used by Babylon to purchase new capital equipment.

### d) Trade finance facility

The trade finance facility bears interest at prevailing market rates and is secured via a registered General Security Agreement ("GSA") over all of the present and future rights, property and undertaking of Babylon Pump and Power, Primepower Queensland and Babylon Operations and is used to fund inventory.

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 20. Borrowings (continued)

### e) Convertible loans

On 26 June 2020, The Company announced it had successfully raised \$4.6 million via a placement of Convertible Loans to strategically support further growth ("Convertible Loans") on terms as follows;

#### i) Terms

The key terms of the Convertible Loans are as follows:

- (a) The Loans entered into on or about 26 June 2020 are subject to Shareholder Approval for the issue of Convertible Loans whereupon they will rollover to become the Face Value of the Convertible Loans. If Shareholder Approval is not obtained by 30 November 2020 the Loans will be immediately repayable.
- (b) Face Value: The total Face Value of all the Convertible Loans issued by The Company in June 2020 is \$4.6 million.
- (c) Interest: 12% per annum on the Face Value. Interest will be payable quarterly in arrears calculated on the basis of a 360-day year consisting of twelve thirty-day months. Interest will be payable on the Face Value from 30 June 2020.
- (d) Unsecured: The Convertible Loans are unsecured.
- (e) Effective Date: The Convertible Loans were entered into with each Holder on or about 26 June 2020 ("Effective Date").
- (f) Maturity Date: Any outstanding Face Value and accrued interest in respect thereof will mature and become payable in full to the Holder on 30 June 2022 (Maturity Date).
- (h) Conversion Period: The period commencing on 1 January 2021 and ending on the Maturity Date.
- (i) Conversion Price: The lower of:
  - (i) \$0.0225 per fully paid registered and freely tradable ordinary share of the Company (Share); and
  - (ii) the price of any equity capital raising by the Company that occurred in the two-month period prior to the date The Company receives the Conversion Notice, subject to a minimum price of \$0.01 per Share,
- (j) Conversion election: The Convertible Loans will be convertible at the election of the Holder or any subsequent Holder, in whole or in part (if in part, subject to a minimum Face Value of \$50,000), at any time during the Conversion Period into Conversion Shares at the Conversion Price.
- (k) Conversion Notice: A Holder or any subsequent Holder must make a conversion election by giving written notice to The Company specifying the Face Value amount of the Convertible Loans being converted.
- (l) Early Redemption at the Option of The Company. The Company may redeem all of the Convertible Loans at any time during the period commencing on 1 January 2021 by repaying the Face Value plus any accrued and unpaid interest in respect thereof plus the Early Redemption Premium following The Company giving the Holder 30 days' notice of such early redemption. The Holder will have the right to convert its Convertible Loan during this early redemption notice period.
- (m) Early Redemption Premium an additional 5% of the Face Value of each Convertible Loan payable by The Company to the Holder in the event of early redemption.

#### ii) Measurement

The fair value of the Convertible Loans as at 30 June 2020 is \$4,675,000.

As outlined above, the fair value of the Convertible Loans is recognised as a current liability in the consolidated statement of financial position.

# Notes to the consolidated financial statements

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## 21. Deferred consideration

<i>Deferred consideration</i>	2020 (\$)	2019 (\$)
<b>Current</b>		
Payable on acquisition of Primepower Queensland Pty Ltd		
Deferred consideration	811,853	-
Contingent consideration where contingent requirement has been met	229,104	-
	<b>1,040,957</b>	<b>-</b>
<b>Non-current</b>		
Payable on acquisition of Primepower Queensland Pty Ltd		
Contingent consideration where contingent requirement has been met	229,104	-
	<b>229,104</b>	<b>-</b>
<b>Total</b>	<b>1,270,061</b>	<b>-</b>

## 22. Employee liabilities

<i>Employee Benefits</i>	2020 (\$)	2019 (\$)
<b>Current</b>		
Liability for annual leave	416,523	180,955
<i>Sub-total</i>	<b>416,523</b>	<b>180,955</b>
<b>Non-current</b>		
Liability for long service leave	48,311	4,906
<i>Sub-total</i>	<b>48,311</b>	<b>4,906</b>
<b>Total</b>	<b>464,834</b>	<b>185,861</b>

## 23. Trade and other payables

<i>Trade and other payables</i>	2020 (\$)	2019 (\$)
Trade payables	2,559,460	1,194,975
GST liability	(9,323)	90,618
PAYG Withholdings Payable	211,336	74,814
Superannuation liability	147,440	61,981
Employee expense claims	-	5,021
Other payables	252,130	(143)
	<b>3,161,043</b>	<b>1,427,266</b>

The Group's exposure to liquidity risk related to trade and other payables is disclosed in note 26 (c).

## 24. Accruals

<i>Accruals</i>	2020 (\$)	2019 (\$)
Payroll Tax liability	8,757	-
Audit Services	25,000	22,000
Employee wages	12,000	97,398
Interest accrual	17,928	350,829
	<b>63,685</b>	<b>470,227</b>

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 25. Leases

<i>Lease liability</i>	2020 (\$)	2019 (\$)
Harrison Road Lease - Babylon Operations	148,079	-
Walters Way Lease - Babylon Operations	102,367	-
Len Shield Street Lease - Primepower Queensland (main premises)	468,063	-
Len Shield Street Lease - Primepower Queensland (storage)	145,650	-
	<b>864,159</b>	<b>-</b>

### Nature of leasing activities

The group leases a number of properties in the jurisdictions from which it operates. These lease contracts provide for payments to increase each year by inflation.

## 26. Financial risk

### (a) Overview

The Group's activities expose it to a variety of financial risks: credit risk (including foreign currency risk and interest rate risk), liquidity risk, market risk and operational risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on financial performance of the Group.

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital.

### (b) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Due to the size of the Group, and its low nature of risk with respect to financial risk management, the Board is of the opinion that there is no need to establish a Risk Management Committee for developing and monitoring risk management policies.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

### (c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Management has established a credit policy under which each new customer and counterparties to transactions are analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes the use of external ratings, when available. Such monitoring is used in assessing receivables for impairment.

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

The Group's exposure to credit risk is influenced mainly by the individual credit characteristics of each customer. 100% of revenue is attributable to Australian entities.

Details with respect to credit risk of trade and other receivables are provided in note 26(e). Trade and other receivables that are neither past due nor impaired are considered to be of high credit quality. Aggregates of such amounts are detailed in note 26(c).

### (i) Impairment of financial assets

The group hold trade receivables that are subject to the expected credit loss model. While cash and cash equivalents are also subject to the impairment requirements of AASB 9, the identified impairment loss was immaterial.

# Notes to the consolidated financial statements

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## 26. Financial risk (continued)

### (ii) Trade receivables

The group applies the AASB 9 simplified approach to measuring the expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected credit losses have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 18 months before 30 June 2020 or 1 July 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as at 30 June 2020 and 1 July 2019 (on adoption of AASB 9) was determined as follows for trade receivables:

1-Jul-19	Current	30 Days	60 Days	90 days	> 90 days	Total (\$)
Expected loss rate	0%	0%	0%	0%	0%	
Gross carrying amount - trade receivables	1,689,150	527,140	274,214	93,887	157,372	2,741,763
<b>Loss allowance</b>	-	-	-	-	-	-

  

30-Jun-20	Current	30 Days	60 Days	90 days	> 90 days	Total (\$)
Expected loss rate	0%	0%	0%	0%	0%	
Gross carrying amount - trade receivables	1,286,252	1,132,908	32,837	22,725	362,503	2,837,227
<b>Loss allowance</b>	-	-	-	-	-	-

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group and failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item. Of the impairment losses recognised in the statement of profit or loss as at 30 June 2020, nil relates to receivables arising from contracts with customers.

### (d) Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The credit risk on liquid funds is limited because the counterparties are banks with a minimum credit rating of AA assigned by reputable credit rating agencies. The Group's maximum exposure to credit risk at the reporting date was:

Exposure to credit risk	Notes	2020 (\$)	2019 (\$)
Cash and cash equivalents	14	3,563,601	504,490
Trade receivables	13	2,837,227	2,741,763
Deposits		125,309	17,500
		<b>6,526,137</b>	<b>3,263,753</b>

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 26. Financial risk (continued)

### (e) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses a forecast cash flow budget which assists it in monitoring cash flow requirements and optimising its cash return on investments and trading position. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

### (f) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

### (g) Currency risk

The Group is exposed to currency risk on purchases of spare parts and plant and equipment that are denominated in US dollars (USD). The Group uses forward exchange and participating forward exchange contracts to manage currency risk.

### (h) Interest rate risk

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

The financial instruments which primarily expose the Group to interest rate risk are borrowings and cash and cash equivalents. The Group manages its exposure to changes in interest rates on borrowings by using a mix of fixed and floating rate debt. The Group is exposed to movements in market interest rates on short term deposits. The Directors monitor the Group's cash position relative to the expected cash requirements. Where appropriate, surplus funds are placed on deposit earning higher interest. The Group also has short or long term debt, and therefore the risk is minimal.

### (i) Profile

At the reporting date the interest rate profile of the Group's variable interest-bearing financial instruments was:

Variable rate instruments	Carrying Amount	
	2020 (\$)	2019 (\$)
Financial assets	3,563,601	504,490
Financial liabilities	-	-
	<b>3,563,601</b>	<b>504,490</b>

### (i) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 26. Financial risk (continued)

This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisations of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the competency of personnel, adequacy of controls and risk management procedures to address the risks identified;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

### (ii) Capital management

The Board's policy is to maintain adequate capital so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group's debt and capital structure includes ordinary share capital and loans and borrowings. The Group is not subject to externally imposed capital requirements. Management effectively manages the Group's capital by assessing the Group's financial risk and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

The Group's debt-to-adjusted capital ratio at the end of the reporting period was as follows:

<b>Capital Management</b>	<b>2020</b>	<b>2019</b>
	<b>(\$)</b>	<b>(\$)</b>
Total liabilities	15,134,893	9,152,790
Less: cash and cash equivalents	(3,563,601)	(504,490)
Net debt	11,571,292	8,648,300
Total capital	7,837,991	2,251,493
<b>Debt-to-capital ratio at the end of the period</b>	<b>1.48</b>	<b>3.84</b>

### (j) Fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### (i) Trade and other receivables and trade and other payables

Trade and other receivables and trade and other payables are short term instruments in nature whose carrying value is equivalent to fair value.

#### (ii) Share-based payment transactions

The fair value of the employee share options is measured using the Black-Scholes option valuation methodology. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 26. Financial risk (continued)

### (iii) Fair value hierarchy

Financial instruments carried at fair value are determined by valuation level, as determined in accordance with the relevant accounting standard. The different levels have been defined as:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There have been no transfers between levels during the current or prior year.

All financial assets and liabilities carried at fair value have been deemed to be level 2 within the fair value hierarchy. With respect to specific financial assets and liabilities, the following valuation methods have been used:

Term receivables and fixed interest securities are determined by discounting the cash flows, as at the market interest rates of similar securities, to their present value.

Other loans and amounts due are determined by discounting the cash flows, at market rates of similar borrowings, to their present value.

Other assets and other liabilities approximate their carrying value. The carrying amount of all financial assets and financial liabilities approximate their fair value at reporting date.

## 27. Related parties

### (a) Individual directors and executives compensation disclosures

Information regarding individual directors' and executives' compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 is provided in the remuneration report section of the directors' report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

### (b) Other key management personnel and director transactions

The following director loans with key management personnel occurred during the period with the Group.

Director loans	Opening balance	Issued (\$)	Repaid (\$)	Closing balance
Patrick Maingard	-	200,000	(200,000)	-
	-	<b>200,000</b>	<b>(200,000)</b>	-

All director loans were issued at market interest rates and made on normal commercial terms.

### (c) Subsidiaries

All inter-Company loans and receivables are eliminated on consolidation and are interest free with no set repayment terms.

## 28. Group entities

Name of entity	Country of incorporation	Ownership Interests	
		2020	2019
<b>Parent entity</b>			
Babylon Pump & Power Limited	Australia		
<b>Significant subsidiaries</b>			
Babylon Operations Pty Ltd	Australia	100%	100%
Primepower Queensland Pty Ltd	Australia	100%	-

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 29. Dividends

No amounts have been paid, declared or recommended by the Group by way of dividend since the commencement of the financial year to 30 June 2020.

## 30. Subsequent events

On 31 January 2020, the COVID-19 pandemic announced by the World Health Organisation is having a negative impact on world stock markets, currencies and general business activity. The Group has developed a policy and is evolving procedures to address the health and wellbeing of employees, consultants and contractors in relation to COVID-19. The timing and extent of the impact and recovery from COVID-19 is unknown but it may have an impact on activities and potentially impact the ability for the entity to raise capital in the current prevailing market conditions

No matters or circumstance have arisen since the end of the financial year that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future years.

## 31. Auditors' remuneration

<i>Auditors' Remuneration</i>	2020 (\$)	2019 (\$)
<b>Audit services</b>		
Audit and review of financial reports	61,664	66,760
	<b>61,664</b>	<b>66,760</b>

## 32. Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest, in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination the excess is recognised immediately in the statement of profit and loss and comprehensive income. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

### *Acquisition of Primepower Queensland Pty Ltd*

On 11 September 2019, Babylon Pump & Power Limited acquired 100% of the share capital of Primepower Queensland Pty Ltd ("Primepower"). A summary of the acquisition details with respect to the acquisition of Primepower as included in our report is set out below. The acquisition accounting has been determined under AASB 3: Business Combinations. At the time the financial statements were authorised for issue, the group had not yet completed the accounting for the acquisition of Primepower. The fair values of the assets and liabilities disclosed below have only been determined provisionally due to the timing of the acquisition.

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 32. Business combinations (continued)

Details of the purchase consideration and the provisionally determined fair value of the net assets acquired are as follows:

<i>Description</i>	<i>Fair value</i>
Net identifiable assets acquired	2,750,767
Cash consideration	1,750,000
Deferred consideration - cash	950,000
Issue of ordinary Babylon Pump and Power shares	600,000
Contingent consideration - cash	500,000
Less: Total of Primepower net assets acquired	(2,750,767)
<b>Amount recognised as goodwill upon acquisition</b>	<b>1,049,233</b>

- Deferred consideration to be paid in cash is made up of three payments to the sum of \$950,000. Two instalments remain payable at 30 June 2020 and comprise the amount of \$811,853 in note 21 with \$405,926 due on 1 July 2020 and \$405,927 due on 1 October 2020. These payments have been adjusted to include \$48,098 in each instance being payment for the settlement of inventory acquired in excess of the amount in the sale agreement. Note 21 sets out the values included in the statement of financial position.
- Shares in the Group to the value of \$600,000 (29,556,651 ordinary shares) have been issued on 2 January 2020.
- Contingent consideration of \$500,000 made up of \$250,000 to be paid on 1 January 2021 and \$250,000 to be paid on 1 July 2021. This consideration is contingent on Primepower meeting a revenue performance target of \$8.90 million in FY20. As Primepower has recorded revenue of \$9.08 million this revenue requirement has been met and the amount has consequently been disclosed as deferred consideration at 30 June 2020. These payments have been adjusted to include a reduction of \$20,896 in each instance for the value of net working capital other than inventory acquired which adjustment is in terms of the sale agreement. Note 21 sets out the values included in the statement of financial position.
- Babylon Pump and Power Ltd has taken over the debt of Primepower Queensland Pty Ltd and are legally responsible for it outside of the fair value of net assets acquired. It is noted that an indemnity has been granted by the seller in terms of the sale agreement in respect of pre-acquisition taxation liabilities which may arise.

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 32. Business combinations (continued)

The assets and liabilities recognised as a result of the acquisition are as follows:

<b>Description</b>	<b>Fair value</b>
Cash	7,308
Trade and other receivables	1,295,942
Inventories	3,244,294
Property plant and equipment	147,779
Right of use assets	577,033
Trade and other payables	(1,472,396)
Trade finance liability	(500,000)
Lease liability	(549,193)
<b>Net identifiable assets acquired</b>	<b>2,750,767</b>

- Acquisition related legal costs have been included as an expense in the statement of profit and loss. A total of \$116,439 has been incurred to 30 June 2020 comprising \$28,910 during the year ended 30 June 2019 and \$87,529 during the year ended 30 June 2020.
- Goodwill represents the excess of the purchase consideration over the fair value of the identifiable net assets at the time of acquisition. The fair value will be finalised within twelve months of the acquisition date in accordance with AASB3 Business Combinations.
- The sale agreement included taking over the seller's liability on the trade finance facility for an amount of \$500,000 with a provision that any value at acquisition date above or below the amount of \$500,000 to be adjusted in amounts payable to the seller. Based on provisional accounting for this acquisition a liability of \$498,010 was taken over on acquisition date and the amount due to the seller was increased by \$1,990 in settlement of this component of the purchase price.

The cash outflow from investing activities disclosed in the consolidated statement of cash flows is calculated as follows:

<b>Reconciliation of cash outflow on acquisition of Primepower Queensland</b>	<b>\$</b>
Acquisition price	(4,300,000)
Cash acquired with business	7,308
Deferred consideration due to seller at year end	1,270,060
Trade finance liability taken over from seller	498,010
Adjusting payment to seller for trade finance facility	1,990
<b>Cash outflow in statement of cashflows</b>	<b>(2,522,632)</b>

# Notes to the consolidated financial statements

For the year ended 30 June 2020



## 33. Parent entity disclosures

<i>Financial Position</i>	30 June 2020 (\$)	30 June 2019 (\$)
<b>Assets</b>		
Current assets	3,615,271	21,262
Non-current assets	10,345,341	8,149,188
<b>Total Assets</b>	<b>13,960,612</b>	<b>8,170,450</b>
<b>Liabilities</b>		
Current liabilities	5,890,783	237,291
Non-current liabilities	231,838	4,501,136
<b>Total liabilities</b>	<b>6,122,621</b>	<b>4,738,427</b>
<b>Net Assets / (Liabilities)</b>	<b>7,837,991</b>	<b>3,432,023</b>
<b>Equity</b>		
Share capital	35,577,677	27,983,251
Reserves	140,000	777,950
Accumulated losses	(27,879,686)	(25,329,178)
<b>Total Equity / (Deficiency)</b>	<b>7,837,991</b>	<b>3,432,023</b>

  

<i>Financial Performance</i>	30 June 2020 (\$)	30 June 2019 (\$)
Loss for the year	(2,958,152)	(1,408,242)
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>(2,958,152)</b>	<b>(1,408,242)</b>

### (i) Guarantees provided in relation to subsidiaries

Babylon Pump & Power Limited provides a parent-Company guarantee in respect to asset finance, invoice finance and trade finance facilities established by Babylon (see note 20).

## 34. Registered Office and Principal Place of Business

**The registered office of The Company is:**  
74 Harrison Road, Forrestfield  
Western Australia 6058

**The principal place of business of The Company is:**  
74 Harrison Road, Forrestfield  
Western Australia 6058

# Directors' declaration

## For the year ended 30 June 2020



- 1 In the opinion of the directors of Babylon Pump & Power Limited:
- (a) the Group's financial statements and notes set out on pages 20 to 57 are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance, for the financial period ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australia Accounting Interpretations), the Corporations Regulations 2001 and other mandatory professional reporting requirements;
  - (b) the financial report also complies with International Financial Reporting Standards as set out in note 2(a);
  - (c) the remuneration disclosures that are contained in the remuneration report in the directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures, the *Corporations Act 2001* and the Corporations Regulations 2001.
  - (d) there are reasonable grounds to believe that the Group will be able to pay its debts and when they become due and payable.
- 2 The directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Board for the year ended 30 June 2020.

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read 'Michael Shelby'.

Michael Shelby  
*Executive Chairman*

Dated at Perth this 30<sup>th</sup> day of September 2020.

## INDEPENDENT AUDITOR'S REPORT

To the members of Babylon Pump & Power Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Babylon Pump & Power Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the Corporations Act 2001, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

#### Basis for opinion

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

#### Material uncertainty related to going concern

We draw attention to Note 2(e) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

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## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

### Acquisition of Primepower Queensland Pty Ltd

Key audit matter	How the matter was addressed in our audit
<p>As disclosed in Note 32 of the financial report, the Group completed the acquisition of Primepower Queensland Pty Ltd during the year.</p> <p>The acquisition was accounted for in accordance with AASB 3: Business Combinations and was deemed to be a key audit matter given the acquisition was material to the Group and involved significant judgements made by management, including the estimation of the fair value of assets acquired and liabilities assumed.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"><li>• Assessing management's conclusion of the acquisition meeting the definition of a business combination;</li><li>• Reviewing the acquisition agreement to understand the key terms and conditions of the acquisition;</li><li>• Assessing management's calculation of the total consideration including the key assumptions made in determining the contingent consideration;</li><li>• Evaluating the assumptions and the methodology used in management's determination of the fair value of assets acquired and liabilities assumed; and</li><li>• Assessing the adequacy of the Group's disclosures as disclosed in Note 32 to the financial report.</li></ul>

## Carrying Value of Goodwill

Key audit matter	How the matter was addressed in our audit
<p>As disclosed in Note 10 to the financial report, the Group has recognised a significant value of goodwill as at 30 June 2020.</p> <p>The assessment of the carrying value of goodwill was determined to be a key audit matter as management's assessment of the recoverability of goodwill requires significant judgement, in particular the estimation of future cash flows, future growth rate of the cash generating units ("CGUs"), the discount rate applied to future cash flows and sensitivities of inputs and assumptions used in the value in use model.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> <li>• Assessing the appropriateness of the Group's identification of ("CGUs");</li> <li>• Challenging key inputs used in the value in use calculations including the following: <ul style="list-style-type: none"> <li>- In conjunction with our valuation specialist, comparing the discount rate utilised by management to an internally calculated discount rate;</li> <li>- Comparing the Group's cash flow forecast to the board approved budget including assessing the reasonableness of the growth rate used therein; and</li> <li>- Performing sensitivity analysis to stress test the key assumptions used, including future growth rates and discount rates.</li> </ul> </li> <li>• Assessing the adequacy of the Group's disclosures and impairment assessment methodology as disclosed in Notes 2(f) and Note 10 to the financial report.</li> </ul>

### Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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## Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for 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 are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at: [https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf)

This description forms part of our auditor's report.

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 18 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Babylon Pump & Power Limited, for the year ended 30 June 2020, complies with section 300A of the Corporations Act 2001.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink that reads 'J Prue'. The signature is written in a cursive, slightly slanted style.

Jarrad Prue

Director

Perth, 30 September 2020

# ASX Additional Information

For the year ended 30 June 2020



Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information is current as at 30 September 2020.

## Twenty largest holders of quoted equity securities.

Position	Shareholder / Group Name	Number of fully paid shares	Percentage of fully paid shares
1	G & N LORD SUPERANNUATION PTY LTD <GNR SUPERANNUATION FUND A/C>	130,400,000	15.6%
2	FGI HOLDINGS PTY LTD <RNH INVESTMENT A/C>	50,586,915	6.0%
3	CHESAPEAKE CAPITAL LTD	41,839,514	5.0%
4	MR GEOFFREY FREDERICK LORD	33,861,038	4.0%
5	HAYES SUPERANNUATION INVESTMENTS PTY LTD <ALLAN HAYES S/FUND NO 2 A/C>	30,292,213	3.6%
6	MICKDI (QLD) PTY LTD	29,556,651	3.5%
7	MCNEIL NOMINEES PTY LIMITED	20,000,000	2.4%
7	OODACHI PTY LTD <P & MKERR FAMILY A/C>	20,000,000	2.4%
8	CHEMCO SUPERANNUATION FUND PTY LTD <CHEMCO SUPER FUND NO 2 A/C>	18,500,000	2.2%
9	T T NICHOLLS PTY LTD <SUPERANNUATION ACCOUNT>	16,537,997	2.0%
10	MR RICHARD THOMAS HAYWARD DALY & MRS SARAH KAY DALY <DALY FAMILY S/F TOMA/C>	16,018,030	1.9%
11	MR ANDREW LENOX HEWITT	12,992,745	1.6%
12	RUSSELL HOWARD PTY LTD <RUSSELL HOWARD S/F A/C>	12,683,541	1.5%
13	MR DAVID JAMES POWER	11,800,000	1.4%
14	SCOTCH INVESTMENTS PTY LTD <SCOTCH INVESTMENTS A/C>	8,489,446	1.0%
15	MR TIMOTHY GRANTHAM SIMPSON HOSKING	8,070,361	1.0%
16	MRS JILLIAN MARIA NOEL TAYLOR	8,000,000	1.0%
17	STRINGER WA PTY LTD <STRINGER SUPER FUND A/C>	7,739,446	0.9%
18	CAVERSHAM NOMINEES PTY LTD <S B LAUDER FAMILY A/C>	7,292,207	0.9%
19	WEST FELICIANA HOLDINGS PTY LTD <THE SECOND SHELBY FAMILY A/C>	7,000,000	0.8%
20	JASPER HILL RESOURCES PTY LTD <SUPERANNUATION ACCOUNT>	6,808,884	0.8%
	<b>Total</b>	<b>498,468,988</b>	<b>59.5%</b>
	<b>Total Issued Capital - Selected Security Class(es)</b>	<b>837,376,920</b>	<b>100.0%</b>

# ASX Additional Information

For the year ended 30 June 2020



## Distribution of equity security holders

### Ordinary Share Capital

837,376,920 fully paid ordinary shares are held by 638 individual shareholders. All issued ordinary shares carry one vote each.

### Options

There is currently no unlisted options.

Following is a distribution schedule of the number of holders in each class of equity securities:

<b>Holding Ranges</b>	<b>Holders</b>	<b>Total Units</b>	<b>% Issued Share Capital</b>
above 0 up to and including 1,000	84	11,879	0.0%
above 1,000 up to and including 5,000	21	55,209	0.0%
above 5,000 up to and including 10,000	6	33,936	0.0%
above 10,000 up to and including 100,000	153	8,359,190	1.0%
above 100,000	374	828,916,706	99.0%
<b>Totals</b>	<b>638</b>	<b>837,376,920</b>	<b>100.0%</b>

The number of shareholders holding less than a marketable parcel of ordinary shares is 125.

## Substantial shareholders

The names of the substantial shareholders who have notified the Company in accordance with section 671B of the Corporation Act 2001 are:

<b>Position</b>	<b>Shareholder / Group Name</b>	<b>Number of fully paid shares</b>	<b>Percentage of fully paid shares</b>
1	G & N LORD SUPERANNUATION PTY LTD <GNR SUPERANNUATION FUND A/C>	130,400,000	19.6%
2	FGI HOLDINGS PTY LTD <RNH INVESTMENT A/C>	50,586,915	6.0%