

1414 DEGREES LIMITED

ACN 138 803 620

INTERIM FINANCIAL STATEMENTS

**FOR THE HALF-YEAR ENDED
31 DECEMBER 2017**

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1414 DEGREES LIMITED
ACN 138 803 620

DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

The directors of 1414 Degrees Limited present their report on the company for the half year ended 31 December 2017.

DIRECTORS

The following persons were directors of 1414 Degrees Limited during the whole of the half year and up to the date of this report, unless otherwise stated:

Kevin Charles Moriarty - Chairman

Matthew Johnson

Robert John Keith Shepherd

Dana Larson (appointed 18 October 2017)

Jeremy James Moore (resigned 14 October 2017)

COMPANY SECRETARY

Richard Willson (appointed 14 October 2017)

Pierre Andre Van Der Merwe (resigned 13 October 2017)

REVIEW OF OPERATIONS

A summary of economic revenues and results is set out below:

The company's operating loss for the half year ended 31 December 2017 was \$3,265,928 (2016: loss \$70,217).

During the half year the company capitalised \$2,208,513 (2017: \$1,011,122) in the Development of its thermal energy storage system (TESS) and received a further \$275,599 relating to the Accelerating Commercialisation grant agreement. During the half year this grant was fully applied to the capitalised Development Costs.

This report is made in accordance with a resolution of directors.



Kevin Moriarty
Chairman

Adelaide, this 9th day of April 2018

1414 DEGREES LIMITED
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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Note	Half year	
		31-Dec-17 AU\$	31-Dec-16 AU\$
Revenue		27,369	-
Administration and Professional Expenses		462,743	35,010
Occupancy Expenses		215,687	-
Marketing Expenses		74,271	17,108
Depreciation and Amortisation		5,826	-
Employee Benefits Expenses		206,754	-
Share Based Payments (Equity Settled)		2,083,765	-
Directors Fees		42,000	-
Other Expenses		202,251	18,099
Finance Costs		-	-
Profit / (Loss) before income tax		(3,265,928)	(70,217)
Income tax benefit / (expense)		-	-
Profit / (Loss) for the half year		(3,265,928)	(70,217)
Other comprehensive income for the half year		-	-
Total comprehensive income for the half year		(3,265,928)	(70,217)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

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STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	31-Dec-17 AU\$	30-Jun-17 AU\$
ASSETS			
Current assets			
Cash and cash equivalents	3	1,613,210	1,608,005
Trade and other receivables		1,368,247	483,226
Total current assets		<u>2,981,457</u>	<u>2,091,231</u>
Non-current assets			
Property, plant and equipment		140,856	-
Intangible Assets	4	1,879,463	787,367
Total non-current assets		<u>2,020,319</u>	<u>787,367</u>
Total assets		<u>5,001,776</u>	<u>2,878,598</u>
LIABILITIES			
Current liabilities			
Trade and other payables		294,261	465,105
Provision for employee benefits		5,967	-
Total current liabilities		<u>300,228</u>	<u>465,105</u>
Total liabilities		<u>300,228</u>	<u>465,105</u>
Net assets		<u>4,701,548</u>	<u>2,413,493</u>
EQUITY			
Contributed equity	5	10,486,503	5,066,285
Share Based Payments Reserve		19,772	386,007
Accumulated losses		(5,804,727)	(3,038,799)
Total equity		<u>4,701,548</u>	<u>2,413,493</u>

The above statement of financial position should be read in conjunction with the accompanying notes.

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STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Note	Half year	
		31-Dec-17 AU\$	31-Dec-16 AU\$
Cash flows from operating activities			
Cash received from customers (inc GST)		25,758	-
Cash paid to suppliers and employees		(1,442,688)	(150,778)
Research & Development tax offset received		-	100,100
Government grants		303,159	66,000
Interest received		3,953	-
Net cash inflow/(outflow) from operating activities		<u>(1,109,818)</u>	<u>15,322</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(146,682)	-
Payments for product development activities		(2,208,513)	(543,945)
Net cash inflow/(outflow) from investing activities		<u>(2,355,195)</u>	<u>(543,945)</u>
Cash flows from financing activities			
Proceeds from call on convertible notes		-	125,027
Proceeds from the issue of shares		3,470,218	515,932
Net cash inflow/(outflow) from financing activities		<u>3,470,218</u>	<u>640,959</u>
Net increase/(decrease) in cash and cash equivalents		5,205	112,336
Cash and cash equivalents at beginning of period		1,608,005	14,005
Cash and cash equivalents at end of period	3	<u><u>1,613,210</u></u>	<u><u>126,341</u></u>

The above statement of cash flows should be read in conjunction with the accompanying notes.

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STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Contributed equity \$	Reserves \$	Accumulated Losses \$	Total equity \$
Balance at 1 July 2016	<u>2,217,780</u>	<u>-</u>	<u>(2,084,444)</u>	<u>133,336</u>
Loss for the half year	-	-	(70,217)	(70,217)
Other comprehensive income	-	-	-	-
Total comprehensive income for the half year	<u>-</u>	<u>-</u>	<u>(70,217)</u>	<u>(70,217)</u>
Transactions with owners in their capacity as owners				
Conversion of loans	71,885	-	-	71,885
Share options expensed	(2,488)	-	-	(2,488)
Contributions of equity net of transaction costs	515,968	-	-	515,968
	<u>585,365</u>	<u>-</u>	<u>-</u>	<u>585,365</u>
Balance at 31 December 2016	<u>2,803,145</u>	<u>-</u>	<u>(2,154,661)</u>	<u>648,484</u>
Balance at 1 July 2017	<u>5,066,285</u>	<u>386,007</u>	<u>(3,038,799)</u>	<u>2,413,493</u>
Loss for the half year	-	-	(3,265,928)	(3,265,928)
Total comprehensive income for the half year	<u>-</u>	<u>-</u>	<u>(3,265,928)</u>	<u>(3,265,928)</u>
Transactions with owners in their capacity as owners				
Share Based Payments	1,691,904	391,861	-	2,083,765
Share Based Payment Cancellation	-	(500,000)	500,000	-
Share Based Payment Issue	258,096	(258,096)	-	-
Contributions of equity net of transaction costs	3,470,218	-	-	3,470,218
	<u>5,420,218</u>	<u>(366,235)</u>	<u>500,000</u>	<u>5,553,983</u>
Balance at 31 December 2017	<u>10,486,503</u>	<u>19,772</u>	<u>(5,804,727)</u>	<u>4,701,548</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

These interim financial statements are general purpose financial statements prepared in accordance with Australian Accounting Standard AASB 134: Interim Financial Reporting. The company is a for-profit company for financial reporting purposes under Australian Accounting Standards.

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied. Amounts have been rounded to whole dollars.

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

(b) Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

The company has considered the implications of new or amended Accounting Standards, but determined that their application in the financial statements is either not relevant or not material.

NOTE 2 ACCOUNTING ESTIMATES AND JUDGEMENTS

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company.

Key Estimates - Impairment

The company assesses impairment at the end of each reporting period by evaluating conditions and events specific to the company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key

With respect to cash flow projections for intangible assets with an indefinite useful life and those with a finite useful life but not yet considered ready for use, relevant inputs have been factored into valuation models for the next 5 years on the basis of management's expectations regarding the growth of the market and the company's ability to capture market share. Pre-tax discount rates of 5% have been used in all models.

No impairment has been recognised in respect of intangible assets at the end of the reporting period.

Key Estimates - Equity-settled share based payments

The fair value of the equity-settled share based payment is measured using a modified share price approach. The inputs into this model are not able to be taken from observable markets as the value of the share-based payment is based on internal information. Estimates in this model include the fair value of the shares, the timing of vesting and probability of meeting service periods and other conditions. Changes in these assumptions could affect the reported value of the share based payment expense.

Key Judgements - Product Development

Included within intangible assets at the end of the reporting period is Product Development with a net carrying value of \$1,879,463 (30 June 2017: \$787,367) being the carrying value of the Product Development intangible asset of \$3,995,728 (2017: \$1,787,215) less the associated Government Grant funding of \$715,599 (2017: \$440,000) and the R&D refundable tax offsets received of \$1,400,666 (2017: \$559,848). The directors believe that while the development and commercialisation of the technology remains in-progress and the asset is not yet generating economic benefits (beyond customer trials), it is not considered ready for use. A reliable estimate for the useful life of the asset will only be capable of being determined once the asset is assessed as ready for use, after which point, amortisation will commence.

	31-Dec-17 AU\$	30-Jun-17 AU\$
NOTE 3 CASH AND CASH EQUIVALENTS		
Cash at bank	1,613,210	1,608,005
	<u>1,613,210</u>	<u>1,608,005</u>

An amount of \$207,515 included as cash has been set aside to support a bank guarantee issued to the landlord of the rented premises.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	31-Dec-17 AU\$	30-Jun-17 AU\$
NOTE 4 INTANGIBLE ASSETS		
<i>Product Development - Intellectual Property</i>		
Intangible assets under development - at cost	3,995,728	1,787,215
Government Grants received	(715,599)	(440,000)
R&D Refundable Tax Offset	(1,400,666)	(559,848)
Accumulated amortisation	-	-
	<u>1,879,463</u>	<u>787,367</u>
<i>Reconciliation of Product Development - Intellectual Property</i>		
Balance at the beginning of the half year	787,367	295,993
Additions	2,208,513	1,011,122
Government Grants received	(275,599)	(60,000)
R&D Refundable Tax Offset	(840,818)	(459,748)
Closing carrying value	<u>1,879,463</u>	<u>787,367</u>
Total Intangible Assets	<u>1,879,463</u>	<u>787,367</u>

Intellectual property consists of TESS (thermal energy storage system) development of bulk energy storage solutions. No amortisation or impairment has been recognised as the intellectual property is not available for use as at 31 December 2017.

The government grant relates to accelerating the commercialisation of the company's intellectual property.

	31-Dec-17 No. of Shares	31-Dec-17 AU\$
NOTE 5 CONTRIBUTED EQUITY		
Share capital		
Ordinary shares - authorised, issued and fully paid opening balance 1 July 2017	86,000,973	5,066,285
Shares issued	17,294,183	3,544,718
Share based payment	3,600,000	1,950,000
Share applications received	-	20,000
Costs of issue	-	(94,500)
Ordinary shares - authorised, issued and fully paid closing balance 31 December 2017	<u>106,895,156</u>	<u>10,486,503</u>

Ordinary shareholders are entitled to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. Every ordinary shareholder present at a meeting in person or by proxy is entitled to one vote on a show of hands or by poll.

Capital Management

Management controls the capital of the company in order to ensure that the company can fund its operations and continue as a going concern.

Management effectively manages the company's capital by assessing the company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. There have been no changes in the strategy adopted by management to control the capital of the company since the prior year and the objectives for managing capital have been met.

NOTE 6 CONTINGENCIES

Contingent Liabilities

At 31 December 2017 those charged with governance of the company note that there are no known contingent liabilities (2017: nil).

NOTE 7 SUBSEQUENT EVENTS

Since 31 December 2017 the company issued a further 14,572,122 shares raising \$2,579,185 after costs.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

31-Dec-17 30-Jun-17
AU\$ AU\$

NOTE 8 RELATED PARTY

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

- i. - ammjohn Pty Ltd, a company related to Matthew Johnson, charged contract engineering fees of \$706,973 during the half year.
- ii. - Merchant Accounting, a company related to Robert Shepherd, charged accounting fees of \$30,500 during the half year.
- iii. - Towarnie Geosciences, a company related to Kevin Moriarty, charged professional fees of \$54,000 during the half year.

NOTE 9 SHARE BASED PAYMENTS RESERVE

Balance at the beginning of the half year	386,007	-
Issued and amortised over vesting period during the half year	8,402	386,007
Accelerated vesting during the half year upon cancellation	383,459	-
Cancelled without replacement	(500,000)	-
Cancelled and replaced	(258,096)	-
	19,772	386,007

On 24 October 2016, the company entered into agreements with key contractors to issues shares, subject to shareholder approval, for meeting certain milestones. Separate share tranches would be issued for each of the following milestones

- certain specific performance target in relation to the contractors duties with the company (Milestone 1)
- first 3 months post listing with VWAP share price being 100% more than the issue price at the initial public offering (Milestone 2)
- completion of three years continuous service with the company (Milestone 3)

At measurement date the following rights to shares were granted;

	2017
	No. of Shares
Milestone 1	7,750,000
Milestone 2	6,500,000
Milestone 3	4,750,000
	19,000,000

The weighted average fair value of these instruments at 24 October 2016 was 8.3c.

The fair value was measured based on the share price of the company's capital raisings around the time of the issue of these instruments. Where performance conditions that are market conditions applied to the share issue, the fair value was further modified to take this performance condition into account. No dividends were incorporated into the measurement of fair value.

At a meeting of the board of directors on 11 October 2017, it was resolved that the agreements noted above with Robert Riebolge, Jonathan Whalley, Pierre van der Merwe and Nigel Gammon be cancelled with the consent of the parties. These agreements represent 13 million of the 19 million shares at grant date. With effect from termination of these contracts, each party was released and discharged from all future obligations and liabilities to the other party under these contracts. Each party received the following replacement ordinary shares:

- Robert Riebolge (and/or nominee) received 800,000 shares
- Jonathan Whalley (and/or nominee) received 1,200,000 shares
- Pierre van der Merwe (and/or nominee) received 800,000 shares
- Nigel Gammon (and/or nominee) received 800,000 shares

As a result of cancelling and replacing these shares, the company is required to accelerate the vesting and expense the incremental fair value of the original shares at the date of cancellation. The fair value was 15c.

During the half year, the Company cancelled 5 million performance rights issued under a conditional offer of contract employment to Matthew Johnson. As a result of cancelling without replacement, the company is required to accelerate the vesting and expense the original fair value at grant date.

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DIRECTORS' DECLARATION

In accordance with a resolution of the directors of 1414 Degrees Limited, the directors of the company declare that:

- 1 The financial statements, comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes are in accordance with:
 - a. complying with Accounting Standard AASB 134: Interim Financial Reporting; and
 - b. give a true and fair view of the company's financial position as at 31 December 2017 and its performance for the half year ended on that date.
- 2 In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



Kevin Moriarty
Chairman

Adelaide

Dated this 9th day of April 2018

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF 1414 DEGREES LIMITED

Conclusion

We have reviewed the half-year financial report of 1414 Degrees Limited (the Company), which comprises the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year then ended, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Company is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Company's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Directors' responsibility for the Half-Year Financial Report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2017 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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



Independence

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

A handwritten signature in blue ink that reads 'BDO'.

BDO Audit (SA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Andrew Tickle'.

Andrew Tickle

Director

Adelaide, 10 April 2018