

REVASUM, INC.

A DELAWARE CORPORATION

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2017



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Corporate Directory

Company

Revasum, Inc.
825 Buckley Road
San Luis Obispo, 93401 USA
Phone: +1 (805) 541 6424

Website: www.revasum.com

Directors

Jerry Cutini - Director, President and CEO
Kevin Landis - Non-Executive Director
Ryan Benton - Director, SVP and CFO

United States Registered Office

c/o Incorporating Services Ltd
3500 South Dupont Highway
Dover, Delaware 19901 USA

United States Legal Adviser

Troutman Sanders LLP
5 Park Plaza
Suite 1400
Irvine, CA, 92614 USA

Australian Legal Adviser

Maddocks
Angel Place Level 27
123 Pitt Street
Sydney, NSW 2000 Australia

Directors' Report

The directors present their report for Revasum, Inc. ("Revasum" or "Company") for the year ended 31 December 2017 and the auditor's report thereon. The comparative financial statements are for the period 6 October 2016 (incorporation) to 31 December 2016.

DIRECTORS

The following persons were directors of the Company during the whole of the financial periods and up to the date of this report, unless otherwise stated:

Jerry Cutini	Director, President and Chief Executive Officer ("CEO")	Appointed 6 October 2016
Kevin Landis	Non-Executive Director	Appointed 6 October 2016
Ryan Benton	Director, Senior Vice President ("SVP") and Chief Financial Officer ("CFO")	Appointed 8 August 2018

PRINCIPAL ACTIVITIES

Revasum designs, manufactures and markets a portfolio of semiconductor processing equipment. The Company's product portfolio includes grinding, polishing and chemical mechanical planarization (CMP) equipment (also referred to as "systems") used to manufacture substrates and devices for the global semiconductor industry.

The systems that Revasum manufactures are a key part of the production chain in manufacturing and processing wafers sized 200mm and below that are used to make microchips, sensors, LEDs, RF devices and power devices which are commonly used in connected IoT devices, cellphones, wearables, automotive, 5G and industrial applications:

DIVIDENDS

No dividends were paid during the year ended 31 December 2017 (2016: \$Nil).

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

On 8 November 2016, Revasum, Inc. acquired certain assets and liabilities of Strasbaugh, Inc. ("Strasbaugh"), pursuant to a Foreclosure Sale Agreement ("FSA"). Prior to this date, Revasum was a dormant company.

Revenue for the year ended 31 December 2017 was \$12.52 million, a significant increase from the period ended 31 December 2016, where revenues of \$1.50 million were achieved.

For the year ended 31 December 2017, the net operating loss was \$3.75 million (period ended 31 December 2016: \$0.43 million).

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

In January 2018, 24,604 shares of Series B preferred stock were issued with a par value do \$0.001 at an issue price of \$8.1284.

On 31 July 2018, the Company issued a Stock Purchase Warrant ("Warrant") to purchase up to 650,000 shares of the Company's common stock, with a par value of \$0.0001 per share, an exercise price per share of \$10 and an expiry date of 31 July 2025. The warrants may also be exercised at any time via a cashless exercise, the fair value to be determined by the Board, or in the case of an IPO, the fair value will be equal to the IPO price. Consideration of \$500,000 was received in respect of the warrant. The warrant was issued to a related party, Firsthand Venture Investors, a fund of which Kevin Landis is the CEO.

Directors' Report

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR (CONTINUED)

On 8 August 2018 Mr. Ryan Benton was appointed to the Board of Directors, and appointed as SVP and CFO on 5 September 2018.

On 17 August 2018, the Company signed an amendment to the lease agreement for the premises at 825 Buckley Road, San Luis Obispo. The amendment extended the lease to 30 November 2023, and also provides the Company with the right to extend the lease two times beyond 30 November 2023 by 30 months each time by providing written notice to the Lessor at least six months before the end of each lease period.

On 28 August 2018, the Company entered into a Securities Purchase Agreement for the issuance and sale of up to \$9,000,000 in aggregate principal amount of 5% Senior Unsecured Subordinated Convertible Promissory Notes with a maturity date of 1 July 2019 ("Notes"), of which \$8,655,944 were issued. The Notes automatically convert at a fixed discount into the Company's common stock upon listing approval for the Company to be admitted to the official list of the ASX and for the CHES Depository Interests over the Company's Common Stock ("CDIs") to be quoted on the ASX in connection with a qualifying Initial Public Offering ("IPO"). The Notes were issued in the following five tranches:

- Tranche 1 was issued on 29 August 2018 for a total of \$4,534,950.
- Tranche 2 was issued on 31 August 2018 for a total of \$1,617,000.
- Tranche 3 was issued on 31 August 2018 for a total of \$307,598. This was issued in lieu of payment of a significant portion of the investment banking fees.
- Tranche 4 was issued On 29 August 2018 to Firsthand Venture Investors, a fund of which Kevin Landis is the CEO. The total value of this tranche was \$1,846,397, with \$1,000,000 being received in cash, and the remaining \$846,397 repaying the then outstanding Secured Promissory Note (see Note 15 for further details).
- Tranche 5 was issued on 31 August 2018 for a total of \$350,000, including \$100,000 from Jerry Cutini, a director of Revasum.

The Company received total consideration for the issuance of the Notes of \$8,031,168, of which \$7,089,002 was received in cash, and \$846,397 was by way of repayment of the outstanding Secured Promissory Note. The consideration received was net of \$624,776 fees and expenses. Tranches 1, 2, and 3 above tranches were entered into at a fixed foreign exchange rate of US\$1: A\$1.36. After conversion and settlement into US\$, the Company recognized a foreign exchange loss of \$95,769.

On 5 September 2018, 169,000 share options were granted with an exercise price of \$2.26, including 131,000 options issued to Ryan Benton, a director of Revasum.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Directors' Report

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Company's core growth strategy involves continuing its strong market-driven product development focus in order to continue to capitalize on strong growth in demand for 200mm substrate and device fabrication capacity. The Company's growth strategy also includes:

1. Increasing sales, marketing and product demonstration capabilities to secure new customers and help expedite the conversion of existing pipeline customers.
2. Expanding the product portfolio which in turn increases the addressable market size.
3. Continuing two customer-led product development projects, which are expected to add incremental sales and further enable Revasum to capitalize on key market trends

In order to support this strategy, the Company intends to complete a listing and capital raising on the Australian Securities Exchange tentatively in November 2018, resulting in sufficient funding to support the Company's strategic plans. The Company believes that being well capitalized will provide existing and potential customers additional confidence in the Company's ability to fund working capital and to fulfil larger orders.

The Company will use the funds it plans to raise in the offering to fund the development of two new products, increase headcount to develop, manufacture, sell and support the new products and larger customer base, and for general corporate working capital.

As part of the ASX listing process, the Company plans to add at least one independent Australian-resident Director. The Company may also choose to add one or more industry experts Board Members as well.

PRESENTATION CURRENCY

The functional and presentation currency of the Group is United States Dollars (US Dollars). The financial report is presented in US Dollars with all references to dollars, cents or \$'s in these financial statements presented in US currency, unless otherwise stated.

ROUNDING OF AMOUNTS

Unless otherwise stated, amounts have been rounded to the nearest United States dollar.

JURISDICTION OF INCORPORATION

The Company is incorporated in the State of Delaware, United States of America.

ENVIRONMENTAL REGULATION

The Company is not subject to any significant environmental regulation under United States of America legislation. The Company is committed to the sustainable management of environmental, health, and safety (EHS) concerns as a core business principle. This includes ensuring compliance with all applicable government standards and regulations and providing a safe and healthy workplace, while reducing our environmental footprint. We integrate health, safety, and environmental considerations into all aspects of our business, including product design and services, to provide productive and responsible solutions by:

- Striving for zero accidents through the application of an EHS Management System.
- Implementing pollution prevention control strategies.
- Committing to continual improvement for our customers, Company, and Company's personnel.

Directors' Report

The Board of Directors considers that adequate systems are in place to manage the Company's obligations and is not aware of any breach of environmental requirements as they relate to the Company.

SHARE OPTIONS

Share options over issued shares in the Company were granted both during the year, and also subsequent to the financial year end. The number of options outstanding as at the date of this reports, and all other movements in share options, are disclosed in Notes 17 and 19 to the financial statements.

INDEMNITY AND INSURANCE OF OFFICERS

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

INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings have been brought or intervened in on behalf of the Company.

On behalf of the directors



Jerry Cutini
Director, President and Chief Executive Officer



Ryan Benton
Director, Senior Vice President and Chief Financial Officer

3 October 2018

San Luis Obispo, California, USA

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2017

	Note	Year ended 31 Dec 2017 US\$	Period 6 Oct 2016 to 31 Dec 2016 US\$
Revenue	2	12,517,566	1,498,170
Cost of goods sold		(8,549,907)	(859,797)
Gross profit		<u>3,967,659</u>	<u>638,373</u>
Gross margin		31.7%	42.6%
Expenses			
Research & development	3	(3,494,615)	(519,388)
Selling & marketing	3	(2,124,667)	(215,111)
General & administrative	3	(2,051,586)	(336,628)
Total expenses		<u>(7,670,868)</u>	<u>(1,071,127)</u>
Operating loss		(3,703,209)	(432,754)
Finance expenses - interest paid		(48,059)	(1,423)
Net loss before income tax expense		<u>(3,751,268)</u>	<u>(434,177)</u>
Income tax expense		-	-
Net loss for the period		<u>(3,751,268)</u>	<u>(434,177)</u>
Other comprehensive income			
Other comprehensive income for the period, net of tax		-	-
Total comprehensive loss for the period attributable to the owners of Revasum, Inc.		<u>(3,751,268)</u>	<u>(434,177)</u>

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

Statement of Financial Position As at 31 December 2017

	Note	31 Dec 2017 US\$	31 Dec 2016 US\$
Assets			
Current assets			
Cash and cash equivalents	5	2,405,836	1,375,762
Trade and other receivables	6	2,487,709	1,350,897
Inventories	7	4,039,439	1,089,317
Other assets	8	541,694	176,093
Total current assets		9,474,678	3,992,069
Non-current assets			
Property, plant and equipment	9	382,060	390,591
Intangible assets	10	237,222	549,889
Other receivables		43,022	-
Other assets		73,326	70,876
Total non-current assets		735,630	1,011,356
Total assets		10,210,308	5,003,425
Liabilities			
Current liabilities			
Trade and other payables	11	2,414,052	1,508,507
Financial liabilities	12	3,441,441	1,287,655
Employee benefits	13	196,668	174,301
Provision	14	130,781	107,105
Borrowings	15	404,575	-
Lease liabilities	18(b)	81,528	77,506
Total current liabilities		6,669,045	3,155,074
Non-current liabilities			
Borrowings	15	595,425	-
Lease liabilities	18(b)	-	81,528
Total non-current liabilities		595,425	81,528
Total liabilities		7,264,470	3,236,602
Net assets		2,945,838	1,766,823
Equity			
Contributed equity	16	7,019,098	2,201,000
Reserves	17	112,185	-
Accumulated losses		(4,185,445)	(434,177)
Total equity		2,945,838	1,766,823

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

Statement of Changes in Equity For the year ended 31 December 2017

	Contributed equity US\$	Reserves US\$	Accumulated losses US\$	Total equity US\$
Balance at 6 October 2016 (incorporation)	-	-	-	-
Loss after income tax expense for the period	-	-	(434,177)	(434,177)
Other comprehensive loss for the period, net of tax	-	-	-	-
Total comprehensive loss for the period	-	-	(434,177)	(434,177)
<i>Transactions with owners in their capacity as owners:</i>				
Shares issued (note 16)	2,201,000	-	-	2,201,000
Balance at 31 December 2016	2,201,000	-	(434,177)	1,766,823
Balance at 1 January 2017	2,201,000	-	(434,177)	1,766,823
Loss after income tax expense for the year	-	-	(3,751,268)	(3,751,268)
Other comprehensive loss for the year, net of tax	-	-	-	-
Total comprehensive loss for the year	-	-	(3,751,268)	(3,751,268)
<i>Transactions with owners in their capacity as owners:</i>				
Shares issued (note 16)	4,818,098	-	-	4,818,098
Share-based payments (note 17)	-	112,185	-	112,185
Balance at 31 December 2017	7,019,098	112,185	(4,185,445)	2,945,838

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

Statement of Cash Flows

For the year ended 31 December 2017

	Note	Year ended 31 Dec 2017 US\$	Period 6 Oct 2016 to 31 Dec 2016 US\$
Cash flows (used in)/from operating activities			
Receipts from customers		11,308,977	1,225,051
Payments to suppliers and employees		(15,804,384)	(910,289)
Interest paid		(48,059)	(1,423)
Net cash (used in)/from operating activities		(4,543,466)	313,339
Cash flows used in investing activities			
Payments for property, plant and equipment	9	(167,052)	-
Business acquisition - Strasbaugh	20	-	(1,126,036)
Net cash used in investing activities		(167,052)	(1,126,036)
Cash flows from financing activities			
Proceeds from the issue of common stock	16	18,095	1,000
Proceeds from the issue of preferred stock	16	4,800,003	2,200,000
Proceeds from the issue of secured promissory note	15	1,000,000	-
Finance lease payments		(77,506)	(12,541)
Net cash from financing activities		5,740,592	2,188,459
Net increase in cash and cash equivalents		1,030,074	1,375,762
Cash and cash equivalents at the beginning of the financial year		1,375,762	-
Cash and cash equivalents at the end of the period	5	2,405,836	1,375,762

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

Notes to the Financial Statements

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of preparation

These financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and interpretations issued by the Australian Accounting Standards Board. The Company is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Historical cost convention

The financial statements, except for the cash flow information, have been prepared on an accrual basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed throughout the financial statements.

Going Concern

This financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realization of assets and settlement of liabilities in the normal course of business.

During the year ended 31 December 2017, the Company incurred a net loss after tax of \$3,751,268 (2016: \$434,177) and a cash outflow from operating activities of \$4,543,466 (2016: cash inflow from operating activities of \$313,339).

As at 31 December 2017, the Company had cash and cash equivalents of \$2,405,836 (2016: \$1,375,765), net assets of \$2,945,838 (2016: \$1,766,823), and net current assets of \$2,805,633 (2016: \$836,995).

As noted in the events subsequent to the year end, the Company has completed the issue of convertible notes and warrants resulting in cash inflows, net of fees, of \$7,589,002.

The Company has prepared a detailed cash flow forecast which estimates a positive net cash inflow over the 12-month period from the date of this report. However, this forecast is reliant upon the receipt of additional financing in the period. As a result, there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

The Company plans to obtain funding in late-2018 through the issue of equity as part of a listing on the ASX and is currently undergoing due diligence procedures as part of the prospective listing.

Should the listing prove to be unsuccessful, the Company has alternative sources of finance through the issue of debt and equity instruments. To date management has a proven track record of obtaining significant financing through debt and equity instruments and the Directors have reasonable expectations that they will be able to raise further financing as required over the next 12 months.

Notes to the Financial Statements

Note 1. Significant accounting policies (*continued*)

Going Concern (*continued*)

The Directors have considered the funding and operational status of the business in arriving at their assessment of going concern and believe that the going concern basis of preparation is appropriate, based upon the following:

- The ability to further vary cash flows through control of headcount and other expenses;
- The negotiation and commencement of new commercial agreements; and
- The ability of the Company to obtain funding through various debt and/or equity issues, including the listing of the Company on the ASX which is currently being investigated by management.

Should the Company not continue as a going concern it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The financial report does not include adjustments relating to the recoverability or classification of the recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

Rounding of amounts

Amounts in this report have been rounded off to the nearest United States dollar.

Functional currency

The financial statements are presented in US dollars, which is the functional and presentational currency of Revasum, Inc. There has been no change in the functional and presentational currency of the Company.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items held at fair value are reported at the exchange rate at the date when the fair values were determined.

Exchange differences arising on the translation of monetary items are recognized in profit or loss.

Exchange differences arising on the translation of non-monetary items are recognized directly in other comprehensive income to the extent that the underlying gain or loss is directly recognized in other comprehensive income; otherwise the exchange difference is recognized in profit or loss.

Notes to the Financial Statements

Note 1. Significant accounting policies (*continued*)

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when it is expected to be realized or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realized within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is current when it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

New, revised or amended Accounting Standards and Interpretations adopted

The Company has retrospectively adopted, as at the date of incorporation, all of the new, revised or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the International Financial Reporting Interpretations Committee (IFRIC) that are relevant to its operations and effective for the year commencing 1 January 2018.

Revised or amending Accounting Standards or Interpretations that are not yet mandatory for the year commencing 1 January 2018 have not been early adopted.

New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16 Leases: This standard will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts. At this stage, the Company does not expect that there will be a material impact on the Company's assets and liabilities when the standard is adopted.

Note 2. Revenue

	Year ended 31 Dec 2017 US\$	Period 6 Oct 2016 to 31 Dec 2016 US\$
Product revenue	12,233,520	1,498,170
Commission income	284,046	-
Total revenue from contracts with customers	<u>12,517,566</u>	<u>1,498,170</u>

Notes to the Financial Statements

Note 2. Revenue (continued)

Accounting policy for revenue recognition

The Company adopted AASB 15 at the date of incorporation.

The Company has disaggregated revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Revasum recognizes revenue from product sales when the Customer obtains control of the Company's product, which occurs at a point in time, typically upon leaving the Company's factory. Taxes collected from Customers relating to product sales and remitted to governmental authorities are excluded from revenues. The Company expenses incremental costs of obtaining a contract as and when incurred because the expected amortization period of the asset that the Company would have recognized is one year or less and the commission rate on the future orders, if any, is commensurate with the commission rate on the initial sale.

Revenues from product sales are recorded at the net sales price (transaction price), which includes estimates of variable consideration for which reserves are established and which result from discounts, returns, and other allowances that are offered within contracts between the Company and its customers.

Commission income is recognized when the related services are performed.

Note 3. Expenses

Loss before income tax includes the following specific expenses:

	Year ended 31 Dec 2017 US\$	Period 6 Oct 2016 to 31 Dec 2016 US\$
<i>Research & development</i>		
Salary and benefits expense	2,321,734	347,584
Travel	182,953	27,390
Other	989,928	144,414
	<u>3,494,615</u>	<u>519,388</u>
<i>Selling & marketing</i>		
Salary and benefits expense	942,548	84,788
Commissions and bonuses	99,259	8,929
Travel	230,108	20,700
Amortization (Note 10)	312,667	52,111
Other	540,085	48,583
	<u>2,124,667</u>	<u>215,111</u>
<i>General & administrative</i>		
Salary and benefits expense	1,220,380	204,861
TSA expense (Note 20 (1))	338,434	16,121
Impairment of goodwill (Note 20 (2))	-	71,647
Other	492,772	127,538
	<u>2,051,586</u>	<u>336,628</u>

Notes to the Financial Statements

Note 3. Expenses (*continued*)

Accounting policy for expenses

Research costs

Expenditure on research activities, undertaken with the prospect of obtaining new technical knowledge and understanding, is recognized in the statement of profit or loss and other comprehensive income as an expense when it is incurred.

Other expenses

Other expenses classified according to their function, as selling & marketing or general & administrative, include expenses mainly related with facilities, materials, depreciation, and share-based payment transactions.

Note 4. Income tax expense

	Year ended 31 Dec 2017 US\$	Period 6 Oct 2016 to 31 Dec 2016 US\$
Net loss	(3,751,268)	(434,177)
Current tax	-	-
Aggregate income tax expense	-	-
<i>Effective tax rate:</i>		
Loss before income tax expense	(3,751,268)	(434,177)
Tax at the statutory tax rate of 34% (2016: 34%)	(1,275,431)	(147,620)
<i>Tax effect amounts which are not deductible/(taxable) in calculating taxable income:</i>		
Temporary differences	340,671	116,876
Permanent differences	-	-
Disallowable expenses	4,089	243
Unutilized losses carried forward	930,671	30,501
Income tax expense	-	-

Based on historical losses and the expectation of future losses, management cannot conclude that it is more likely than not that the net deferred tax assets will be fully realizable. Accordingly, the Company has provided a full valuation allowance against its net deferred tax assets for the financial years ended 31 December 2017.

As of 31 December 2017, the Company had federal and state net operating loss carry forwards of approximately \$2.8 million and \$2.8 million, respectively, available to reduce future taxable income, if any. The net operating loss carry forwards will expire beginning 2036 for both federal and California income tax purposes.

Notes to the Financial Statements

Note 4. Income tax expense (*continued*)

Utilization of the net operating loss carry forwards and credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

Accounting policy for Income tax

The income tax expense for the year comprises current income tax expenses and deferred tax expenses.

Current income tax expense charged to the profit or loss in the tax payable on taxable income for the current period. Current tax liabilities are measured as the amounts expected to be paid to the relevant tax authority using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realized, or the liability is settled, and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are only recognized to the extent that it is probably that future taxable profit will be available against which the benefits of the deferred tax asset can be utilized.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Critical accounting judgements, estimates and assumptions

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

Notes to the Financial Statements

Note 5. Current assets - cash and cash equivalents

	31 Dec 2017 US\$	31 Dec 2016 US\$
Cash at bank	2,405,836	1,375,762
	<u>2,405,836</u>	<u>1,375,762</u>

There are no restrictions or limitations on the use of cash and cash equivalents.

Accounting policy for cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less or that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 6. Current assets - trade and other receivables

	31 Dec 2017 US\$	31 Dec 2016 US\$
Trade receivables	2,487,709	1,350,897
	<u>2,487,709</u>	<u>1,350,897</u>

Accounting policy for trade and other receivables

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for impairment. Trade receivables generally have 30 to 90-day payment terms.

Collectability of trade receivables is reviewed on an ongoing basis in accordance with the expected credit loss ("ECL") model. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

The ECL assessment completed by the Company as at 31 December 2017 has resulted in an immaterial credit loss and no impairment allowance has been recognized by the Company (2016: \$Nil).

Notes to the Financial Statements

Note 7. Current assets - inventories

	31 Dec 2017	31 Dec 2016
	US\$	US\$
Raw materials	2,796,972	313,829
Work in progress	1,059,114	426,784
Finished goods	183,353	348,704
	<u>4,039,439</u>	<u>1,089,317</u>

Accounting policy for inventory

Raw materials, work in progress and finished goods are stated at the lower of cost and net realizable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labor, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

The Company's inventories are concentrated in high-technology parts and components that may be specialized in nature or subject to rapid technological obsolescence. These factors are considered in estimating required reserves to state inventories at the lower of cost or net realizable value.

Net realizable 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.

Critical accounting judgements, estimates and assumptions

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Note 8. Current assets - other assets

	31 Dec 2017	31 Dec 2016
	US\$	US\$
Prepaid expenses	71,738	44,046
Advances on purchases	469,956	132,047
	<u>541,694</u>	<u>176,093</u>

Notes to the Financial Statements

Note 9. Non-current assets - property, plant and equipment

	31 Dec 2017 US\$	31 Dec 2016 US\$
Leasehold improvements - at cost	12,845	-
Less: Accumulated depreciation	(2,207)	-
Net book value leasehold improvements	10,638	-
Plant and equipment - at cost	458,964	345,267
Less: Accumulated depreciation	(119,127)	(17,936)
Net book value plant and equipment	339,837	327,331
Leased equipment	68,630	68,630
Less: Accumulated depreciation	(37,045)	(5,370)
Net book value leased equipment	31,585	63,260
Net book value property, plant and equipment	382,060	390,591

	Leasehold improvements US\$	Plant & equipment US\$	Leased equipment US\$	Total US\$
Balance at 6 October 2016	-	-	-	-
Additions upon Strasbaugh acquisition	-	345,267	68,630	413,897
Depreciation expense	-	(17,936)	(5,370)	(23,306)
Balance at 31 December 2016	-	327,331	63,260	390,591
Additions	12,845	154,207	-	167,052
Depreciation expense	(2,207)	(118,070)	(31,675)	(151,952)
Impairment of asset	-	(23,631)	-	(23,631)
Balance at 31 December 2017	10,638	339,837	31,585	382,060

	Year ended 31 Dec 2017 US\$	Period 6 Oct 2016 to 31 Dec 2016 US\$
<i>Reconciliation of depreciation expense</i>		
Depreciation allocated to research & development	121,633	18,656
Depreciation expensed to cost of goods sold	30,319	4,650
Total depreciation expense	151,952	23,306

Notes to the Financial Statements

Note 9. Non-current assets - property, plant and equipment *(continued)*

Accounting policy for property, plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Plant and equipment are depreciated, and leasehold improvements are amortized, over their estimated useful lives using the straight-line method.

The expected useful lives of the assets are as follows:

Plant & equipment	3-10 years
Leasehold improvements	over the remaining lease term
Leased assets	over the remaining lease term

The residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date or when there is an indication that they have changed.

A carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement profit or loss and other comprehensive income.

Critical accounting judgements, estimates and assumptions

Estimation of useful lives of assets

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

Notes to the Financial Statements

Note 10. Non-current assets - intangible assets

	31 Dec 2017 US\$	31 Dec 2016 US\$
Intangible assets - at cost	602,000	602,000
Less: Accumulated amortization	(364,778)	(52,111)
Net written down value intangible assets	237,222	549,889

	Product Technology US\$	Backlog US\$	Customer Relationships US\$	Commission Agreement US\$	Total US\$
Balance at 6 October 2016	-	-	-	-	-
Additions upon Strasbaugh acquisition	120,000	314,000	70,000	98,000	602,000
Amortization expense	(4,000)	(34,889)	(2,333)	(10,889)	(52,111)
Balance at 31 December 2016	116,000	279,111	67,667	87,111	549,889
Amortization expense	(24,000)	(209,333)	(14,000)	(65,334)	(312,667)
Balance at 31 December 2017	92,000	69,778	53,667	21,777	237,222

Accounting policy for intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Notes to the Financial Statements

Note 10. Non-current assets - intangible assets (*continued*)

Accounting policy for intangible assets (continued)

The useful economic life for each class of intangible asset disclosed above is as follows:

Product Technology	5 years
Backlog	1.5 years
Customer Relationships	5 years
Commission Agreement	1.5 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is de-recognized.

Critical accounting judgements, estimates and assumptions

Impairment of intangible assets

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

Note 11. Current liabilities - trade and other payables

	31 Dec 2017 US\$	31 Dec 2016 US\$
Trade payables	1,391,406	562,136
Accrued expenses	1,022,646	946,371
	<u>2,414,052</u>	<u>1,508,507</u>

Accounting policy for trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortized cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 12. Current liabilities - financial liabilities

	31 Dec 2017 US\$	31 Dec 2016 US\$
Deferred revenue	128,074	199,852
Customer deposits on sales	3,313,367	1,087,803
	<u>3,441,441</u>	<u>1,287,655</u>

Accounting policy for financial liabilities

These amounts represent deposits for sales provided to the Company in accordance with contract terms. Due to their short-term nature they are measured at amortized cost and are not discounted.

Notes to the Financial Statements

Note 13. Current provisions - employee benefits

	31 Dec 2017 US\$	31 Dec 2016 US\$
Provision for annual leave	196,668	174,301
	<u>196,668</u>	<u>174,301</u>

Accounting policy for employee benefits

Short-term employee benefits

Provisions for wages and salaries, including non-monetary benefits and annual leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the balances are settled.

Note 14. Current provisions - warranty provision

	31 Dec 2017 US\$	31 Dec 2016 US\$
Provision for warranty	130,781	107,105
	<u>130,781</u>	<u>107,105</u>

Accounting policy for provisions

The provision represents the estimated warranty claims in respect of products sold which are still under warranty at the reporting date. The provision is estimated based on historical warranty claim information, sales levels and any recent trends that may suggest future claims could differ from historical amounts.

Critical accounting judgements, estimates and assumptions

In determining the level of provision required for warranties the Company has made judgements in respect of the expected performance of the products, the number of customers who will actually claim under the warranty and how often, and the costs of fulfilling the conditions of the warranty. The provision is based on estimates made from historical warranty data associated with similar products and services.

Notes to the Financial Statements

Note 15. Borrowings

Borrowings includes the following liabilities carried at amortized cost:

	31 Dec 2017 US\$	31 Dec 2016 US\$
Current		
Financial liability with Firsthand Venture Investors	404,575	-
Non-Current		
Financial liability with Firsthand Venture Investors	595,425	-
	<u>1,000,000</u>	<u>-</u>
	31 Dec 2017 US \$	31 Dec 2016 US\$
Balance as at 1 January	-	-
Financial liability with Firsthand Venture Investors (1)	1,000,000	-
Interest accrued on facility	41,781	-
Interest paid on facility	(41,781)	-
Balance as at 31 December	<u>1,000,000</u>	<u>-</u>

(1) Firsthand Venture Investors

On 1 March 2017, the Company entered into a secured promissory note agreement with the major shareholder of the Company, Firsthand Venture Investors, totaling \$1 million for a term of 36 months and an interest rate of 5% ("Secured Promissory Note"). Interest only payments were required for the first 12 months with a reduction in principal due thereafter and maturing in February 2020.

The balance outstanding at 31 December 2017 is secured over all personal property of the Company, whether presently existing or hereafter created or acquired, as per the supporting Security Agreement to the note agreement.

The secured promissory note was fully repaid post year end on 29 August 2018 by way of the issue of a Senior Unsecured Subordinated Convertible Promissory Note with a maturity date of 1 July 2019.

Note 16. Equity - Contributed equity

	31 Dec 2017 Number	31 Dec 2017 US\$	31 Dec 2016 Number	31 Dec 2016 US\$
Ordinary shares - Common Stock (a)	48,500	19,095	10,000	1,000
Ordinary shares - Preferred Stock (b)	2,986,470	7,000,003	2,200,000	2,200,000
	<u>3,034,970</u>	<u>7,019,098</u>	<u>2,210,000</u>	<u>2,201,000</u>

Notes to the Financial Statements

Note 16. Equity - Contributed equity (*continued*)

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares, warrants or options are shown in equity as a deduction, net of tax, from the proceeds.

(a) Movements in ordinary shares on issue - Common Stock

	Shares	US\$
Balance as at 6 October 2016 (incorporation)	-	-
Shares issued on incorporation	10,000	1,000
Balance as at 31 December 2016	<u>10,000</u>	<u>1,000</u>
Shares issued on 1 May 2017	33,500	15,745
Shares issued on 27 December 2017	5,000	2,350
Balance as at 31 December 2017	<u>48,500</u>	<u>19,095</u>

Terms and conditions of contributed equity

The holders of ordinary shares participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have a par value of \$0.0001 and the Company has a limited amount of authorized capital of 7,200,000 shares, 4,000,000 of which are designated "Common Stock" and 3,200,000 of which are designated "Preferred Stock".

The holders of Common Stock are entitled for one vote for each share of common stock held at the meetings of stockholders. There shall be no cumulative voting. They are also entitled to receive, when, as and if declared by the Board, out of any assets of the Company legally available therefore, any dividends as may be declared from time to time by the Board.

(b) Movements in preferred stock on issue

	Series Seed Preferred Stock	Series A Preferred Stock	Series B Preferred Stock	Total Number	US\$
Balance at 6 October 2016	-	-	-	-	-
Issued (1)	-	2,200,000	-	2,200,000	2,200,000
Balance at 31 December 2016	-	2,200,000	-	2,200,000	2,200,000
Reclassified to Seed Preferred Stock (1)	2,200,000	(2,200,000)	-	-	-
Issued (2)	-	441,998	-	441,998	1,999,997
Issued (3)	-	-	344,472	344,472	2,800,006
Balance at 31 December 2017	<u>2,200,000</u>	<u>441,988</u>	<u>344,472</u>	<u>2,986,470</u>	<u>7,000,003</u>

Notes to the Financial Statements

Note 16. Equity - Contributed equity (*continued*)

(b) Movements in preferred stock on issue (*continued*)

- (1) On 14 November 2016, 2,200,000 shares of Series A preferred stock were issued with a par value of \$0.0001. The shares were subsequently reclassified to Series Seed on 27 October 2017.
- (2) On 1 March 2017, 441,998 shares of Series A preferred stock were issued with a par value of \$0.001 at an issue price of \$4.5249.
- (3) On 27 October 2017 and 18 December 2017, 246,051 shares and 98,421 shares, respectively, of Series B preferred stock were issued with a par value of \$0.001 at an issue price of \$8.1284.

Terms and conditions of contributed equity

The holders of Preferred Stock are entitled to the number of voting rights equal to the number of shares of Common Stock into which such shares of Preferred Stock held by such holder could then be converted. The Preferred Stock holders are eligible to vote on all matters on which the Common Stock holder is entitled to vote.

Critical accounting judgements, estimates and assumptions

The terms of the certificate of incorporation (COI) of the Company stipulate that preferred stock holders are entitled to vote, and that they vote together with the common stock holders as a single class, as though they had already converted their preferred stock. The preferred stock holders control the board as a result of this. The COI stipulates that there is no redemption feature in respect of the preferred stock, and dividends are not cumulative. Based on the above facts, management consider that the preferred stock is an equity instrument, and as such have classified it accordingly.

Notes to the Financial Statements

Note 17. Share-based payments

Share based payment reserve

The reserve is used to recognize the value of equity benefits provided to employees, consultants and directors as part of their remuneration, and other parties as part of their compensation for services.

	Share options Number	Share Based Payment Reserve US\$
Opening reserve 6 October 2016	-	-
Expense in the period	-	-
Granted	-	-
Exercised	-	-
Forfeited	-	-
Expired	-	-
Closing reserve 31 December 2016	-	-
Opening reserve 1 January 2017	-	-
Expense in the period	-	112,185
Granted	702,370	-
Exercised	(5,000)	-
Forfeited	-	-
Expired	-	-
Closing reserve 31 December 2017	697,370	112,185

	Year ended 31 Dec 2017 US\$	Period 6 Oct 2016 to 31 Dec 2016 US\$
Share based payment expense:		
Options issued to directors, employee and consultants	112,185	-
	112,185	-

The Company grants stock options to its employees, directors, and consultants for a fixed number of shares with an exercise price equal to or greater than the fair value of the common stock at the date of grant and expire no later than 10 years from the date of grant.

Notes to the Financial Statements

Note 17. Share-based payments (*continued*)

Option Pricing Model

The fair value of the equity-settled share options granted throughout the year is estimated as at the date of grant using a Black Scholes Option Pricing Model.

The following tables list the inputs to the models used for the valuation of options granted in the year ended 31 December 2017 (no activity for the year ended 31 December 2016).

	Grant Date			
	1-May-17	1-May-17	11-Sep-17	27-Oct-17
Number of options issued	531,472	10,000	66,434	94,464
Fair value at measurement date \$	0.353	0.291	0.826	0.922
Share price at Grant date \$	0.47	0.47	1.08	1.08
Exercise price \$	0.47	0.47	0.47	0.47
Expected volatility %	75	75	75	75
Risk free interest rate %	2.13	2.13	1.96	2.26
Expected life of options in years	8.5	5	5	9
Vesting conditions	Type 1	Type 2	Type 2	Type 3

Vesting conditions

Type 1	12.5% of the options vest immediately, with the remaining 87.5% vesting on a monthly basis over the following 42 months.
Type 2	Options vest immediately.
Type 3	Options vest on a monthly basis over 48 months from vesting date.

The expected dividend yield for all options granted during these periods was nil. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

Notes to the Financial Statements

Note 17. Share-based payments (*continued*)

Accounting policy for share-based payments

The Company provides benefits to employees (including Directors) in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions) via the 2017 Omnibus Incentive Plan (“the Plan”).

The terms of the share options are as determined by the Board. The cost of these equity-settled transactions to employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a Black & Scholes model.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions) if applicable.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of (i) the grant date fair value of the award; (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and (iii) the expired portion of the vesting period.

The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not the market condition is fulfilled, provided that all other conditions are satisfied.

If a non-vesting condition is within the control of the Company or the employee, the failure to satisfy the condition is treated as a cancellation. If a non-vesting condition within the control of neither the Company nor employee is not satisfied during the vesting period, any expense for the award not previously recognized is recognized over the remaining vesting period, unless the award is forfeited.

Note 18. Commitments

	31 Dec 2017 US\$	31 Dec 2016 US\$
<i>(a) Operating Lease commitments - operating</i>		
Committed at the reporting date but not recognized as liabilities, payable:		
Within one year	561,121	408,361
One to five years	1,075,481	782,691
More than five years	-	-
	<u>1,636,602</u>	<u>1,191,052</u>

Notes to the Financial Statements

Note 18. Commitments (*continued*)

	31 Dec 2017 US\$	31 Dec 2016 US\$
<i>(b) Operating Lease commitments - finance</i>		
Committed at the reporting date and recognized as liabilities, payable:		
Within one year	83,784	83,784
One to five years	-	83,784
More than five years	-	-
Total minimum lease payments	<u>83,784</u>	<u>167,568</u>
Less amounts representing finance charges	<u>(2,256)</u>	<u>(8,535)</u>
Present value of minimum lease payments	<u>81,528</u>	<u>159,033</u>
Included in the financial statements as:		
Current interest-bearing liabilities	81,528	77,506
Non-current interest-bearing liabilities	-	81,528
	<u>81,528</u>	<u>159,033</u>
Total lease expense included in operating expenses:		
Operating lease expense	<u>446,483</u>	<u>60,120</u>

Note 19. Related party transactions

Key management personnel

The following persons were identified as key management personnel of Revasum during the financial year ended 31 December 2017:

Jerry Cutini	Board Member, President and CEO
Kevin Landis	Non-Executive Director

Compensation

The aggregate compensation made to directors and other key management personnel of the Company is set out below:

Directors and other key management personnel

	Year ended 31 Dec 2017 US\$	Period 6 Oct 2016 to 31 Dec 2016 US\$
Aggregate compensation	264,461	33,099
Share-based payments	16,990	-
	<u>281,451</u>	<u>33,099</u>

Notes to the Financial Statements

Note 19. Related party transactions (continued)

Share options granted to directors and other key management personnel

	Class of underlying shares	2017 Number Granted	2016 Number Granted
Jerry Cutini	Ordinary	195,605	-
Kevin Landis	Ordinary	-	-
		<u>195,605</u>	<u>-</u>

(1) Options issued in the current year include specific performance conditions - refer Note 17.

Transactions with related parties

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting dates.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting dates.

Financial instrument balances held with related parties

Related party name	Nature of related party relationship	Financial instrument type	Number of instruments held 31 Dec 2016	Number of instruments held 31 Dec 2017
Firsthand Venture Investors	Directors in common	Preferred stock	2,200,000	2,955,717
Jerry Cutini	Chief Executive Officer	Common stock	-	8,000

Notes to the Financial Statements

Note 20. Business combination

On 8 November 2016, Revasum completed the acquisition of the assets and liabilities of Strasbaugh, pursuant to a Foreclosure Sale Agreement (“FSA”) dated 8 November 2016.

The acquisition accounting was completed after the completion of an independent valuation of the assets and liabilities acquired, is summarized as follows:

		Fair value at acquisition date US\$
Purchase Consideration		
Cash paid		1,126,036
Contingent consideration (1)		415,100
		<u>1,541,136</u>
		<u>1,541,136</u>
Fair value of assets and liabilities acquired	Note	
Trade and other receivables		913,274
Inventory		1,377,823
Other assets		154,963
Property plant and equipment	9	345,267
Leased assets		68,630
Intangible assets	10	602,000
Goodwill (2)		71,647
Non-current other assets		33,672
Trade and other payables		(861,495)
Financial liabilities - current		(543,818)
Employee benefits liabilities		(294,510)
Deferred revenue		(35,348)
Provision for warranty		(119,395)
Lease liabilities		(171,574)
Net assets acquired		<u>1,541,136</u>

(1) On 8 November 2016, a Transition Services Agreement (“TSA”) was entered into by Revasum with Strasbaugh. As part of the TSA, Revasum are required to pay Strasbaugh a commission based on a percentage of the eventual sales price of the inventory acquired on 8 November 2016. As at the date of acquisition, and based on information and facts available at this time with regards to purchase orders, management were of the opinion that this liability would total \$415,000. As such, this has been recognized as contingent consideration as at the date of acquisition.

(2) Goodwill represents the difference between the aggregate of the fair values of the net identifiable assets and the consideration paid on acquisition. The goodwill recognized of \$71,647 was immediately written off at the date of the acquisition.

Notes to the Financial Statements

Note 20. Business combination (*continued*)

Accounting policy for business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Company elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognized in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Notes to the Financial Statements

Note 21. Events after the reporting period

In January 2018, 24,604 shares of Series B preferred stock were issued with a par value do \$0.001 at an issue price of \$8.1284.

On 31 July 2018, the Company issued a Stock Purchase Warrant (“Warrant”) to purchase up to 650,000 shares of the Company’s common stock, with a par value of \$0.0001 per share, an exercise price per share of \$10 and an expiry date of 31 July 2025. The warrants may also be exercised at any time via a cashless exercise, the fair value to be determined by the Board, or in the case of an IPO, the fair value will be equal to the IPO price. Consideration of \$500,000 was received in respect of the warrant. The warrant was issued to a related party, Firsthand Venture Investors, a fund of which Kevin Landis is the CEO.

On 8 August 2018 Mr. Ryan Benton was appointed to the Board of Directors, and appointed as SVP and CFO on 5 September 2018.

On 17 August 2018, the Company signed an amendment to the lease agreement for the premises at 825 Buckley Road, San Luis Obispo. The amendment extended the lease to 30 November 2023, and also provides the Company with the right to extend the lease two times beyond 30 November 2023 by 30 months each time by providing written notice to the Lessor at least six months before the end of each lease period.

On 28 August 2018, the Company entered into a Securities Purchase Agreement for the issuance and sale of up to \$9,000,000 in aggregate principal amount of 5% Senior Unsecured Subordinated Convertible Promissory Notes with a maturity date of 1 July 2019 (“Notes”), of which \$8,655,944 were issued. The Notes automatically convert at a fixed discount into the Company’s common stock upon listing approval for the Company to be admitted to the official list of the ASX and for the CHES Depository Interests over the Company’s Common Stock (“CDIs”) to be quoted on the ASX in connection with a qualifying Initial Public Offering (“IPO”). The Notes were issued in the following five tranches:

- Tranche 1 was issued on 29 August 2018 for a total of \$4,534,950.
- Tranche 2 was issued on 31 August 2018 for a total of \$1,617,000.
- Tranche 3 was issued on 31 August 2018 for a total of \$307,598. This was issued in lieu of payment of a significant portion of the investment banking fees.
- Tranche 4 was issued On 29 August 2018 to Firsthand Venture Investors, a fund of which Kevin Landis is the CEO. The total value of this tranche was \$1,846,397, with \$1,000,000 being received in cash, and the remaining \$846,397 repaying the then outstanding Secured Promissory Note (see Note 15 for further details).
- Tranche 5 was issued on 31 August 2018 for a total of \$350,000, including \$100,000 from Jerry Cutini, a director of Revasum.

Notes to the Financial Statements

Note 21. Events after the reporting period (continued)

The Company received total consideration for the issuance of the Notes of US\$7,089,002 in cash and repaid the \$846,397 outstanding Secured Promissory Note. The consideration received was net of \$624,776 fees and expenses. Tranches 1, 2, and 3 above tranches were entered into at a fixed foreign exchange rate of US\$1: A\$1.36. After conversion and settlement into US\$, the Company recognized a foreign exchange loss of \$95,770.

On 5 September 2018, 169,000 share options were granted with an exercise price of \$2.26, including 131,000 options issued to Ryan Benton, a director of Revasum.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Note 22. Financial Instruments - Fair value

Accounting classification and fair values

The Company's financial instruments consist mainly of deposits with banks, accounts receivable and payable and leases. The directors consider that the fair value of financial assets and liabilities approximate their carrying amounts.

Financial risk management objectives

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company. The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks, ageing analysis for credit risk and liquidity risk.

Risk management is carried out by senior finance executives ("Finance"). Risk management includes identification and analysis of the risk exposure of the Company and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Company's operating units. Finance reports to the Board on a quarterly basis.

Directors' declaration for the year ended 31 December 2017

In accordance with a resolution of the directors of Revasum, Inc., the directors of the Company declare that:

1. The financial statements and notes thereto, are in accordance with Australian Accounting Standards - Reduced Disclosure Requirements;
2. The financial statements and notes thereto, give a true and fair view of the Company's financial position as at 31 December 2017 and of the performance for the year ended on that date; and
3. In the directors' opinion there are reasonable grounds to believe that Revasum, Inc. will be able to pay its debts as and when they become due and payable.

On behalf of the directors



Jerry Cutini
Director, President and Chief Executive Officer



Ryan Benton
Director, SVP and CFO

3 October 2018

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INDEPENDENT AUDITOR'S REPORT

To the members of Revasum, Inc.

Report on the Audit of the Financial Report

Qualified opinion

We have audited the financial report of Revasum, Inc. (the Company), which comprises the statement of financial position as at 31 December 2017 and 31 December 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year ending 31 December 2017 and the period ending 31 December 2016 respectively, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* section of our report, the accompanying financial report presents fairly, in all material respects, the financial position of the Company as at 31 December 2017 and 31 December 2016 and its financial performance and its cash flows for the year ending 31 December 2017 and the period ending 31 December 2016 respectively, in accordance with Australian Accounting Standards - Reduced Disclosure Requirements.

Basis for qualified opinion

We were appointed as auditors of the Company on 10 August 2018 and thus did not observe the counting of physical inventories as at the beginning or end of the period ending 31 December 2016. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at 6 October 2016 or 31 December 2016.

Since opening and closing inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the income for the period reported in the statement of profit or loss and other comprehensive income and the net cash flows from operating activities reported in the consolidated statement of cash flows.

In addition, we were unable to satisfy ourselves by alternative means concerning inventory quantities held at 31 December 2017. Since both opening and closing inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the income for the year reported in the statement of profit or loss and other comprehensive income and the net cash flows from operating activities reported in the consolidated statement of cash flows.

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 Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for*



Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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 1 in the financial report which describes the events and conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and therefore the Company 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.

Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Directors Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly 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 on the other information obtained prior to the date of this auditor's report, 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.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company 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:

http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf

This description forms part of our auditor's report.

BDO East Coast Partnership

A handwritten signature in cursive script that reads 'Gareth Few'. Above the signature, the letters 'BDO' are written in a simple, sans-serif font.

Gareth Few
Partner

Sydney, 3 October 2018