

Appendix 4D

ASX listing rule 4.2.A.3

Report for the half year ended 31 December 2019

Reporting Period: 6 months ended 31 December 2019

Previous Corresponding Period: 6 months ended 31 December 2018

The Half-Year Consolidated Financial Report should be read in conjunction with the financial statements for the year ended 30 June 2019.

Results for announcement to the market

	31 DEC 2019 \$'000	31 DEC 2018 \$'000	CHANGE UP/(DOWN) \$'000	CHANGE MOVEMENT %
Revenue from ordinary activities	871	301	570	189.4%
Profit/(Loss) from ordinary activities after tax attributable to members	(8,378)	(2,473)	(5,905)	238.8%
Profit/(Loss) for the period attributable to members	(8,378)	(2,473)	(5,905)	238.8%

Dividends

No dividends have been declared in relation to the half-year ended 31 December 2019.

No ordinary dividends were paid during the year.

	AMOUNT PER SECURITY (CENTS)	FRANKED AMOUNT SECURITY AT 30%
Final 2019 fully franked dividend	Nil	0%
Interim 2020 fully franked dividend	Nil	0%

Net Tangible Assets (NTA) per security

	31 DEC 2019 \$	31 DEC 2018 \$
NTA per security	0.08	(31,383.84)

The Financial information provided in Appendix 4D is based on the half-year Interim consolidated financial report (attached).

The attached financial statements and Directors' declaration have been subject to an independent review.

M8 Sustainable Limited
ACN 620 758 358
and its Controlled Entity

**INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

**For the half-year ended
31 December 2019**

**M 8 SUSTAINABLE LIMITED
AND ITS CONTROLLED ENTITY**

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M8 SUSTAINABLE LIMITED
DIRECTORS' REPORT FOR THE HALF YEAR ENDED
31 DECEMBER 2019

The Directors present their report for M8 Sustainable Limited (the Company) and its controlled entity (the Group) for the half year ended 31 December 2019.

DIRECTORS

The directors of the Company that held office during the half year ended 31 December 2019 and up to the date of this report are:

Robert McKinnon, Chairman (appointed 9 December 2019)
Tomasz Jacek Rudas, Managing Director and Chief Executive Officer
Richard Peter Allen (appointed 9 December 2019)
Mark Robert Puzey (appointed 9 December 2019)
Saithsiri Saksitthisereekul
Damien Craig Flugge (resigned 9 December 2019)

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

Operations

For the half year ended 31 December 2019, revenue totaled \$871,134 compared to \$301,088 for the previous corresponding period – a net increase of \$570,046. A significant contributing factor to this increase was the re-commissioning of the Maddington facility on 1 July 2019.

Following a successful Initial Public Offering (IPO), the Company's balance sheet shows net assets of \$25,925,409 with a cash position of \$10,665,030.

Costs associated with the IPO negatively impacted the Company's performance for the reporting period. As a result, the Group incurred a loss after tax from continuing operations of \$8,378,100 for the half year ended 31 December 2019. The Company recognized IPO related costs totaling \$ 5,684,218 of which \$4,945,442 were non-cash.

Maddington

Following a significant remediation program, the Company's waste recycling facility in Maddington was re-commissioned on 1 July 2019 and commenced receiving waste in August 2019.

The Maddington facility has shown a steady improvement in its customer base and waste volumes. The Company is focusing its attention on marketing initiatives to grow the Maddington facility's revenue.

Gingin Landfill

Site works at the Group's fully permitted landfill facility at Gingin WA have commenced. The site survey of the areas that will encompass Cell 1, the associated infrastructure and main access road have been completed. Clearing for Cell1, the main access road and laydown area have commenced. Tender documents have been released, with construction contract negotiations well advanced. Key contracts are expected to be awarded in due course.

Brockwaste

The Company's operations and maintenance contract for the Brockwaste facility continues to generate revenue.

Corporate

Initial Public Offering (IPO)

The Company successfully completed its IPO during December 2019 after raising the planned funds of \$19,500,000. Trading in the Company's shares commenced on 11 December 2019. At listing the Company had on issue 233,229,835 fully paid ordinary shares, 20,000,000 options and 10,000,000 performance rights. The Company's largest shareholder SBANG Sustainable Energies Ltd (SBANG) holds 35.86% of the issued shares.

Constitution

On 26 November 2019 a general meeting of shareholders of the Company approved a replacement Constitution so that it was a type required for a listed public company and reflected the current provisions of the Corporations Act and ASX Listing Rules.

M 8 SUSTAINABLE LIMITED
DIRECTORS' REPORT FOR THE HALF YEAR ENDED
31 DECEMBER 2019

Issue of Promoter Shares

During the half year, the Company issued a total of 17,965,945 fully paid ordinary shares for nil consideration to promoters of the Company (related to the IPO), which included 7,115,038 shares issued to SBANG.

Performance Rights

On 26 November 2019, a general meeting of shareholders of the Company approved the granting of a total of 7,100,000 Performance Rights (PRs) to the following related parties of the Company - Messrs Robert McKinnon (800,000 PRs), Tomasz Rudas (3,000,000 PRs), Richard Allen (600,000 PRs), Mark Puzey (600,000 PRs), Saithsiri Saksitthisereekul (600,000 PRs) and Damien Flugge (1,500,000 PRs).

On 4 December 2019, as part of the Company's IPO, a total of 10,000,000 approved PRs were issued. Apart from the PRs outlined above, 2,900,000 PRs were issued to management of the Company.

Options

On 4 December 2019, as part of the Company's IPO, 20,000,000 options were issued to the lead manager, Canaccord Genuity (Australia) Pty Ltd and its nominees, Nascent Capital Partners Pty, Rataat Investments Pty Ltd, Merchant Funds Management Pty Ltd, Melshare Nominees Pty Ltd, and Munin Serbpongpan.

SBANG Loan Facilities

SBANG Sustainable Energies Ltd ("SBANG") provided the Company with two secured loan facilities of \$10,000,000 (on 7 February 2018) and \$4,000,000 (on 15 July 2018) as well as a convertible note facility of \$6,000,000 (on 15 November 2018).

In the current period prior to the IPO, there was a drawdown of \$1,749,000 on the convertible note facility.

On 21 October 2019, accrued interest of \$1,076,667 was paid in cash to SBANG.

The full principal amount of the \$4,000,000 facility and a further \$4,000,000 principal amount of the \$10,000,000 facility were converted to 51,282,051 shares on 10 July 2019.

On 4 December 2019, the Company issued additional shares to SBANG as part of the settlement of the loan and convertible note in line with the provisions of the prospectus. Loans amounting to \$7,600,000 ((\$6,000,000 of remaining loan principal and \$1,600,000 of convertible note) were settled through the issue of 48,717,949 shares. The settlement of the loan via a share issue resulted in a loss of \$1,692,308 being incurred.

On 11 December 2019, the remaining SBANG Loan amounting to \$4,400,000 plus accrued interest of \$1,255,333 was repaid in full.

On 3 September 2019, SBANG provided a new \$4,000,000 loan facility. The loan will be interest bearing at 10% p.a. and has a two-year term. Any drawdowns on the loan will be subject to shareholder approval. This new loan facility is undrawn at the date of this report.

Termination of Bonus Incentives

Certain bonus incentive clauses in contracts with employees were terminated on 4 and 13 September 2019 (see Note 14).

Termination of Directors' Indemnity

On 5 September 2019 the Company terminated the directors' indemnity agreement relating to unpaid superannuation guarantee penalties (see Note 9).

Settlement of Flugge Superannuation Fund Loan

Amount due to a related party as at 30 June 2019 represents a \$435,124 loan payable to Flugge Superannuation Fund (related party of Damien Flugge, Director who resigned as a director on 09 December 2019) which was interest bearing at 10% per annum, secured against all present and after-acquired property and repayable upon demand. The Company settled this loan by way of issuing 2,229,709 ordinary shares on 4 December 2019.

**M8 SUSTAINABLE LIMITED
DIRECTORS' REPORT FOR THE HALF YEAR ENDED
31 DECEMBER 2019**

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

All significant changes in the state of affairs of the Group during the reporting period are discussed as detailed above.

DIVIDENDS

The directors have determined that no interim dividend be declared.

EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

There are no material transactions that have occurred since 31 December 2019 and the date of this report which the directors consider require disclosure.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 9 of this financial report.

Signed in accordance with a resolution of the directors.



Tomasz Rudas
Director

Dated this 27th day of February 2020
Perth
Western Australia

**M8 SUSTAINABLE LIMITED
DIRECTORS' DECLARATION**

The directors of the Company declare that:

1. In the Directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001 and giving a true and fair view of the financial position of the Group as at 31 December 2019 and performance of the Group for the half year ended 31 December 2019; and
2. In the Directors' opinion, there are reasonable grounds to believe that the Group 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 Directors.



Tomasz Rudas
Director

Dated this 27th day of February 2020

Perth
Western Australia



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Independent Auditor's Review Report to the Members of MB Sustainable Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of M8 Sustainable Limited (the Company) and its subsidiary (collectively the Group), which comprises the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *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, anything has come to our attention that causes us to 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 Group's consolidated financial position as at 31 December 2019 and its consolidated financial 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 Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.



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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*.

A handwritten signature in black ink, appearing to read 'Ernst & Young', with a horizontal line underneath.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Robert A Kirkby', with a horizontal line underneath.

Robert A Kirkby

Partner

Perth

27 February 2020



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Auditor's independence declaration to the Directors of MB Sustainable Limited

As lead auditor for the review of the half-year financial report of M8 Sustainable Limited for the half-year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b. no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of M8 Sustainable Limited and the entities it controlled during the financial period.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Robert A Kirkby'.

Robert A Kirkby
Partner
27 February 2020

**M8 SUSTAINABLE LIMITED
AND ITS CONTROLLED ENTITY**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

	Notes	31 December 2019 \$	31 December 2018 \$
Revenue from contracts with customers	3	871,134	301,088
Other income		1,092	149,854
Total income		872,226	450,942
Employee benefits, salaries and wages	4	(1,298,087)	(805,008)
Rent expense		(135,703)	(621,797)
Depreciation of property, plant and equipment	4	(617,142)	(223,265)
Finance costs		(960,791)	(692,756)
Insurance cost		(107,883)	(40,309)
Professional fees		(378,693)	(36,926)
Maddington Facility repairs and maintenance		(82,347)	(6,595)
IPO related costs	4	(5,684,218)	(68,753)
Other expenses	4	(658,303)	(428,087)
Loss before tax from continuing operations		(9,050,941)	(2,472,554)
Income tax benefit		672,841	-
Loss for the period		(8,378,100)	(2,472,554)
Other comprehensive income		-	-
Total Comprehensive Profit/ (Loss) for the financial period attributable to the equity holders of the Group		(8,378,100)	(2,472,554)
Earnings per share:			
• Basic loss per share attributable to ordinary equity holders of the parent (dollars per share)	5	(0.085)	(19,780.432)
• Diluted loss per share attributable to ordinary equity holders of the parent (dollars per share)	5	(0.085)	(19,780.432)

The accompanying notes form part of and should be read in conjunction with these consolidated half-year financial statements.

**M8 SUSTAINABLE LIMITED
AND ITS CONTROLLED ENTITY**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

	Notes	31 December 2019 \$	30 June 2019 \$
CURRENT ASSETS			
Cash and cash equivalents		10,665,030	41,007
Trade and other receivables		538,767	1,737,320
Prepayments		365,473	55,883
Inventory		60,236	-
Total Current Assets		11,629,506	1,834,210
NON-CURRENT ASSETS			
Property, plant and equipment		15,421,957	15,616,375
Right-of-use assets	13	7,649,413	-
Other non-current receivables		406,500	146,000
Total Non-current Assets		23,477,870	15,762,375
TOTAL ASSETS		35,107,376	17,596,585
CURRENT LIABILITIES			
Trade creditors		927,463	1,579,636
Borrowings	6	245,044	20,550,167
Lease liabilities	13	983,000	-
Provisions	8	203,675	1,015,935
Total Current Liabilities		2,359,182	23,145,738
NON-CURRENT LIABILITIES			
Borrowings	6	15,067	20,089
Lease liabilities	13	6,807,718	-
Deferred tax liabilities		-	672,841
Total Non-current Liabilities		6,822,785	692,930
TOTAL LIABILITIES		9,181,967	23,838,668
NET ASSETS/(LIABILITIES)		25,925,409	(6,242,083)
EQUITY/(SHAREHOLDERS' DEFICIT)			
Issued capital	7	41,991,364	2,345,438
Share based payment reserve		1,321,659	421,993
Accumulated losses		(17,387,614)	(9,009,514)
TOTAL EQUITY/(SHAREHOLDERS' DEFICIT)		25,925,409	(6,242,083)

The accompanying notes form part of and should be read in conjunction with these consolidated half-year financial statements.

**M8 SUSTAINABLE LIMITED
AND ITS CONTROLLED ENTITY**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

	Issued capital	Share based payment reserve	Accumulated losses	Total equity
	\$	\$	\$	\$
Balance at 1 July 2018	125	233,751	(1,779,197)	(1,545,321)
Loss after tax	-	-	(2,472,554)	(2,472,554)
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income for the period	-	-	(2,472,554)	(2,472,554)
Share based payments	-	94,895	-	94,895
Shares issued	-	-	-	-
Total transactions with owners recorded directly in equity	-	94,895	-	94,895
Balance as at 31 December 2018	125	328,646	(4,251,751)	(3,922,980)
Balance as at 1 July 2019	2,345,438	421,993	(9,009,514)	(6,242,083)
Loss after tax	-	-	(8,378,100)	(8,378,100)
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income for the period	-	-	(8,378,100)	(8,378,100)
Share based payments	-	899,666	-	899,666
Shares issued - IPO	19,500,000	-	-	19,500,000
Shares issued to promoters during the period	2,802,687	-	-	2,802,687
Shares issued to settle loans during the period	18,509,532	-	-	18,509,532
Capital raising costs	(1,166,293)	-	-	(1,166,293)
Total transactions with owners recorded directly in equity	39,645,926	899,666	-	40,545,592
Balance at 31 December 2019	41,991,364	1,321,659	(17,387,614)	25,925,409

The accompanying notes form part of and should be read in conjunction with these consolidated half-year financial statements.

**M 8 SUSTAINABLE LIMITED
AND ITS CONTROLLED ENTITY**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

	Notes	31 December 2019 \$	31 December 2018 \$
Cash flows used in operating activities			
Loss after income tax		(8,378,100)	(2,472,554)
Adjustments for:			
<i>Non-cash items:</i>			
Depreciation of property, plant and equipment		617,142	223,265
Loss on disposal of property, plant and equipment		51,740	8,625
Non-cash issuance of promoter's shares	4	2,802,687	-
Loss on conversion of SBANG debt	4	2,463,590	-
Share options - Lead manager	4	1,150,000	-
Director indemnity cancelled	4	(492,314)	-
Director and Executive bonuses rescinded	4	(1,072,180)	-
Other	4	93,659	94,895
Capital raising cost attributable to equity	4	(1,166,293)	-
Interest expense		939,144	692,756
Capital raising costs		685,544	-
<i>Changes in assets and liabilities</i>			
(Increase)/Decrease in prepayments		(22,716)	(75,709)
Increase in inventory		(60,236)	-
(Increase)/Decrease in receivables and other receivables		1,198,553	(55,000)
(Decrease)/Increase in trade payables and other payables		(229,570)	94,289
Decrease in provisions		(14,365)	-
Decrease in deferred tax liabilities		(672,841)	-
Net cash flows used in operating activities		(2,106,556)	(1,489,433)
Cash flows from (used in) investing activities			
Purchase of property, plant and equipment		(327,718)	(49,103)
Deposit for bank guarantee		(260,500)	-
Proceeds from sale of fixed assets		100,091	75,000
Net cash flows (used in) from investing activities		(488,127)	25,897

**M8 SUSTAINABLE LIMITED
AND ITS CONTROLLED ENTITY**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

	Notes	31 December 2019 \$	31 December 2018 \$
Cash flows from (used in) financing activities			
Proceeds from issue of shares		19,500,000	-
Proceeds from related company loan		919,884	-
Repayment of amount due to related company		(919,884)	(1,333,813)
Proceeds from SBANG Sustainable Energies Ltd loan		401,000	4,045,000
Proceeds from SBANG Sustainable Energies Ltd convertible note		1,749,000	-
Repayment of SBANG Sustainable Energies Ltd loan		(6,590,641)	(224,000)
Repayment of short-term loans		(198,421)	(477,379)
Proceeds from short term loans		127,170	-
Repayment of borrowings		-	(374,250)
Repayment of shareholder loan		(50,000)	(50,000)
Repayment of principal portion of lease liabilities		(105,533)	-
Payment of capital raising costs		(685,544)	-
Interest paid		(928,325)	(62,322)
Net cash flows from financing activities		13,218,706	1,523,236
Net increase in cash and cash equivalents		10,624,023	59,700
Cash and cash equivalents at the beginning of the financial year		41,007	72,571
Cash and cash equivalents at the end of the period		10,665,030	132,271

The accompanying notes form part of and should be read in conjunction with these consolidated half-year financial statements.

**M8 SUSTAINABLE LIMITED
AND ITS CONTROLLED ENTITY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

Note 1. Corporate Information

This interim consolidated financial statements of M8 Sustainable Limited (the “Company” or the “Parent”) and its subsidiary (collectively the “Group”) for the six months ended 31 December 2019, were authorised for issue in accordance with a resolution of the Directors on the 27th day of February 2020.

M8 Sustainable Limited is a listed public company, incorporated and domiciled in Australia. Its registered office is 4C Consulting Pty Ltd, Unit 5, 145 Walcott Street, Mount Lawley WA 6050 and its principal place of business is Unit 1, 48 Kelvin Road, Maddington WA 6109. Its principal activities are related to the waste industry.

Note 2. Basis of Preparation and Summary of Significant Accounting Policies

a) Basis of preparation

(i) Compliance statement

The interim consolidated financial statements are condensed general purpose financial statements, prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard 134 *Interim Financial Reporting* (AASB 134).

The interim consolidated half-year financial statements do not include all notes of the type normally included in annual financial statements. Accordingly, these interim consolidated half-year financial statements are to be read in conjunction with the 2019 Financial Statements for the year ended 30 June 2019 and any public announcements made by the Company during the period ended 31 December 2019 in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements, except as disclosed below.

(ii) New and amended accounting standards and interpretations adopted by the Group

The Group has adopted all new or amended standards and interpretations effective from 1 July 2019. The adoption of these new and amended accounting standards and interpretations did not result in any significant changes to the Group’s accounting policies, with the exception of the adoption of AASB 16 Leases (“AASB 16”) (refer to Note 13).

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group.

The Group has not elected to early adopt any new or amended standards or interpretations that are issued but not yet effective.

Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of inventories is based on the method most appropriate to each particular class of inventory.

**M8 SUSTAINABLE LIMITED
AND ITS CONTROLLED ENTITY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

	6 months ended 31 December 2019	6 months ended 31 December 2018
	\$	\$
Note 3. Revenue from contracts with customers		
Operations and maintenance (O&M) service fees	286,756	301,088
Construction and demolition (C&D) waste revenue	336,738	-
Commercial and industrial (C&I) waste revenue	247,640	-
Total revenue	871,134	301,088
 O&M service fee revenue relates to services provided to a related party in the renewable energy industry. Revenue is recognised over time.		
 Subsequent to the commissioning of the Maddington facility on 1 July 2019, M8 Sustainable Ltd began receiving gate fees for construction and demolition (C&D) materials as well as commercial and industrial waste (C&I) materials. Revenue is recognised at the point in time when the weighing and acceptance has been completed.		
Note 4. Other income and expenses		
Employee benefits, salaries and wages		
Labour contracting	269,280	-
Director indemnities	-	295,774
Wages and salaries	1,028,807	509,234
	1,298,087	805,008
 Depreciation of property, plant and equipment		
Depreciation on property plant and equipment	370,304	223,265
Depreciation on right of use assets	246,838	-
	617,142	223,265

**M 8 SUSTAINABLE LIMITED
AND ITS CONTROLLED ENTITY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

Note 4. Other income and expenses (continued)

	6 months ended 31 December 2019 \$	6 months ended 31 December 2018 \$
IPO related costs (including share-based payments)		
Cash items		
Capital raising cost	1,154,682	-
Lead managers and legal fees	750,387	68,753
	1,905,069	68,753
Non-cash items		
Cost of issuing promoter shares	2,802,687	-
Loss on conversion of SBANG loan	2,463,590	-
Share options expense - Lead manager	1,150,000	-
Director and Executive indemnity cancelled (a)	(492,314)	-
Director and Executive bonuses rescinded (a)	(1,072,180)	-
Other	93,659	-
	4,945,442	-
Capital raising costs directly attributable to equity	(1,166,293)	-
Total Initial public offering and share option expenses	5,684,218	68,753

(a) On 5 September 2019, the Company terminated the directors' indemnity agreement relating to unpaid superannuation guarantee penalties resulting in a reversal of directors' benefits amounting to \$492,314 and terminated Director and Executive bonus amounting to \$1,072,180 including a share bonus accrual of \$343,993.

Other expenses		
Waste disposal cost	206,097	-
Fuel and oil	19,767	-
Equipment hire	54,570	-
Site remediation cost	20,012	191,884
Overheads	116,563	123,983
Marketing, entertainment and other consumables	47,402	5,572
Travel and other motor vehicle expense	27,111	23,449
Loss on asset sale	51,740	8,625
EPA and other license fees	66,083	70,824
Equipment hire	48,958	3,750
Total other operating expenses	658,303	428,087

**M8 SUSTAINABLE LIMITED
AND ITS CONTROLLED ENTITY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

Note 5. Earnings per share

The following table reflects the data used in the calculation of the basic and diluted earnings / (loss) per share:

	31 December 2019 Number	31 December 2018 Number
Weighted average number of ordinary shares used in the calculation of basic loss per share	98,057,405	125
Weighted average number of ordinary shares used in the calculation of diluted loss per share	98,057,405	125
	\$	\$
Profit / (loss) attributable to ordinary equity holders of the Company	(8,378,100)	(2,472,554)
	Number	Number
The estimated number of potential ordinary shares on issue but not included in the diluted earnings / (loss) per share as they are anti-dilutive or contingently issuable	30,000,000	11,360,759

Refer note 7 for ordinary share and potential ordinary share transactions that are contingently issuable.

Note 6. Borrowings

	31 December 2019 \$	30 June 2019 \$
Term borrowings (i)	260,111	44,491
Amount due to related party (ii)	-	435,124
SBANG Loan and Convertible Notes (iii)	-	20,040,641
Loan from shareholder (iv)	-	50,000
	260,111	20,570,256
Less: Current portion	245,044	20,550,167
Non-current portion (i)	15,067	20,089

- (i) Term borrowings include amounts payable to Pepper Asset Financing Pty Ltd relating to financing for the Company's motor vehicle of \$29,353 which bears interest at 7.99% and is repayable in monthly instalments by 11 July 2021. The non-current liability component amounts to \$15,067. The remaining balance is for premium funding of insurance with Attvest Premium Funding and Principal Finance for \$83,955 and \$146,803 respectively.
- (ii) Amount due to a related party as at 30 June 2019 represented a \$435,124 loan payable to Flugge Superannuation Fund (related party of Damien Flugge, Director who resigned as a director on 9 December 2019) which was interest bearing at 10% per annum, secured against all present and after-acquired property and repayable upon demand. The Company settled this loan by way of issuing 2,229,709 ordinary shares on 4 December 2019.

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Note 6. Borrowings (continued)

- (iii) SBANG Sustainable Energies Ltd (“SBANG”) provided the Company with two secured loan facilities of \$10,000,000 (on 7 February 2018) and \$4,000,000 (on 15 July 2018) as well as a convertible note facility of \$6,000,000 (on 15 November 2018).

In the current period prior to the IPO, there was a drawdown of \$1,749,000 on the convertible note facility.

On 21 October 2019, accrued interest of \$1,076,667 was paid in cash to SBANG.

The full principal amount of the \$4,000,000 facility and a further \$4,000,000 principal amount of the \$10,000,000 facility were converted to 51,282,051 shares on 10 July 2019.

On 4 December 2019, the Company issued additional shares to SBANG as part of the settlement of the loan and convertible note in line with the provisions of the prospectus. Loans amounting to \$7,600,000 (\$6,000,000 of remaining loan principal and \$1,600,000 of convertible note) were settled through the issue of 48,717,949 shares. The settlement of the loan via a share issue resulted in a loss of \$1,692,308 being incurred.

On 11 December 2019, the remaining SBANG Loan amounting to \$4,400,000 plus accrued interest of \$1,255,333 was repaid in full.

On 3 September 2019 SBANG provided a new \$4,000,000 loan facility. The loan will be interest bearing at 10% p.a. and has a two-year term. Any drawdowns on the loan will be subject to shareholder approval. This new loan facility is undrawn at the date of this report.

- (iv) Loan from shareholder represented amount payable to Mr. Y. Zhu which was non-interest bearing, unsecured and payable on demand. This was fully settled on 11 November 2019.

Note 7. Share capital

	31 December 2019 Number	30 June 2019 Number
(a) Issued and paid up capital		
Issued and fully paid ordinary shares	233,229,835	15,534,181
(b) Movement in ordinary shares		
	\$	\$
Balance at 01 July	2,345,438	125
Issuance of shares through IPO	19,500,000	-
Issued to promoters during the period	2,802,687	1,042,475
Issued to settle loans during the period	18,509,532	1,302,838
Capital raising costs	(1,166,293)	-
Balance at end of the period	41,991,364	2,345,438
(b) Movement in ordinary shares		
	Number	Number
Balance at 01 July	15,534,181	125
Issuance of shares through IPO	97,500,000	-
Shares issued to promoters during the period	17,965,945	6,682,530
Shares issued to settle the loans during the period	102,229,709	8,351,526
Shares issued to settle share-based payments	-	500,000
Balance at end of the period	233,229,835	15,534,181

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Note 7. Share capital (continued)

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings. Effective 1 July 1998, the Corporations legislation at that time abolished the concepts of authorised capital and par share values. Accordingly, the Company does not have authorised capital and the ordinary shares on issue do not have a par value.

Capital Management

For the purpose of the Group's capital management, capital includes issued capital, and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. The Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements.

Note 8. Provisions

	31 December 2019	30 June 2019
	\$	\$
Employee provisions	203,675	1,008,373
Restoration obligation	-	7,562
	203,675	1,015,935

Note 9. Related party transactions

Other than related party transactions related to borrowings as disclosed in Note 6, the following related party transactions occurred during the period:

i) Star Shenton Energy Pty Ltd (SSE) (Damien Flugge is a common Director – who resigned as a director Company on 9 December 2019, Tomasz Rudas and Saithsiri Saksithisereekul were common Directors of SSE up to 31 January 2019 and 25 March 2019 respectively) was invoiced \$315,432 for the provision of operations and maintenance services during the period (amounts are inclusive of GST).

ii) The Group has a receivable from Star Shenton Energy Pty Ltd for an amount of \$357,834. This amount is non-interest bearing and is payable on normal sales terms.

iii) The Company had provided Indemnities to the Directors in respect of Australian Tax Office penalty notices for unpaid superannuation guarantee payments for companies within the Group from which M8 Sustainable Limited acquired the Maddington Facility and Fernview Environmental Pty Ltd. This resulted in a liability of \$492,314 to the Company, including taxes on 30 June 2019. However, the indemnity agreement was terminated on 5 September 2019 and as a result the amount was reversed and recognised in the profit and loss.

Note 10. Contingent liabilities

Fernview Environmental Pty Ltd has a royalty agreement whereby it will pay Fernview Development Group Pty Ltd (an unrelated party) a royalty of \$1.50 per tonne based on the number of tonnes of waste received at the Gingin Facility. Payment is contingent on the development of the Gingin Facility and the receipt of waste.

The Group does not have any other contingent liabilities as at balance sheet date and none have arisen since balance sheet date to the date of signing the Directors' report.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 11. Operating segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operation decision makers) in assessing performance and in determining the allocation of resource.

The Group has identified its operating segments to be Operations and Maintenance and Waste Management based on the different operating businesses within the Group.

The Operations and Maintenance segment primarily involves providing technical, business and other ancillary support to companies in the waste industry.

The Waste Management segment primarily involves resource recovery from construction and demolitions (C&D) waste and commercial and industrial (C&I) waste. C&D waste includes waste from demolition and civil construction activities, including roads and buildings. C&I waste includes waste industries including manufacturing and retail as well as wholesale businesses.

At present, the Company only reports revenue by segment to the Board. All costs within the business and assets and liabilities of the Group are reported at a consolidated level without allocating them to separate segments.

	Half-Year ended 31 December 2019			
	Operations and Maintenance \$	Waste Management \$	Unallocated/ Elimination \$	Total \$
Revenue				
Revenue from external customers	286,756	584,378	-	871,134
	Half-Year ended 31 December 2018			
	Operations and Maintenance \$'000s	Waste Management \$'000s	Unallocated/ Elimination \$'000s	Total \$'000s
Revenue				
Revenue from external customers	301,088	-	-	301,088

Note 12. Capital commitments

The Group does not have any capital commitments as at balance sheet date.

Note 13. New and amended accounting standards and interpretations adopted

The Group adopted AASB 16 as of 1 July 2019. AASB 16 supersedes AASB 117 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

AASB 16 provides a new lessee accounting model which requires a lessee to recognize assets and liabilities with a term of more than 12 months unless the underlying asset is of low value. The depreciation of the lease assets and interest on the lease liabilities are recognised in the consolidated income statement.

Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at inception as either a finance lease or operating lease. For operating leases, the leased item was not capitalised and the lease payments were recognised in the consolidated income statement on a straight-line basis.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 13. New and amended accounting standards and interpretations adopted (continued)

The leases recognised by the Group under AASB 16 predominantly relate to the lease of premises for business operations.

Transition to AASB 16

The Group adopted the new standard using the modified retrospective approach and applied the practical expedient per AASB 16.C10(a) - used a single discount rate to a portfolio of leases with reasonably similar characteristics and (c) - applied the short-term leases exemption to leases with lease terms that end within 12 months of the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Lease liabilities are measured at the present value of future payments on the initial date of application, being 1 July 2019. Right of use assets were recognised at an amount equal to the lease liability.

The impact of the application of AASB 16 is as follows:

Impact on the equity (increase/(decrease)):

	01 July 2019 \$
Assets	
Non-current assets	
Right-of-use assets	7,896,251
Liabilities	
Lease liabilities – current	(6,966,251)
Lease liabilities – noncurrent	(930,000)
	(7,896,251)
 Retained Earnings	 -

There is no material impact on other comprehensive income and basic or diluted EPS.

Lease liabilities reconciliation on transition:

	\$
Operating lease commitments disclosed at 30 June 2019	15,969,208
Less:	
Present value discounting of lease liabilities*	(8,039,649)
Short-term leases	(33,308)
Lease liabilities recognised on transition on 1 July 2019	7,896,251

**Lease liabilities were discounted using an incremental borrowing rate of 10%*

Payments of \$975 for short term leases (lease term of 12 months or less) were expensed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 31 December 2019.

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Note 13. New and amended accounting standards and interpretations adopted (continued)

Summary of new accounting policies applied from 1 July 2019

Group as Lessee

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under its leases for Lot 281, Unit 1 and 2 for Lot 280 and rear of Lot 280 Kelvin Road, Maddington, WA to lease the assets for additional terms of five years plus five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

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Note 14. Share based payments and bonus incentives

Bonus Incentive

Under employment contracts with 3 key management personnel dated 1 September 2017, the parties had a bonus incentive whereby, on the listing of the Company on the ASX or other recognised stock exchange, the key management personnel would be entitled to an individual bonus of:

- bonus shares equalling 0.5% of the Company's issued capital at the time that the Company becomes listed (representing an equity settled share-based payment) and a payment equivalent to the employee's tax liability (representing a cash settled share-based payment)
- cash bonus equivalent to 0.5% of the total capital raised by the Company before listing on the ASX

The bonus shares and cash bonus clauses were rescinded by all 3 key management personnel on 4 and 13 September 2019. As the Group used the intrinsic value method to account for these awards, a reversal of the cumulative share-based payment expense associated with the bonus shares was recognised through profit and loss on the cancellation date (See note 4).

Under the same employment contracts, 3 key management personnel are also entitled to an Executive Cash Bonus and to participate in an Executive Share Scheme as follows:

- a discretionary executive cash bonus equivalent of up to 50% of the employee's base salary may be earned based on an appraisal of individual and Company performance with the first milestone being the Company's ASX listing; and
- the participation in an executive share scheme whereby each eligible employee will receive up to 1,000,000 shares each year with the first year's milestone being the Company's ASX listing, subject to Shareholder approval and to Directors' discretion (representing an equity settled share-based payment) and a payment equivalent to the employee's tax liability (representing a cash settled share based payment).

As at 31 December 2019, the Company did not provide for these bonus incentives because the terms and conditions of the awards had not yet been determined.

Director Entitlement

Charles Mackinnon, a former director of the Company (resigned 3 July 2018), received an entitlement to 500,000 fully paid ordinary shares in the Company as part settlement for his services. The grant date was 7 December 2017. The shares were valued at 15.6 cents based upon their intrinsic value at 30 June 2019. There were no service conditions on the entitlement. The shares were issued on 3 May 2019.

Promoter Shares

During the half year, the Company issued a total of 17,965,945 fully paid ordinary shares for nil consideration to promoters of the Company, which included 7,115,038 shares issued to SBANG. As there were no specified services attached to the issue of these shares, the transaction has been measured with reference to the estimated fair value of the shares issued.

The expense recognised for share based payments to promoters during the period is shown in the following table:

	31 December 2019	30 June 2019
	\$	\$
Promoter shares	<u>2,802,687</u>	<u>1,042,475</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 14. Share based payments and bonus incentives (continued)

Options

The Company issued a total of 20,000,000 options to the lead manager of the Company's IPO, upon the Company's ASX listing. The options were issued as consideration for the lead manager's role in the IPO including corporate advisory, marketing and selling and distribution services of the Company's shares. The options have an exercise price of \$0.25 and can be exercised at any time on or prior to expiry date. The value of the services represented by the options can't be reliably measured and the share-based payment has been estimated based on the fair value of the options issued. The fair value per security has been calculated as \$0.0575 using a Black Scholes share option pricing model taking in to account the terms and conditions upon which the options were granted. The fair value of the options was calculated on the date of grant using the following assumptions:

Exercise price	\$0.25
Term	4 years
Dividend yield	0%
Extended volatility	60% to 70%
Risk free interest rate	2.08%

Performance Rights

The Company issued a total of 10,000,000 performance rights to Directors and Management of the Company under the Performance Rights Offer on terms and conditions set out in section 10.3 of the Company's prospectus. Estimated total cost of the performance rights has been identified as \$1,333,000 which will be amortised over the vesting period of the rights (either a 12 or 24 month period depending on the right). An amount of \$93,659 has been charged for the half year ended 31 December 2019.

In preparing valuation of the performance rights, the Black-Scholes Method has been used.

The key inputs for the valuation of the Director rights were as follows:

Exercise price	Nil
Term	1 and 2 years
Dividend yield	0%
Extended volatility	50% to 60%
Risk free interest rate	0.77%

The key inputs for the valuation of the Non-Director rights were as follows:

Exercise price	Nil
Term	1 and 2 years
Dividend yield	0%
Extended volatility	50% to 60%
Risk free interest rate	0.80%

Note 15. Financial assets and liabilities

The fair value of the Group's financial assets and liabilities will be impacted by changes in interest rates but which had no material impact during the period. The carrying amount of the financial assets and liabilities of the Group approximate their fair value.