

Nanollose Limited

ABN 13 601 676 377

**Annual Report
30 June 2018**

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Managing Director's Letter

Dear Shareholders,

Nanollose is proud of the progress achieved in the 2018 financial year. The Company successfully listed on the Australian Stock Exchange, signed an MoU to secure a commercial supply of microbial cellulose, delivered two world first breakthroughs by producing a plant-free rayon fibre and fabric, and launched our products at one of the world's largest sustainable textile events.

Nanollose is an Australian technology company with a unique scalable process, which transforms PLANT-FREE microbial cellulose into eco-friendly fibres for textiles and other industrial applications. Our world first Plant-Free Rayon fibre (Nullarbor®) is set to become an alternative to rayon and cotton fibres, and we are initially targeting the US\$500 billion textile industry with an immediate focus on the US\$16 billion rayon market.

Brands, retailers and manufacturers are urgently seeking sustainable alternatives to rayon and cotton fibres, both of which cause significant environmental issues. By comparison, Nanollose does not harvest trees or plants and does not require the environmentally challenging kraft (wood pulping) process. Our technology is also easily retrofitted into current textile and clothing production methods.

Our Company's strategy for commercialisation falls under three important pillars - Supply, Process Development and Demand. During the 2018 financial year, we made significant progress across all three pillars, resulting in the most successful year in the Company's short history.

1 - Supply: Develop the Microbial Cellulose 'MC' supply chain

In April 2018, Nanollose signed a non-binding Memorandum of Understanding ("MoU") with Indonesian food producer, PT Supra Natami Utama ("PT SNU"), to develop a commercial scale factory and supply chain solution to produce textile grade microbial cellulose on an industrial scale.

PT Supra Natami Utama is one of Indonesia's largest and most established producers of coconut food, beverages and cosmetic products and has multiple facilities across Indonesia with access to significant quantities of coconut by-products and waste streams.

Through this partnership, Nanollose has gained access to these waste streams for use in the production of textile grade microbial cellulose on an industrial scale, which can then be transformed by using Nanollose technology into fibres.

Nanollose and PT SNU also started to explore, unlock and develop other sources of liquid organic waste (including beer and other fermentable liquids) as feedstocks for additional microbial cellulose production streams with the ultimate objective of producing microbial cellulose at a competitive market price.

2 - Process Development: Refine Nanollose's fibre technology

In December 2017, Nanollose became the first company to successfully convert Plant-Free cellulose into a rayon fibre, marking a significant global breakthrough for the textile and clothing industries that have had limited eco-friendly fibre alternatives available to them.

This milestone validated that our technology can convert Plant-Free microbial cellulose into valued commercial fibre products and positioned the Company with a significant opportunity in offering a sustainable alternative to plant-based fibres such as viscose-rayon, which are widely used, but have significant environmental impacts.

In addition to this breakthrough, the Company filed a provisional patent relating to a method of processing microbial cellulose into viscose dope which is then turned into Plant-Free rayon fibres (Nullarbor), another world first and unlocking commercial value from a range of fermentable waste streams.

In May 2018, Nanollose successfully manufactured Nullarbor fibre on a pilot scale. As a result of the increased fibre production, the Company was also able to create fabric for the first time, marking another significant breakthrough for Nanollose and the textile industry.

These fibres and fabric products were also produced using standard industrial equipment currently used by fibre and textile manufacturers. This means that no major retro-fitting of machinery or processing is required for future partners using our Nullarbor fibre and fabric, a huge advantage for the commercial uptake of Nanollose's technology.

3 - Demand: Engage textile producers and commercial partners

In May 2018, Nanollose was invited to launch its fibre, yarn and fabric products at the world's leading sustainable textiles event, Planet Textiles in Vancouver Canada.

During the event, Nanollose engaged with international fashion retailers, brands, manufacturers and designers, who are actively searching for sustainable solutions like ours. Many of them are willing to get involved deeper in their supply chains, and this is a very encouraging sign that environmental responsibility is quickly becoming a high priority for the fashion industry.

Demand for our technology and product has been extremely encouraging and we have progressed to early stage talks with a number of leading fibre manufacturers and high profile retail brands.

Corporate activity

During the 2018 financial year, Nanollose made two key executive appointments to increase research and development capacity and accelerate commercialisation of the Company's technology. Non-executive chairman, Dr Wayne Best, was appointed full-time executive chairman and non-executive director Mr Gary Cass was appointed full-time executive director of R&D.

Dr Best has increased his involvement across research and development and has assisted in the effort to prioritise and convert numerous opportunities currently being presented to the Company. Mr Gary Cass has been focused on accelerating the development of Nanollose's supply chain for microbial cellulose from a variety of waste materials, which is essential for the commercialisation of the Company's technologies.

Key Drivers:

Nanollose is positioned to continue capitalising on brands, retailers and manufactures who are urgently seeking sustainable alternatives to rayon and cotton fibres, both of which cause significant environmental issues. Consumers are also demanding more environmental responsibility from their favourite brands and retailers.

With an increasing consciousness around 'how we make things' and environmental issues such as water wastage, pollution and forest conservation increasingly at the forefront of consumers' minds, it's evident that progressive fashion brands and companies who respond to these issues will be rewarded by consumers.

Nanollose aims to be at the forefront of offering fashion and textile groups a commercially viable eco-friendly fibre alternative, and decreasing the industry's reliance on environmentally burdensome, raw materials.

Company Outlook:

The viscose-rayon fibre market is predicted to reach US\$16 billion by 2019 with the vast majority used to make textiles and clothing. However, viscose-rayon is currently sourced from wood with significant environmental concerns surrounding the kraft (wood pulping) process required to produce plant-based cellulose.

Due to advancements in Nanollose's fibre development and production scale over this financial year, the Company is uniquely positioned to offer brands, retailers and manufacturers an eco-friendly product that can be easily retrofitted into their current textile and clothing production methods.

The next 3-6 months will become a foundational period for Nanollose to further establish itself as a sustainable alternative to the industry as we focus on building scale, refining our technology and solidifying industrial partners.

These milestones will set the platform for future revenues from our raw material supply chain, the licencing of our technology to manufacturers and royalties from trademarks retail brands.

I am confident that we are on a very exciting commercial path.

Alfie Germano
Managing Director

**Nanollose Limited
Corporate Directory
30 June 2018**

Directors	Wayne Best Winton Willesee Gary Cass Terence Walsh
Managing Director	Raffaele (Alfie) Germano
Company Secretary	Erlyn Dale
Stock exchange listing	Nanollose Limited shares are listed on the Australian Securities Exchange (ASX) (ASX code: NC6 and NC6O).
Registered office	Suite 5 CPC 145 Stirling Highway Nedlands WA 6009
Principal place of business	Suite 5 CPC 145 Stirling Highway Nedlands WA 6009
Share register	Automic Level 3 50 Holt Street Surry Hills NSW 2010 Phone: 1300 288 664
Auditor	RSM Australia Partners Level 32 Exchange Tower, 2 The Esplanade Perth WA 6000
Solicitors	Fairweather Corporate Lawyers 595 Stirling Highway Peppermint Grove WA 6011
Website	www.nanollose.com

Nanollose Limited
Directors' Report
30 June 2018

The directors present their report, together with the financial statements of Nanollose Limited (referred to hereafter as the 'Company') for the year ended 30 June 2018.

Directors

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

Wayne Best
Winton Willesee
Gary Cass
Terence Walsh
Raffaele (Alfie) Germano (appointed on 9 August 2017)

Principal activities

During the financial year, the principal continuing activities of the Company consisted of research and development, and promotion of the Company's microbial cellulose technology. The primary focus has been directed towards the development of the Company's Plant-Free viscose-rayon fibre (Nullarbor®). The Company also continued its activities towards developing a commercial supply chain of microbial cellulose from a variety of waste streams.

The Company also completed its listing on the Australian Securities Exchange on 18 October 2017.

Dividends

There were no dividends declared or paid during the financial year.

Review of operations

During the year, the principal continuing activities of the Company consisted of research and development, and promotion of the Company's nanocellulose technology. Refer to the Managing Director's Letter above.

During the year, the Company successfully raised \$5,000,000 by way of the issue of 25,000,000 shares of \$0.20 and was listed on the Australian Securities Exchange on 18 October 2017.

On 25 May 2018 the Company raised \$145,057 by way of a pro-rata non-renounceable entitlement issue on the basis of 1 entitlement option for every 4 shares held by eligible shareholders at an issue price of \$0.01 per entitlement option. 14,505,733 options were issued.

The loss for the Company after providing for income tax amounted to \$1,730,214 (30 June 2017: \$820,346).

Significant changes in the state of affairs

Other than detailed in the review of operations, there were no other significant changes in the state of affairs of the Company during the financial year.

Matters subsequent to the end of the financial year

On 17 August 2018, the Company placed 4,244,266 Shortfall Options from its Entitlement Options Issue under the prospectus dated 16 April 2018.

Other than the above, no matter or circumstance has arisen since 30 June 2018 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.

Likely developments and expected results of operations

The Company is conducting ongoing research and development activities with the objective of commercialising the Company's Intellectual Property (IP). In particular, the Company aims to develop and commercialise IP around the production and subsequent processing of microbial cellulose. The primary focus for commercialising this IP is in the fibre and textile sectors where the Company has already received strong interest and positive feedback.

Environmental regulation

The Company is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name:	Wayne Best
Title:	Executive Chairman
Qualifications:	BSc (Honours), PhD, DIC, FRACI, GAICD
Experience and expertise:	Wayne has 35 years' experience in organic chemistry both in academia, government and industry. Wayne obtained his BSc (Hons) and PhD in Organic Chemistry from The University of Western Australia. He then spent two years at Imperial College in the UK where he obtained a DIC, followed by a year at the Australian National University in Canberra. He then took up a position with ICI Australia's Research Group in Melbourne for four and a half years which included a secondment to ICI Agrochemicals' in the UK. Following ICI, Wayne returned to Western Australia and spent ten years at the Chemistry Centre (WA) where he was responsible for the formation and running of the Medicinal & Biological Chemistry Section which undertook collaborative R&D into drug discovery and contract synthesis for the drug discovery and pharmaceutical industries. He then founded Epichem Pty Ltd, a contract research and drug discovery Company, which he managed for 14 years before moving to Nanollose. He is currently Epichem's non-executive chairman. Wayne is a Fellow of the Royal Australian Chemical Institute and has held appointments as an Adjunct Associate Professor at both Murdoch University and The University of Western Australia. He is also a Graduate Member of the Australian Institute of Company Directors and has served as a Director for several listed and unlisted biotechnology companies.

Other current directorships:	Pharmaust Limited
Former directorships (last three years):	None
Interests in shares:	5,717,858 ordinary shares
Interests in options:	1,290,476 Class A options 1,404,465 NC6O listed options
Contractual rights to shares:	None

**Nanollose Limited
Directors' Report
30 June 2018**

Name: Alfie Germano
Title: Managing Director (appointed on 9 August 2017)
Qualifications: Diploma - FDTs
Experience and expertise: Mr Germano is a creative achiever who strives for the balance of art and science in product and process. He is a 30-year veteran in the global textile industry sector. Alfie obtained his Fashion Design and Textile Science Diploma from the Bentley College of Technical and Further Education in Perth, Western Australia. After working for his family garment manufacturing company, he moved to Hong Kong where he spent 24 years in the garment industry as a leader of large scale global product development, sourcing and retail operations. He held Vice President and Director positions at GAP Inc, VF Corporation, Liz Claiborne Inc, Fila Inc and Carter's Inc. Alfie has travelled the world extensively with postings in the USA, Japan and China. Alfie relocated his family to Perth in 2016 and is enjoying the "green-change" in Australia. He is passionate about sustainability, strategy, performance, metrics, process and product.

Other current directorships: None
Former directorships (last three years): None
Interests in shares: 500,000 ordinary shares
250,000 Class A Performance Rights
250,000 Class B Performance Rights
Interests in options: 1,100,000 Class B options
1,100,000 Class C options
1,100,000 Class D options
125,000 NC6O listed options
Contractual rights to shares: None

Name: Winton Willesee
Title: Non-Executive Director
Qualifications: BBus, DipEd, PGDipBus, MCom, FFin, CPA, GAICD, FGIS/FCIS
Experience and expertise: Winton is an experienced company director. He brings a broad range of skills and experience in strategy, company development, corporate governance, company public listings, merger and acquisition transactions and corporate finance. Mr Willesee has considerable experience with ASX listed and other companies over a broad range of industries having been involved with many successful ventures from early stage through to large capital development projects. Winton has fulfilled the role of chairman and/or director of a number of listed companies. Mr Willesee holds formal qualifications in economics, finance, accounting, education and governance. He is a Fellow of the Financial Services Institute of Australasia, a Fellow of the Governance Institute of Australia and the Institute of Chartered Secretaries and Administrators, a Graduate member of the Australian Institute of Company Directors, and a Member of CPA Australia.

Other current directorships: xTV Networks Limited, MMJ PhytoTech Limited
Former directorships (last three years): Ding Sheng Xin Finance Co Limited, Metallum Limited (now Kopore Metals Limited), Birimian Ltd, DroneShield Limited, Cove Resources Ltd (now BidEnergy Limited),
Interests in shares: 5,592,857 ordinary shares
Interests in options: 1,290,476 Class A options
1,398,215 NC6O listed options
Contractual rights to shares: None

**Nanollose Limited
Directors' Report
30 June 2018**

Name: Terence Walsh
Title: Non-Executive Director
Qualifications: LLB
Experience and expertise: Terry is a senior commercial lawyer and manager with more than 20 years of experience in project development, mining and general commercial law. He initially worked with leading law firms in Perth and Sydney before moving in house, where he has worked as the General Counsel of Hancock Prospecting Pty Ltd and prior to that as a Corporate Counsel with Rio Tinto Ltd. In these roles he has been involved with the legal and commercial aspects associated with the development and operation of technology and mining projects.

Other current directorships: Structural Monitoring Systems PLC
Former directorships (last three years): Hazer Group Limited
Interests in shares: 500,000 ordinary shares
Interests in options: 1,500,000 Class A options
125,000 NC6O listed options
Contractual rights to shares: None

Name: Gary Cass
Title: Executive Director
Qualifications: BSc
Experience and expertise: Mr Cass has a BSc in Agricultural Sciences specialising in microbiology and over 20 years' experience working with microbial cellulose. In addition to his expertise in microbiology he has a broad theoretical and practical knowledge across the biological sciences including environmental conversation and molecular biotechnology. Mr Cass has published in scientific journals and run international bio-science workshops in Australia and overseas. He has been a key collaborator with numerous international arts and sciences projects, including Fermented Fashion, the first dresses in the world made from wine and beer that have been exhibited around the world including the Venice Biennale (fringe), Trinity College Science Gallery, Ireland and the Signature Art Prize in Singapore.

Other current directorships: None
Former directorships (last three years): None
Interests in shares: 5,142,857 ordinary shares
Interests in options: 1,190,476 Class A options
1,285,715 NC6O listed options
Contractual rights to shares: None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities unless otherwise stated.

'Former directorships (last three years)' quoted above are directorships held in the last three years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

Ms Eryln Dale has a broad range of experience in company administration and corporate governance and holds or has held positions of non-executive director and/or company secretary for a number of ASX listed public companies across a range of industries. Miss Dale has completed a Bachelor of Commerce (Accounting and Finance) and a Graduate Diploma of Applied Corporate Governance and is an Associate Member of both the Institute of Chartered Secretaries and Administrators and the Governance Institute of Australia.

**Nanollose Limited
Directors' Report
30 June 2018**

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2018, and the number of meetings attended by each director were:

	Attended	Held
Wayne Best	9	9
Winton Willesee	9	9
Gary Cass	9	9
Terence Walsh	9	9
Alfie Germano	8	8

Held: represents the number of meetings held during the time the director held office.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional disclosures relating to key management personnel.

Principles used to determine the nature and amount of remuneration

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency.

The full Board fulfilling the role of the Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Company depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Company.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having value creation and capital growth in advance of economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of growth in share price and eventually dividends, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience;
- reflecting competitive reward for contribution to growth in shareholder wealth; and
- providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive directors' remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed from time to time by the Board fulfilling its role as the Nomination and Remuneration Committee. The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not entitled to vote on the determination of his own remuneration. Given the nature of the Company and the more hands-on role the non-executive directors' play in the operations of the Company non-executive directors may receive share options or other incentives.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was via a resolution of all shareholders on 5 June 2016, where the shareholders approved a maximum annual aggregate remuneration of \$500,000.

Executive directors' remuneration

The Company aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed regularly by the full Board fulfilling the role of Nomination and Remuneration Committee based on the overall performance of the Company and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other benefits where it does not create any additional costs to the Company and provides additional value to the executive.

The short-term incentives ('STI') program has yet to be finalised. Once adopted it will be designed to align the targets of Company with the performance hurdles of executives. STI payments will be granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved.

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Directors' Report
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The long-term incentives ('LTI') include equity-based payments. Equity securities are awarded to executives with vesting conditions and expiry dates aligned to the Company's business plans and targets. The details of the current vesting conditions and targets are as follows and further detailed in the section on service agreements found below.

The Options vest on the achievement of the following milestones:

Series B - The Company enters into a commercial agreement;

1. to exploit one of the Company's two existing patents (AU2016904456 and AU2017901318); and
2. receives \$1 million of gross revenue under that agreement.

Series C - The Company enters into a commercial agreement;

1. to exploit a second technology or patent held by the Company (other than the patent the subject of Milestone 1); and
2. receives \$5 million of gross revenue under that agreement.

Series D - The Company enters into a commercial agreement;

1. to exploit a third technology or patent held by the Company; and
2. receives \$10 million of gross revenue under that agreement.

All Series B, C and D Options vest in the event of a 'takeover event'.

A "Takeover Event" means a takeover bid for the Company pursuant to Chapter 6 of the Corporations Act where at least 50% of the holders of ordinary shares accept the bid and such bid is free of conditions or a court grants an order approving a compromise or scheme where the ordinary shares are either cancelled or transferred to a third party (not being a scheme of arrangement simply for the purposes of a corporate restructure).

Company performance and link to remuneration

Remuneration for certain individuals is directly linked to the performance of the Company. Each KMP holds equity securities designed to incentivise them to drive the Company's performance in line with its business plans.

A portion of any cash bonus that may be paid to executives will be directly linked to the achievement of goals designed to align with the Company's performance.

Use of remuneration consultants

During the financial year ended 30 June 2018, the Company did not engage external remuneration consultants.

Details of remuneration

Details of the remuneration of key management personnel of the Company during the year ended 30 June 2018 are set out in the following tables.

The key management personnel of the Company consisted of the following directors of Nanollose Limited:

- Wayne Best (Executive Chairman)
- Winton Willesee (Non-Executive Director)
- Gary Cass (Executive Director)
- Terence Walsh (Non-Executive Director)
- Alfie Germano (Managing Director) appointed on 9 August 2017

And the following person:

- Ranjit Ahl (CEO) (appointed on 13 March 2017 and ceased on 25 May 2017)

**Nanollose Limited
Directors' Report
30 June 2018**

	Short term benefits	Post-employment benefits	Equity-settled	Equity-settled	Total	Fixed remuneration	Short-term incentive	Long-term incentive
	Cash salary and fees	Superannuation	Shares	Performance rights				
2018	\$	\$	\$	\$	\$	%	%	%
Wayne Best	77,755	4,851	-	-	82,606	100%	-	-
Winton Willesee	21,048	-	-	-	21,048	100%	-	-
Terence Walsh	28,169	-	-	-	28,169	100%	-	-
Gary Cass	29,181	877	-	-	30,058	100%	-	-
Alfie Germano	169,179	15,072	100,000	53,425	337,676	55%	-	45%
	325,332	20,800	100,000	53,425	499,557			
	Short term benefits	Post-employment benefits	Equity-settled		Total	Fixed remuneration	Short-term incentive	Long-term incentive
	Cash salary and fees	Superannuation	Options					
2017	\$	\$	\$	\$	\$	%	%	%
<i>Non-Executive Directors:</i>								
Wayne Best	-	-	-	-	-	-	-	-
Winton Willesee	-	-	-	-	-	-	-	-
Terence Walsh	-	-	-	-	-	-	-	-
Gary Cass	-	-	-	-	-	-	-	-
<i>Other Key Management Personnel:</i>								
Alfie Germano	-	-	-	-	-	-	-	-
Ranjit Ahl	33,698	3,030	-	-	36,728	100%	-	-
	33,698	3,030	-	-	36,728			

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Directors' Report
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Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name: Alfie Germano
Title: Managing Director
Agreement commenced: 20 March 2017 (as Chief Operating Officer)
Term of agreement: No fixed term
Details: Base Salary of \$225,000 per annum plus superannuation. Mr Germano has been issued with 500,000 Shares in lieu of any entitlement to payment of his accrued salary for the period from March 2017 (upon commencement of employment with the Company) until ASX listing. Mr Germano has been issued with 500,000 Performance Rights (Class A and B), which will convert into Shares if Mr Germano remains employed by the Company as the Managing Director 12 months after listing (Class A) and 24 months after listing (Class B).

Name: Wayne Best
Title: Executive Chairman
Agreement commenced: 9 April 2018
Term of agreement: No fixed term
Details: Base salary of \$225,000 per annum plus superannuation with no separate Director's fee payable from commencement of the Agreement.

Name: Gary Cass
Title: Executive Director
Agreement commenced: 11 June 2018
Term of agreement: No fixed term
Details: Base salary of \$160,000 per annum plus superannuation with no separate Director's fee payable from the commencement of the Agreement.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

There were no options issued to directors and other key management personnel as part of compensation during the year ended 30 June 2018.

In accordance with his employment contract, 500,000 ordinary shares were issued to Mr Alfie Germano in lieu of his accrued salary at the time of the ASX listing. Mr Alfie Germano was also issued 500,000 performance rights in accordance with his employment contract, of which 250,000 will convert into shares after he has remained employed by the Company for 12 months following the IPO and 250,000 will convert into shares after he has remained employed by the Company for 24 months following the IPO.

Additional information

The loss of the Company for the three years to 30 June 2018 are summarised below:

	2018	2017	2016
	\$	\$	\$
Sales revenue	-	-	11,630
EBITDA	(1,776,703)	(817,432)	(9,790)
EBIT	(1,783,135)	(817,916)	(9,907)
Loss after income tax	(1,730,214)	(820,346)	(9,907)

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Directors' Report
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The factors that are considered to affect total shareholders return ('TSR') are summarised below. Given the Company listed during the financial year, no comparative information is available.

	2018	2017
Share price at financial year end (\$)	0.13	-
Total dividends declared (cents per share)	-	-
Basic loss per share (cents per share)	2.57	1.82

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the Company, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Wayne Best	5,642,858	-	200,000	125,000	5,717,858
Winton Willesee	5,642,857	-	75,000	125,000	5,592,857
Gary Cass	5,642,857	-	-	500,000	5,142,857
Terence Walsh	500,000	-	-	-	500,000
Alfie Germano	-	500,000	-	-	500,000
Total	17,428,572	500,000	275,000	750,000	17,453,572

Option holding

The number of options over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the Company, including their personally related parties, is set out below:

	Balance at the start of the year	Issued	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Wayne Best	1,290,476	1,404,465	-	-	2,694,941
Winton Willesee	1,290,476	1,398,215	-	-	2,688,691
Gary Cass	1,190,476	1,285,715	-	-	2,476,191
Terence Walsh	1,500,000	125,000	-	-	1,625,000
Alfie Germano	3,300,000	125,000	-	-	3,425,000
Total	8,571,428	4,338,395	-	-	12,909,823

Performance Rights holding

The number of performance rights in the Company held during the financial year by each director and other members of key management personnel of the Company, including their personally related parties, is set out below:

	Balance at the start of the year	Issued	Converted	Expired/ forfeited/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Wayne Best	-	-	-	-	-
Winton Willesee	-	-	-	-	-
Gary Cass	-	-	-	-	-
Terence Walsh	-	-	-	-	-
Alfie Germano	-	500,000	-	-	500,000
Total	-	500,000	-	-	500,000

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Other transactions with key management personnel and their related parties during the financial year

(i) Receivable from and payable to key management personnel and their related parties are as follows:

The following balances are outstanding at the reporting date in relation to transactions with key management personnel and their related parties:

	2018	2017
	\$	\$
Payable to Epichem Pty Ltd (director related entity of Wayne Best)	-	17,820
Payable to Valle Corporate Pty Ltd (director related entity of Winton Willesee)	2,200	509

(ii) Transactions with key management personnel and their related parties

Payments to Epichem Pty Ltd (director related entity of Wayne Best) of \$192,258 (2017: \$167,673) for research consultancy fees.

Payments to Valle Corporate Pty Ltd (director related entity of Winton Willesee) of \$19,743 (2017: \$4,785) for bookkeeping and financial reporting services fees.

Payments to Azalea Consulting Pty Ltd (director related entity of Winton Willesee) of \$87,942 (2017: \$nil) for corporate services fees including IPO services, company secretarial services, and front and registered office services.

Payments to The Scientific Creativity Initiative (director related entity of Gary Cass) of \$58,550 (2017: \$nil) for research and development consultancy fees.

All transactions were made on normal commercial terms and conditions and at market rates.

(iii) Loan with key management personnel and their related parties

The following balances are outstanding at the reporting date in relation to loans with key management personnel and their related parties:

	2018	2017
	\$	\$
Loan payable to Wayne Best	-	25,000
Loan payable to Azalea Family Holdings Pty Ltd (director related entity of Winton Willesee)	-	25,000

Voting and comments made at the Company's 2017 Annual General Meeting ('AGM')

As the Company listed on 18 October 2017 and therefore there was no remuneration report put to shareholders at the AGM for the financial year ended 30 June 2017.

This concludes the remuneration report, which has been audited.

Nanollose Limited
Directors' report
30 June 2018

Shares

As at the date of this report, there are 74,999,993 fully paid ordinary shares on issue.

Shares under option

Unissued ordinary shares of Nanollose Limited under option at the date of this report are as follows:

Date of issue	Class of option	No. of Options	Exercise price	Expiry date
4 August 2016	Class A	21,000,000	\$0.30	31 December 2020
5 April 2017	Class A	1,450,000	\$0.30	31 December 2020
5 April 2017	Class B	900,000	\$0.25	30 September 2019
5 April 2017	Class C	900,000	\$0.30	30 September 2020
5 April 2017	Class D	900,000	\$0.40	30 September 2021
21 April 2017	Class A	1,333,333	\$0.30	31 December 2020
21 June 2017	Class B	200,000	\$0.25	30 September 2019
21 June 2017	Class C	200,000	\$0.30	30 September 2020
21 June 2017	Class D	200,000	\$0.40	30 September 2021
25 May 2018	NC6O	14,505,733	\$0.30	31 December 2020
Total		41,589,066		

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Performance Rights

Performance rights of Nanollose Limited at the date of this report are as follows:

Date of issue	Class of performance rights	No. of performance rights	Service condition	Vesting date
10 August 2017	Class A	250,000	Each Class A performance right will, at the election of the holder, vest and convert into one share upon satisfaction of the service condition as being engaged as the Managing Director for the period of 12 months after the Company lists on ASX.	18 October 2018
10 August 2017	Class B	250,000	Each Class B performance right will, at the election of the holder, vest and convert into one share upon satisfaction of the service condition as being engaged as the Managing Director for the period of 24 months after the Company lists on ASX.	18 October 2019
Total		500,000		

Indemnity and insurance of officers

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

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Proceedings on behalf of the Company

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

Nanollose Limited
Directors' report
30 June 2018

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.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 16 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in Note 16 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Corporate Governance

The Company's 2018 Corporate Governance Statement is contained in the 'Corporate Governance' section of the Company's website at <https://nanollose.com/about/corporate-governance/>.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included within the financial report.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



Winton Willesee
Director

31 August 2018
Perth

RSM Australia Partners

Level 32, Exchange Tower
2 The Esplanade Perth WA 6000
GPO Box R1253 Perth WA 6844

T +61 (0) 8 9261 9100
F +61 (0) 8 9261 9111

www.rsm.com.au

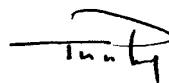
AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Nanollose Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.



RSM AUSTRALIA PARTNERS



TUTU PHONG
Partner

Perth, WA
Dated: 31 August 2018

Nanollose Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

	Note	2018 \$	2017 \$
Sales revenue		-	-
Interest income		54,040	1,497
R&D incentives		117,167	-
Expenses			
Research expenses		(610,613)	(299,418)
Promotion and communication expenses		(153,048)	-
Consultancy and legal expenses		(392,110)	(154,758)
Employee benefits expense		(520,846)	(36,961)
Depreciation expense		(6,432)	(484)
Share based payments		(53,425)	(265,846)
Other expenses		(163,828)	(60,449)
Borrowing cost expenses	13	-	(3,600)
Interest expense		(1,119)	(327)
Loss before income tax expense		(1,730,214)	(820,346)
Income tax expense	4	-	-
Loss after income tax expense for the year		(1,730,214)	(820,346)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(1,730,214)	(820,346)
		Cents	Cents
Basic loss per share		2.57	1.82
Diluted loss per share		2.57	1.82

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

Nanollose Limited
Statement of financial position
As at 30 June 2018

Assets		2018	2017
		\$	\$
Current assets			
Cash and cash equivalents	5	2,980,375	40,211
Trade and other receivables	6	43,198	14,407
Other	7	100,803	92,229
Total current assets		<u>3,124,376</u>	<u>146,847</u>
Non-current assets			
Plant and equipment	8	78,269	4,505
Total non-current assets		<u>78,269</u>	<u>4,505</u>
Total assets		<u>3,202,645</u>	<u>151,352</u>
Liabilities			
Current liabilities			
Trade and other payables	9	146,221	127,677
Provisions	10	14,154	-
Borrowings	11	-	60,973
Total current liabilities		<u>160,375</u>	<u>188,650</u>
Total liabilities		<u>160,375</u>	<u>188,650</u>
Net assets/(liabilities)		<u>3,042,270</u>	<u>(37,298)</u>
Equity			
Issued capital	12	5,120,537	509,237
Reserves	13	483,928	285,446
Accumulated losses	14	(2,562,195)	(831,981)
Total equity		<u>3,042,270</u>	<u>(37,298)</u>

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

Nanollose Limited
Statement of changes in equity
For the year ended 30 June 2018

	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total Equity \$
Balance at 1 July 2017	509,237	285,446	(831,981)	(37,298)
Total comprehensive loss for the year	-	-	(1,730,214)	(1,730,214)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	4,611,300	-	-	4,611,300
Share based payments (note 13)	-	53,425	-	53,425
Issue of options (note 13)	-	145,057	-	145,057
Balance at 30 June 2018	5,120,537	483,928	(2,562,195)	3,042,270

	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total Equity \$
Balance at 1 July 2016	5	-	(11,635)	(11,630)
Total comprehensive loss for the year	-	-	(820,346)	(820,346)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	509,232	-	-	509,232
Fair value of liability extinguished via equity (note 13)	-	16,000	-	16,000
Share based payments (note 13)	-	269,446	-	269,446
Balance at 30 June 2017	509,237	285,446	(831,981)	(37,298)

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

Nanollose Limited
Statement of cash flows
For the year ended 30 June 2018

	Note	2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers		-	-
Payments to suppliers and employees		(1,738,010)	(575,184)
Interest received		45,507	1,497
Interest and other finance costs paid		-	(327)
R&D incentive received		117,167	-
Net cash used in operating activities	22	<u>(1,575,336)</u>	<u>(574,014)</u>
Cash flows from investing activities			
Payments for plant and equipment		(80,196)	(4,989)
Repayment of director's loans		(55,000)	-
Net cash used in investing activities		<u>(135,196)</u>	<u>(4,989)</u>
Cash flows from financing activities			
Proceeds from issue of shares		5,000,000	549,232
Share issue costs		(488,700)	-
Proceeds from issue of options		145,057	-
(Repayments)/Proceeds of borrowings		(5,661)	59,668
Net cash from financing activities		<u>4,650,696</u>	<u>608,900</u>
Net increase in cash and cash equivalents		2,940,164	29,897
Cash and cash equivalents at the beginning of the financial year		40,211	10,314
Cash and cash equivalents at the end of the financial year	5	<u>2,980,375</u>	<u>40,211</u>

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

Note 1. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

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 in note 2.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Nanollose Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sale of goods

Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

Rendering of services

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be reliably estimated, revenue is only recognised to the extent of the recoverable costs incurred to date.

Note 1. Significant accounting policies (continued)

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

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.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Nanollose Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

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 classified as current when: it is either expected to be realised or intended to be sold or consumed in the Company's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised 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 classified as current when: it is either expected to be settled in the Company's 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.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment	3-5 years
Leasehold improvements	4 years

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

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Company. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Note 1. Significant accounting policies (continued)

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 amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Company receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Note 1. Significant accounting policies (continued)

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Company or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Company or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital

Ordinary shares are classified as equity.

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

Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Note 1. Significant accounting policies (continued)

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Company for the annual reporting period ended 30 June 2018. The Company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Company, are set out below.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Company will adopt this standard from 1 July 2018 but the Company expects the impact to be insignificant as there is no customer contract as at the date of these financial statements.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Company will adopt this standard from 1 July 2019. This is likely to impact the accounting treatment of the Company but the impact of its adoption is yet to be finalised by the Company.

Note 1. Significant accounting policies (continued)

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Company will adopt this standard from 1 July 2018 but the Company expects the impact to be insignificant as there is no hedge instrument as at the date of these financial statements.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

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

Note 3. Operating segments

Primary Reporting Format – Business Segments

The Company has one geographical location which is Australia. The Company's sole operations are research and development, and promotion of the Company's nanocellulose technology from that location.

Identification of reportable operating segments

The operating segment identified is based on the internal reports that are reviewed and used by the Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments. The CODM reviews EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements. The information reported to the CODM is on at least a quarterly basis.

Nanollose Limited
Notes to the financial statements
30 June 2018

Note 4. Income tax expense

	2018 \$	2017 \$
<i>Reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense from continuing operations	(1,730,214)	(820,346)
Tax benefit at the statutory tax rate of 27.5% (2017: 28.5%)	475,809	233,798
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Other non-deductible expenses	(15,910)	(76,792)
	459,899	157,006
Future tax benefit not recognised	(459,899)	(157,006)
Income tax expense	-	-

Unrecognised deferred tax balances

The Company does not currently recognise any deferred tax asset arising from its accumulated losses. The Directors estimate that the potential deferred tax assets at 27.5% (2017: 28.5%) not brought to account attributable to tax losses carried forward at reporting date is approximately \$618,980 (2017: \$159,081).

The losses have not been brought to account because the Directors do not believe it is appropriate to regard realisation of those deferred tax assets as being probable. The benefit of these deferred tax assets will only be obtained if:

- (1) the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the temporary differences to be realised;
- (2) the Company continues to comply with the conditions for deductibility imposed by tax legislation; and
- (3) no changes in tax legislation adversely affect the entity in realising the benefit from the deductions for the temporary differences.

Note 5. Current assets - cash and cash equivalents

Cash at bank	260,375	40,211
Term deposit ^[1]	2,720,000	-
	2,980,375	40,211

[1] – Term deposit amount includes \$20,000 used as security for credit cards.

Note 6. Current assets - trade and other receivables

GST receivables	34,215	14,407
Accrued interest	8,983	-
	43,198	14,407

Note 7. Current assets - other

Prepayments - IPO costs	-	84,468
Prepayments - other	100,803	7,761
	100,803	92,229

Nanollose Limited
Notes to the financial statements
30 June 2018

Note 8. Plant and Equipment

	2018	2017
	\$	\$
Plant and equipment – at cost	31,207	4,989
Accumulated depreciation	<u>(6,713)</u>	<u>(484)</u>
	24,494	4,505
Leasehold improvements – at cost	53,978	-
Accumulated depreciation	<u>(203)</u>	<u>-</u>
	53,775	-
	<u>78,269</u>	<u>4,505</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Plant and equipment \$	Leasehold improvements \$	Total \$
Balance at 1 July 2016	-	-	-
Additions	4,989	-	4,989
Disposals	-	-	-
Depreciation expense	<u>(484)</u>	<u>-</u>	<u>(484)</u>
Balance at 30 June 2017	4,505	-	4,505
Additions	26,218	53,978	80,196
Disposals	-	-	-
Depreciation expense	<u>(6,229)</u>	<u>(203)</u>	<u>(6,432)</u>
Balance at 30 June 2018	<u>24,494</u>	<u>53,775</u>	<u>78,269</u>

Note 9. Current liabilities - trade and other payables

	2018	2017
	\$	\$
Trade payables	114,110	77,677
Other payables	<u>32,111</u>	<u>50,000</u>
	<u>146,221</u>	<u>127,677</u>

Refer to Note 23 for further information on financial instruments.

Nanollose Limited
Notes to the financial statements
30 June 2018

	2018	2017
	\$	\$
Note 10. Current liabilities - provisions		
Provision for annual leave	<u>14,154</u>	<u>-</u>

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Company does not have an unconditional right to defer settlement.

Note 11. Current Liabilities - borrowings

Insurance premium funding (i)	-	5,973
Loans from directors and shareholders (ii)	-	55,000
	<u>-</u>	<u>60,973</u>
 (i)		
Insurance premium funding	-	6,463
Less unexpired interest charges	-	(490)
	<u>-</u>	<u>5,973</u>
 (ii)		
Loans from directors and shareholders	-	55,000
	<u>-</u>	<u>55,000</u>

The loans made by directors and shareholders were unsecured with no interest payable. The loan was repaid during the financial year ended 30 June 2018.

Nanollose Limited
Notes to the financial statements
30 June 2018

Note 12. Equity - issued capital

	2018	2017	2018	2017
	Shares	Shares	\$	\$
Ordinary shares - fully paid	74,999,993	49,499,993	5,120,537	509,237

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	30 June 2016	5		5
Share placement - founders	4 August 2016	39,499,995	\$0.00001	395
Share placement - private placement	5 August 2016	9,999,993	\$0.06	600,000
Transaction costs relating to share issues		-		(91,163)
Balance 30 June 2017		<u>49,499,993</u>		<u>509,237</u>
Issue on 500,000 shares	9 August 2017	500,000		100,000
Issue on 25,000,000 shares on ASX Listing	16 October 2017	25,000,000	\$0.20	5,000,000
Transaction costs relating to share issues		-		(488,700)
Balance 30 June 2018		<u>74,999,993</u>		<u>5,120,537</u>

Ordinary shares

Ordinary shares entitle the holder to 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 no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Note 13. Equity - reserves

	2018	2017
	\$	\$
Options reserve (a)	430,503	285,446
Performance rights reserve (b)	53,425	-
	<u>483,928</u>	<u>285,446</u>

Nanollose Limited
Notes to the financial statements
30 June 2018

Note 13. Equity – reserves (continued)

(a) Movements in options reserve

Movements in the current financial year are set out below:

	Number of Options	\$
Balance at 30 June 2016	-	-
Grant date		
Details		
<i>Share based payments</i>		
4 August 2016	21,000,000	254,790
5 April 2017	1,150,000	11,056
5 April 2017 and 21 June 2017	3,300,000	- ⁽¹⁾
	<u>25,450,000</u>	<u>265,846</u>
<i>Borrowing costs expense</i>		
5 April 2017	300,000	3,600
	<u>300,000</u>	<u>3,600</u>
<i>Fair value of liability extinguished via equity</i>		
21 April 2017	1,333,333	16,000
	<u>1,333,333</u>	<u>16,000</u>
Balance at 30 June 2017	27,083,333	285,446
31 May 2018	14,505,733	145,057
	<u>14,505,733</u>	<u>145,057</u>
Balance at 30 June 2018	41,589,066	430,503

^(a) Issue of 14,505,733 NC60 listed options on 31 May 2018 to raise \$145,057 capital.

Weighted average exercise price of outstanding options (Cents)	2.49	3.48
Weighted average remaining life of outstanding options (Years)	0.30	0.30

(b) Movements in performance rights reserve

	Number of Performance Rights	\$
Balance at 30 June 2016		-
Grant date		
Details		
Balance at 30 June 2017	-	-
30 June 2018	500,000	53,425
	<u>500,000</u>	<u>53,425</u>
Balance at 30 June 2018	500,000	53,425

30 June 2018 - Share based payments

During the year ended 30 June 2018, Mr Alfie Germano was also issued 500,000 performance rights in accordance with his employment contract, of which 250,000 will convert into shares after he has remained employed by the Company for 12 months following the IPO and 250,000 will convert into shares after he has remained employed by the Company for 24 months following the IPO. The fair value of the performance rights on grant date based on the Company share price and amortised over the vesting period was measured at \$53,425. This amount is recorded as share based payments expense.

Nanollose Limited
Notes to the financial statements
30 June 2018

Note 13. Equity – reserves (continued)

30 June 2017 - Share based payments

Options (as set out in the tables below) were issued to Key Management Personnel, other management and corporate advisors in respect of their employment or service contracts:

Name	Grant date	Class of option	No. of Options Granted	Exercise price	Expiry date	Value
Alfie Germano	5 April 2017	Class B	900,000	\$0.25	30 September 2019	\$ -
Alfie Germano	5 April 2017	Class C	900,000	\$0.30	30 September 2020	\$ -
Alfie Germano	5 April 2017	Class D	900,000	\$0.40	30 September 2021	\$ -
Alfie Germano	21 June 2017	Class B	200,000	\$0.25	30 September 2019	\$ -
Alfie Germano	21 June 2017	Class C	200,000	\$0.30	30 September 2020	\$ -
Alfie Germano	21 June 2017	Class D	200,000	\$0.40	30 September 2021	\$ -
Total			3,300,000			\$ - ^[1]

^[1] Nil value has been attributed to the issue of the options in this reporting period as the probability of meeting the vesting conditions is remote and no milestone has been met in this reporting period.

The value attributed to share options issued is an estimate calculated using an appropriate mathematical formula based on an option pricing model. The choice of models and the resultant option value require assumptions to be made in relation to the likelihood and timing of the conversion of the options to shares and the value of volatility of the price of the underlying shares.

The Black-Scholes Model was used to determine the estimated fair value of options granted during the year ended 30 June 2017. The following assumptions were used:

	Class A		
Expected volatility (%)	70.00		
Risk-free interest rate (%)	1.44-1.84		
Expected life of share options (years)	3.70-4.41		
Expiry date	31 December 2020		
Exercise price (\$)	0.30		
Weighted average share price (\$)	0.06		
Option value per option (\$)	0.009-0.012		
Number of options	23,783,333		
	Class B	Class C	Class D
Expected volatility (%)	70.00	70.00	70.00
Risk-free interest rate (%)	1.69-1.71	1.79-1.84	2.01-2.14
Expected life of share options (years)	2.28-2.49	3.28-3.49	4.28-4.49
Expiry date	30 September 2019	30 September 2020	30 September 2021
Exercise price (\$)	0.25	0.30	0.40
Weighted average share price (\$)	0.06	0.06	0.06
Probability (%)	0	0	0
Option value per option (\$)	nil	nil	nil
Number of options	1,100,000	1,100,000	1,100,000

Nanollose Limited
Notes to the financial statements
30 June 2018

Note 14. Equity – Accumulated losses

	2018	2017
	\$	\$
Accumulated losses at the beginning of the financial year	(831,981)	(11,635)
Loss after income tax expense for the year	(1,730,214)	(820,346)
	<hr/>	<hr/>
Accumulated losses at the end of the financial year	<u>(2,562,195)</u>	<u>(831,981)</u>

Note 15. Key Management Personnel Compensation

	2018	2017
	\$	\$
Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.		
Short-term employee benefits	325,332	33,698
Post-employment benefits	20,800	3,030
Share-based payments	153,425	-
	<hr/>	<hr/>
	<u>499,557</u>	<u>36,728</u>

Note 16. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by RSM Australia Partners, the auditor of the Company:

	2018	2017
	\$	\$
<i>Audit services – RSM Australia Partners</i>		
Auditor review of the financial statements	<hr/> 27,500	<hr/> 13,750
<i>Other services – RSM Australia Partners</i>		
Early Stage Innovation Company advice	-	7,500
IPO Prospectus services	14,800	-
Preparation of income tax return	<hr/> 5,700	<hr/> 1,500
	<hr/>	<hr/>
	<u>20,500</u>	<u>9,000</u>
	<hr/>	<hr/>
	<u>48,000</u>	<u>22,750</u>

Note 17. Commitments

	2018 \$	2017 \$
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	42,000	-
One to five years	17,030	-
More than five years	-	-
	59,030	-

Note 18. Contingent assets

The Company has no contingent assets as at 30 June 2018 (2017: \$nil).

Note 19. Contingent liabilities

The Company has no contingent liabilities as at 30 June 2018.

As at 30 June 2017:

The Company has settled a claim brought by a former employee in the Fair Work Commission. Under the terms of the settlement, the Company is to pay the former employee an amount of \$20,000 and has a further liability to pay \$10,000 to the former employee after ASX listing.

The below issues of options and payments have been agreed in a signed contract with the respective advisers prior to 30 June 2017 and are dependent on the IPO listing event.

Lead Manager agreement with Mac Equity Partners

The Company must pay the following fees to the Lead Manager as a capital raising fee to the Offer when the Company is admitted to the official list of ASX:

- (a) cash equal to 5% of all funds raised under the Offer from applicants introduced to the Company by the Lead Manager; and
- (b) cash equal to 1% of all funds raised under the Offer.
- (c) cash equal to \$40,000 for services before listing.

Corporate Adviser agreement with View Street Partners

- (a) the Company must pay a cash success fee of \$75,000 (ex GST) payable from the funds raised under the Offer to the Corporate Adviser; and
- (b) under the agreement, the Company must engage the Corporate Adviser as its mandated corporate adviser for 24 months after listing on ASX. This is an exclusive retainer at a cost of not less than \$6,000 per month.

The Company has contingent liabilities of approximately \$35,000 (as at the date of this report) that are owing to entities associated with Mr Willesee for services provided to the Company before listing.

Note 20. Events after the reporting period

On 17 August 2018, the Company placed 4,244,266 Shortfall Options from its Entitlement Options Issue under the prospectus dated 16 April 2018.

Other than the above, no matter or circumstance has arisen since 30 June 2018 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 21. Related Party Transactions

Key management personnel

Disclosures relating to key management personnel are set out in Note 15 and the Remuneration Report included in the Directors' Report.

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

Other transactions with key management personnel and their related parties during the financial year

(i) Receivable from and payable to key management personnel and their related parties are as follows:

The following balances are outstanding at the reporting date in relation to transactions with key management personnel and their related parties:

	2018	2017
	\$	\$
Payable to Epichem Pty Ltd (director related entity of Wayne Best)	-	17,820
Payable to Valle Corporate Pty Ltd (director related entity of Winton Willesee)	2,200	509

(ii) Transactions with key management personnel and their related parties

Payments to Epichem Pty Ltd (director related entity of Wayne Best) of \$192,258 (2017: \$167,673) for research consultancy fees.

Payments to Valle Corporate Pty Ltd (director related entity of Winton Willesee) of \$19,743 (2017: \$4,785) for bookkeeping and financial reporting services fees.

Payments to Azalea Consulting Pty Ltd (director related entity of Winton Willesee) of \$87,942 (2017: \$nil) for corporate services fees.

Payments to The Scientific Creativity Initiative (director related entity of Gary Cass) of \$58,550 (2017: \$nil) for research and development consultancy fees.

All transactions were made on normal commercial terms and conditions and at market rates.

(iii) Loan with key management personnel and their related parties

The following balances are outstanding at the reporting date in relation to loans with key management personnel and their related parties:

	2018	2017
	\$	\$
Loan payable to Wayne Best	-	25,000
Loan payable to Azalea Family Holdings Pty Ltd (director related entity of Winton Willesee)	-	25,000

Nanollose Limited
Notes to the financial statements
30 June 2018

There were no further transactions with Directors or other Key Management Personnel, including their personally related parties, not disclosed above.

Note 22. Reconciliation of loss after income tax to net cash used in operating activities

	2018	2017
	\$	\$
Loss after income tax expense for the year	(1,730,214)	(820,346)
Adjustments for:		
Depreciation	6,432	484
Share-based payments	100,000	269,446
Performance rights	53,425	-
Change in operating assets and liabilities:		
Trade and other receivables	(28,792)	(13,102)
Prepayments	(8,573)	(92,229)
Provisions	14,154	
Trade and other payables	18,232	81,733
Net cash used in operating activities	<u>(1,575,336)</u>	<u>(574,014)</u>

Note 23. Financial Instruments

The Company's activities are being funded by borrowings and equity and are not exposed to significant financial risks. There are no speculative or financial derivative instruments. The Company holds the following financial instruments:

	2018	2017
	\$	\$
Financial assets		
Cash and cash equivalents	2,980,375	40,211
Trade and other receivables	43,198	14,407
	<u>3,023,573</u>	<u>54,618</u>
Financial liabilities		
Trade and other payables	146,221	127,677
Borrowings	-	60,973
	<u>146,221</u>	<u>188,650</u>

The Company's principal financial instruments comprise of cash and borrowings. The main purpose of these financial instruments is to fund the Company's operations.

It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Company's financial operations are credit risk, capital risk and liquidity risk. The Directors' review and agree policies for managing each of these risks and they are summarised below:

(a) Credit risk

Management does not actively manage credit risk as the Company has no significant exposure to credit risk from external parties at year end as there are no trade receivables.

Nanollose Limited
Notes to the financial statements
30 June 2018

(b) Capital risk

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(c) Liquidity risk

Maturity profile of financial instruments

Prudent liquidity risk management implies maintaining sufficient cash balances and access to equity funding.

The Company's exposure to the risk of changes in market interest rates relates primarily to cash assets and floating interest rates. The Company does not have significant interest-bearing assets and is not materially exposed to changes in market interest rates.

The Company does not have financial instruments with maturity exceeding 12 months from the reporting date as at 30 June 2018 and 30 June 2017, other than, on 30 June 2017, there were borrowings of \$55,000 in the 1-5 years maturity period.

Sensitivity analysis – interest rates

The sensitivity effect of possible interest rate movements has not been disclosed as they are insignificant.

(d) Net fair value of financial assets and liabilities

Unless otherwise stated, the carrying amount of financial instruments reflect their fair value.

Note 24. Loss per share

	2018	2017
	\$	\$
	Cents	Cents
Basic loss per share	2.57	1.82
Diluted loss per share	2.57	1.82
a) Net loss used in the calculation of basic and diluted loss per share	(1,730,214)	(820,346)
b) Weighted average number of ordinary shares outstanding during the year used in the calculation of basic loss per share	67,319,171	44,999,994
c) Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted loss per share	67,319,171	44,999,994

As the Company is in a loss position, the diluted loss per share calculation excludes the dilutive effect of the performance rights and options issued during the year ended 30 June 2018 and 30 June 2017.

Nanollose Limited
Directors' declaration
30 June 2018

In the directors' opinion:

- (i) the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- (ii) the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board;
- (iii) the attached financial statements and notes give a true and fair view of the Company's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- (iv) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



Winton Willesee
Director

31 August 2018
Perth

RSM Australia Partners

Level 32, Exchange Tower
2 The Esplanade Perth WA 6000
GPO Box R1253 Perth WA 6844

T +61 (0) 8 9261 9100
F +61 (0) 8 9261 9111

www.rsm.com.au

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
NANOLLOSE LIMITED**

Opinion

We have audited the financial report of Nanollose Limited (the Company), which comprises the statement of financial position as at 30 June 2018, 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 then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) Giving a true and fair view of the Company's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed this matter
<p>Share-based payments – valuation of performance rights Refer to Note 13 in the financial statements</p>	
<p>In October 2017, 250,000 Class A performance rights and 250,000 Class B performance rights were issued to the Managing Director, Raffaele (Alfie) Germano, in accordance with his employment agreement.</p> <p>Each Class A performance right will, at the election of the holder, vest and convert into one share upon satisfaction of the service condition of being engaged as the Managing Director for the period of 12 months after the Company lists on the Australia Securities Exchange (ASX). Each Class B performance right will, at the election of the holder, vest and convert into one share upon satisfaction of the service condition of being engaged as the Managing Director for the period of 24 months after the Company lists on the ASX. The Company was listed on the ASX on 16 October 2017.</p> <p>Management has performed the valuation of the performance rights granted in this reporting period using the share price at grant date and has applied a probability estimate to the vesting conditions being met, since the Company was unable to reliably measure the fair value of the services received. This amount was recognised as share-based payments expense.</p> <p>We considered the valuation of these performance rights to be a key audit matter as it involved management’s judgement in determining the key performance rights valuation inputs and the probability of the vesting conditions being met.</p>	<p>Our audit procedures in relation to the valuation of the performance rights included:</p> <ul style="list-style-type: none"> • Reviewing the terms and conditions of the performance rights; • Reviewing the valuation methodology and the inputs to the valuation of the performance rights; • Assessing the probability applied to the vesting conditions; • Recalculating the recognition of the share-based payment expense over the vesting period; and • Reviewing the relevant disclosures in the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2018 but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and 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, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company 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 have 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 at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2018.


In our opinion, the Remuneration Report of Nanollose Limited, for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

Responsibilities

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



RSM AUSTRALIA PARTNERS



TUTU PHONG
Partner

Perth, WA
Dated: 31 August 2018

Nanollose Limited
Shareholder Information
As at 17 August 2018

The shareholder information set out below was applicable as at 17 August 2018.

1. Quotation

Listed securities in Nanollose Limited are quoted on the Australian Securities Exchange under ASX code NC6 (Fully Paid Ordinary Shares) and NC6O (Listed Options).

2. Voting Rights

The voting rights attached to the Fully Paid Ordinary shares of the Company are:

- (a) at a meeting of members or classes of members each member entitled to vote may vote in person or by proxy or by attorney; and
- (b) on a show of hands every person present who is a member has one vote, and on a poll, every person present in person or by proxy or attorney has one vote for each ordinary share held.

There are no voting rights attached to any Options or Performance Rights on issue.

3. Distribution of Shareholders

i) Fully Paid Ordinary Shares

Shares Range	Holders	Units	%
1 – 1,000	8	629	0.00
1,001 – 5,000	77	282,662	0.38
5,001 – 10,000	111	973,435	1.30
10,001 – 100,000	272	11,978,301	15.97
100,001 and above	96	61,764,966	82.35
Total	564	74,999,993	100.00%

On 17 August 2018, there were 49 holders of unmarketable parcels of less than 116,974 ordinary shares (based on the closing share price of \$0.1300).

ii) Listed Options exercisable at \$0.30 on or before 31 December 2020

Shares Range	Holders	Units	%
1 – 1,000	9	6,618	0.04
1,001 – 5,000	79	225,466	1.20
5,001 – 10,000	29	211,395	1.13
10,001 – 100,000	107	3,429,510	18.29
100,001 and above	31	14,877,010	79.34
Total	255	18,749,999	100.00%

iii) Class A Performance Rights escrowed to 18 October 2019

Shares Range	Holders	Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 and above	1	250,000 ¹	100.00
Total	1	250,000	100.00%

¹Holders who hold more than 20% of securities are:
Germano McNally Pty Ltd – 250,000 performance rights

Nanollose Limited
Shareholder Information
17 August 2018

iv) Class B Performance Rights escrowed to 18 October 2019

Shares Range	Holders	Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 and above	1	250,000 ¹	100.00
Total	1	250,000	100.00%

¹Holders who hold more than 20% of securities are:
 Germano McNally Pty Ltd – 250,000 performance rights

v) Class A Options exercisable at \$0.30 on or before 31 December 2020

Shares Range	Holders	Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 and above	1	340,476 ¹	100.00
Total	1	340,476	100.00%

¹Holders who hold more than 20% of securities are:
 Cheena Corporate Pty Ltd <Cheena A/C> - 340,476 Options

vi) Class A Options exercisable at \$0.30 on or before 31 December 2020, escrowed to 18 October 2018

Shares Range	Holders	Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 and above	1	190,477 ¹	100.00
Total	1	190,477	100.00%

¹Holders who hold more than 20% of securities are:
 Vageli Panagiotidis <PMA A/C> - 190,477 options

Nanollose Limited
Shareholder Information
17 August 2018

vii) Class A Options exercisable at \$0.30 on or before 31 December 2020, escrowed to 18 October 2019

Shares Range	Holders	Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	1	100,000	0.43
100,001 and above	17	23,152,380 ¹	99.57
Total	18	23,252,380	100.00%

¹There are no holders who hold more than 20% of securities.

viii) Class B Options exercisable at \$0.25 on or before 30 September 2019, escrowed to 18 October 2019

Shares Range	Holders	Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 and above	1	1,100,000 ¹	100.00
Total	1	1,100,000	100.00%

¹Holders who hold more than 20% of securities are:
Germano McNally Pty Ltd – 1,100,000 options

ix) Class C Options exercisable at \$0.30 on or before 30 September 2020, escrowed to 18 October 2019

Shares Range	Holders	Units	%
1 – 1,000	-	-	-
1,001 – 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 and above	1	1,100,000 ¹	100.00
Total	1	1,100,000	100.00%

¹Holders who hold more than 20% of securities are:
Germano McNally Pty Ltd – 1,100,000 options

Nanollose Limited
Shareholder Information
17 August 2018

4. Substantial Shareholders

The names of the substantial shareholders listed on the Company's register as at 17 August 2018:

Name: Suzanne Margaret Cass ATF The Cass Family Trust
Holder of: 5,142,857 fully paid ordinary shares, representing 6.86% as at 18 October 2017
Notice Received: 18 October 2017

Name: Wayne Best ATF The Wayne and Debra Family Trust
Holder of: 5,517,857 fully paid ordinary shares, representing 7.36% as at 18 October 2017
Notice Received: 18 October 2017

Name: Jason McLaurin
Holder of: 5,517,857 fully paid ordinary shares, representing 7.36% as at 18 October 2017
Notice Received: 18 October 2017

Name: Azalea Family Holdings Pty Ltd ATF The Britt and Winton Willesee Family Trust
Holder of: 5,517,857 fully paid ordinary shares, representing 7.36% as at 18 October 2017
Notice Received: 18 October 2017

Name: John Moursounidis ATF The Moursounidis Family Trust
Holder of: 5,517,857 fully paid ordinary shares, representing 7.36% as at 18 October 2017
Notice Received: 18 October 2017

5. Restricted Securities

The following restricted securities are listed on the Company's register as at 17 August 2018:

Escrowed to 18 October 2018

190,477 Class A Options (\$0.30, 31 December 2020)

Escrowed to 18 October 2019

40,000,000 Fully Paid Ordinary Shares
23,252,380 Class A Options (\$0.30, 31 December 2020)
1,100,000 Class B Options (\$0.25, 30 September 2019)
1,100,000 Class C Options (\$0.30, 30 September 2020)
1,100,000 Class D Options (\$0.40, 30 September 2021)
250,000 Class A Performance Rights
250,000 Class B Performance Rights

6. On market buy-back

There is currently no on market buy-back in place.

7. Application of funds

The Company has applied its cash and assets readily convertible to cash in a way that is consistent with its business objectives detailed in its IPO prospectus.

Nanollose Limited
Shareholder Information
17 August 2018

8. Twenty Largest Shareholders

The twenty largest shareholders of the Company's quoted securities as at 17 August 2018 are as follows:

	Name	No. of Shares	%
1	WAYNE MORRIS BEST <WAYNE & DEBRA BEST FAM A/C>	5,717,858	7.62
2	AZALEA FAMILY HOLDINGS PTY LTD <NO 2 A/C>	5,592,857	7.46
3	JOHN MOURSOUNIDIS <MOURSOUNIDIS FAMILY A/C>	5,517,857	7.36
3	STONEHORSE NOMINEES PTY LTD	5,517,857	7.36
4	SUZANNE MARGARET CASS <THE CASS A/C>	5,142,857	6.86
5	TEJIMAN HOLDINGS PTY LTD <THE TEJIMAN A/C>	2,700,000	3.60
5	JAEK HOLDINGS PTY LTD <HANNAFORD FAMILY A/C>	2,700,000	3.60
6	MR BRYANT JAMES MCLARTY <MCLARTY FAMILY A/C>	2,648,810	3.53
7	MR JOHN OAKLEY CLINTON & MRS LILIAN ACHIENG CLINTON <CLINTON S/F A/C>	1,219,061	1.63
8	MR BRYANT JAMES MCLARTY <THE MCLARTY FAMILY A/C>	1,124,047	1.50
9	VAGELI PANAGIOTIDIS	1,000,000	1.33
9	MR JASON PAUL SKINNER <JASON SKINNER FAMILY A/C>	1,000,000	1.33
10	MAC EQUITY PARTNERS INTERNATIONAL	963,989	1.29
11	FANO PTY LTD <KIM HURLEY SUPER FUND A/C>	800,000	1.07
12	XEEN PTY LTD <FRENCH SUPER FUND A/C>	763,179	1.02
13	GFA SERVICES PTY LTD <J D LIDDELL A/C>	612,513	0.82
14	MRS LORRAINE ALYSSA GOLDSMITH	600,000	0.80
15	MR RICHARD GEORGE DOUGLAS READING	589,475	0.79
16	CARDA PTY LTD <CARDA SUPER FUND A/C>	550,000	0.73
17	GERMANO MCINALLY PTY LTD	500,000	0.67
17	TERENCE WILLIAM JOSEPH WALSH	500,000	0.67
18	KINETIC TRADE PTY LTD <THE SKINNER S/F A/C>	458,333	0.61
19	MRS HELEN LEWIS	455,833	0.61
20	OOFY PROSSER PTY LTD <DRONES FAMILY A/C>	446,725	0.60
	Total	47,121,251	62.83%

Nanollose Limited
Shareholder Information
17 August 2018

9. Twenty Largest Listed Option Holders – NC6O (\$0.30, 31/12/2020)

The twenty largest listed option holders of the Company's quoted securities as at 17 August 2018 are as follows:

	Name	No. of Shares	%
1	AZALEA FAMILY HOLDINGS PTY LTD <NO 2 A/C>	1,379,465	7.36
1	WAYNE MORRIS BEST <WAYNE & DEBRA BEST FAM A/C>	1,379,465	7.36
1	STONEHORSE NOMINEES PTY LTD	1,379,465	7.36
1	JOHN MOURSOUNIDIS <MOURSOUNIDIS FAMILY A/C>	1,379,465	7.36
2	SUZANNE MARGARET CASS <THE CASS A/C>	1,285,715	6.86
3	MR JASON PAUL SKINNER <JASON SKINNER FAMILY A/C>	1,151,288	6.14
4	MR ANTHONY JOHN LOCANTRO	840,000	4.48
5	JAEK HOLDINGS PTY LTD <HANNAFORD FAMILY A/C>	675,000	3.60
5	TEJIMAN HOLDINGS PTY LTD <THE TEJIMAN A/C>	675,000	3.60
6	MR BRYANT JAMES MCLARTY <MCLARTY FAMILY A/C>	662,203	3.53
7	ANNBROOK CAPITAL PTY LTD	420,000	2.24
7	BOBARINO PTY LTD	420,000	2.24
8	SURF COAST CAPITAL PTY LTD <MINNIE P/F A/C>	380,000	2.03
9	MR JOHN OAKLEY CLINTON & MRS LILIAN ACHIENG CLINTON <CLINTON S/F A/C>	304,766	1.63
10	MR RICHARD GEORGE DOUGLAS READING	201,667	1.08
11	FANO PTY LTD <KIM HURLEY SUPER FUND A/C>	200,000	1.07
12	XEEN PTY LTD <FRENCH SUPER FUND A/C>	190,796	1.02
13	MR STEVEN ANDREW MARTIN	190,000	1.01
13	MR CAMERON PEARCE	190,000	1.01
13	THE GAS SUPER FUND PTY LTD <THE GAS SUPER FUND A/C>	190,000	1.01
14	GFA SERVICES PTY LTD <J D LIDDELL A/C>	153,129	0.82
15	MRS LORRAINE ALYSSA GOLDSMITH	150,000	0.80
16	MAC EQUITY PARTNERS INTERNATIONAL	140,582	0.75
17	CARDA PTY LTD <CARDA SUPER FUND A/C>	137,500	0.73
18	GERMANO MCINALLY PTY LTD	125,000	0.67
18	TERENCE WILLIAM JOSEPH WALSH	125,000	0.67
19	MR RAJAN BOORA	115,174	0.61
20	KINETIC TRADE PTY LTD <THE SKINNER S/F A/C>	114,584	0.61
	Total	14,555,264	77.63%

NB: Excludes Class A Options.