Nanollose Limited

ABN 13 601 676 377

Annual Report
30 June 2017

Nanollose Limited
Contents
30 June 2017

Nanollose Limited
Corporate Directory
30 June 2017

Directors	Wayne Best Winton Willesee Gary Cass Terence Walsh
Managing Director	Raffaele (Alfie) Germano
Company Secretary	Erlyn Dale
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 8 St Georges Terrace Perth WA 6000
Solicitors	Fairweather Corporate Lawyers 595 Stirling Highway Peppermint Grove WA 6011
Website	www.nanollose.com

Nanollose Limited
Directors' Report
30 June 2017

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 2017.

Directors

The following persons were directors of Nanollose Limited 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 (appointed on 15 August 2016)
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 nanocellulose technology. While the primary focus of the research continued to be on woven and non-woven fabrics, the Company discovered that nanocellulose could be transformed into a material suitable for seed germination and plant growth. This resulted in the filing of a provisional patent in April 2017 entitled "Plant Growth Media and Method for Making Same".

The Company also continued to prepare for a forthcoming listing on the Australian Securities Exchange.

Dividends

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

Review of operations

Throughout the course of the year the Company continued its research and development activities, which resulted in the lodgement of two patents to protect its intellectual property.

On 14 July 2016, the Company changed its status from a private company to a public company, and became an unlisted public company.

On 4 August 2016, the Board of Directors resolved to issue and allot 39,499,995 fully paid ordinary shares in the capital of the Company and 21,000,000 options to acquire fully paid ordinary shares in the capital of the Company to the existing shareholders and two new shareholders or their nominees, with issue and allotment ultimately occurring dated 4 August 2016.

On 5 August 2016, the Company issued 9,999,993 shares at $0.06 per share to raise approximately $600,000 in equity to provide working capital and to facilitate a future ASX listing.

Throughout the balance of the year, in preparations for an IPO, the Company:

1. Appointed Mr Alfie Germano as the Company's CEO and post the end of the year appointing Mr Germano as a director of the Company and as Managing Director;
2. Issued 500,000 shares, 3,300,000 options, and 500,000 performance rights to Mr Germano; and
3. Issued a further 2,583,333 options.

The loss for the Company after providing for income tax and non-controlling interest amounted to $820,346 (30 June 2016: $9,907).

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 9 August 2017, the Company appointed Alfie Germano as a director of the Company. In consideration for the issue of 500,000 shares in the capital of the Company Mr Germano agreed to forgo any entitlement to cash remuneration prior to the Company's IPO. Mr Germano was also issued with 500,000 performance rights. Of those rights 250,000 Class A Performance Rights will convert into 250,000 ordinary shares if Mr Germano is engaged as the Managing Director for a period of 12 months after the Company lists on the ASX, and 250,000 Class B Performance Rights will convert into 250,000 ordinary shares if Mr Germano is engaged as the Managing Director for a period of 24 months after the Company lists on the ASX.

Other than the above, no matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Likely developments and expected results of operations

The Company plans to lodge a prospectus seeking to raise $5,000,000 and list on the ASX to facilitate the Company's ongoing research and development activities and the eventual commercialisation of the Company's intellectual property.

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:	Non-Executive Chairman
Qualifications:	BSc (Honours), PhD, DIC, FRACI, GAICD
Experience and expertise:	Wayne has 30 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, where he is currently the Managing Director. 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 3 years):	None
Interests in shares:	5,642,858 ordinary shares
Interests in options:	1,290,476 NANOPT1
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 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:	Ding Sheng Xin Finance Co Limited, Metallum Limited, xTV Networks Limited, MMJ PhytoTech Limited
Former directorships (last 3 years):	Birimian Ltd, DroneShield Limited, Cove Resources Ltd (now BidEnergy Limited), Basper Ltd (now DirectMoney Limited), Coretrack Ltd (now LWP Technologies Limited) and Otis Energy Ltd (now iSignThis Limited).
Interests in shares:	5,642,857 ordinary shares
Interests in options:	1,290,476 NANOPT1
Contractual rights to shares:	None

Name:	Terence Walsh (appointed 15 August 2016)
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. In addition to providing consulting services in the mining, technology and finance industries, he currently serves as the Chief Development Officer of Hazer Group Ltd.
Other current directorships:	Hazer Group Limited
Former directorships (last 3 years):	None
Interests in shares:	500,000 ordinary shares
Interests in options:	1,500,000 NANOPT1
Contractual rights to shares:	None

Name:	Gary Cass
Title:	Non-Executive Director
Qualifications:	BSc
Experience and expertise:	Gary is a creative scientist who has been a key collaborator with numerous international arts and sciences projects; including Micro'be' fermented fashion, the first dress in the world made from wine. His collaborative projects have been exhibited around the world including; a fringe event at the Venice Biennale and Documenta Germany; Trinity College Science Gallery, Ireland; Signature Art Prize in Singapore; and ArtStays Slovenia. Micro'be' fermented fashion has recently gained media coverage with AOL.com and appeared in the 2014 Ripley's Believe It or Not.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	5,642,857 ordinary shares
Interests in options:	1,190,476 NANOPT1
Contractual rights to shares:	None

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 3 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 NANOPT2 1,100,000 NANOPT3 1,100,000 NANOPT4
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 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary
Miss Erlyn Dale has a broad range of experience in company administration and corporate governance and holds 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.

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 2017, and the number of meetings attended by each director were:

	Attended	Held
Wayne Best	5	5
Winton Willesee	5	5
Gary Cass	4	5
Terence Walsh	4	4
Alfie Germano	-	-

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 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.

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 Company performance.

Use of remuneration consultants
During the financial year ended 30 June 2017 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 2017 are set out in the following tables.

The key management personnel of the Company consisted of the following directors of Nanollose Limited:
- Wayne Best (Non-Executive Chairman)
- Winton Willesee (Non-Executive Director)
- Gary Cass (Non-Executive Director)
- Terence Walsh (Non-Executive Director) (appointed on 15 August 2016)
- Alfie Germano (Managing Director) appointed on 9 August 2017 and CEO (appointed on 26 May 2017).

And the following person:
- Ranjit Ahl (CEO) (appointed on 13 March 2017 and ceased on 25 May 2017)

	Short term benefits	Post-employment benefits	Equity-settled				
	Cash salary and fees	Superannuation	Options	Total	Fixed remuneration	Short-term incentive	Long-term incentive
2017	**$**	**$**	**$**	**$**	**%**	**%**	**%**
Non-Executive Directors:							
Wayne Best	-	-	-	-	-	-	-
Winton Willesee	-	-	-	-	-	-	-
Terence Walsh	-	-	-	-	-	-	-
Gary Cass	-	-	-	-	-	-	-
Other Key Management Personnel:							
Alfie Germano	-	-	-	-	-	-	-
Ranjit Ahl	33,698	3,030	-	36,728	100	-	-
	33,698	3,030	-	36,728			

2016

There were no remuneration payments or other entitlements to key management personnel during the year ended 30 June 2016.

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).

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

Share-based compensation

Options issued to directors and other key management personnel as part of compensation during the year ended 30 June 2017 were as follows:

Name	Grant date	Class of option	No. of Options Granted	Exercise price	Expiry date	Value
Alfie Germano	5 April 2017	NANOPT2	900,000	$0.25	30 September 2019	$ -
Alfie Germano	5 April 2017	NANOPT3	900,000	$0.30	30 September 2020	$ -
Alfie Germano	5 April 2017	NANOPT4	900,000	$0.40	30 September 2021	$ -
Alfie Germano	21 June 2017	NANOPT2	200,000	$0.25	30 September 2019	$ -
Alfie Germano	21 June 2017	NANOPT3	200,000	$0.30	30 September 2020	$ -
Alfie Germano	21 June 2017	NANOPT4	200,000	$0.40	30 September 2021	$ -
Total			**3,300,000**			**$ -**

Nil value has been attributed to the issue of the options in this reporting period as the probability of meeting the vesting conditions was remote and no milestone has been met in this reporting period. The details of the current vesting conditions and targets can be found above within the remuneration report and above within the service contracts section.

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
Ordinary shares					
Wayne Best	1	-	5,642,857	-	5,642,858
Winton Willesee	1	-	5,642,856	-	5,642,857
Gary Cass	1	-	5,642,856	-	5,642,857
Terence Walsh	-	-	500,000	-	500,000
Alfie Germano (1)	-	-	-	-	-
Ranjit Ahl (2)	-	-	-	-	-
Total	3	-	17,428,569	-	17,428,572

(1) appointed on 26 May 2017 as CEO
(2) appointed on 13 March 2017 and ceased on 25 May 2017

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
Options over ordinary shares					
Wayne Best	-	1,290,476	-	-	1,290,476
Winton Willesee	-	1,290,476	-	-	1,290,476
Gary Cass	-	1,190,476	-	-	1,190,476
Terence Walsh	-	1,500,000	-	-	1,500,000
Alfie Germano (1)	-	3,300,000	-	-	3,300,000
Ranjit Ahl (2)	-	3,300,000	-	3,300,000	-
Total	-	11,871,428	-	3,300,000	8,571,428

(1) appointed on 26 May 2017 as CEO
(2) appointed on 13 March 2017 and ceased on 25 May 2017

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:

	30 June 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)	509

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

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

Payments to Valle Corporate Pty Ltd (director related entity of Winton Willesee) of $4,785 for book-keeping and accounting services fees.

All transactions were made on no worse than normal commercial terms and conditions or 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:

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

This concludes the remuneration report, which has been audited.

Shares
As at the date of this report, there are 49,999,993 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	NANOPT1	21,000,000	$0.30	31 December 2020
5 April 2017	NANOPT1	1,450,000	$0.30	31 December 2020
5 April 2017	NANOPT2	900,000	$0.25	30 September 2019
5 April 2017	NANOPT3	900,000	$0.30	30 September 2020
5 April 2017	NANOPT4	900,000	$0.40	30 September 2021
21 April 2017	NANOPT1	1,333,333	$0.30	31 December 2020
21 June 2017	NANOPT2	200,000	$0.25	30 September 2019
21 June 2017	NANOPT3	200,000	$0.30	30 September 2020
21 June 2017	NANOPT4	200,000	$0.40	30 September 2021
Total		**27,083,333**		

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.

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 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.

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 15 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 15 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.

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

17 August 2017
Perth

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Nanollose Limited for the year ended 30 June 2017, 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

RSM AUSTRALIA PARTNERS

Perth, WA
Dated: 17 August 2017

TUTU PHONG
Partner

Nanollose Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2017

	Note	2017 $	2016 $
Sales revenue		-	11,630
Interest income		1,497	-
Expenses			
Development expenses		(299,418)	(9,698)
Consultancy and legal expenses		(154,758)	(5,000)
Employee benefits expense		(36,961)	-
Depreciation expense		(484)	(117)
Share based payments	12	(265,846)	-
Other expenses		(60,449)	(6,722)
Borrowing cost expenses	12	(3,600)	-
Interest expenses		(327)	-
Loss before income tax expense from continuing operations		**(820,346)**	**(9,907)**
Income tax expense	4	-	-
Loss after income tax expense for the year		**(820,346)**	**(9,907)**
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		**(820,346)**	**(9,907)**

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 2017

Assets		**2017** **$**	**2016** **$**
Current assets			
Cash and cash equivalents	5	40,211	10,314
Trade and other receivables	6	14,407	-
Other	7	92,229	-
Total current assets		146,847	10,314
Non-current assets			
Plant and equipment		4,505	-
Total non-current assets		4,505	-
Total assets		151,352	10,314
Liabilities			
Current liabilities			
Trade and other payables	8	127,677	5,944
Borrowings	9	60,973	-
Total current liabilities		188,650	5,944
Non-current liabilities			
Borrowings	10	-	16,000
Total non-current liabilities		-	16,000
Total liabilities		188,650	21,944
Net liabilities		**(37,298)**	**(11,630)**
Equity			
Issued capital	11	509,237	5
Reserves	12	285,446	-
Accumulated losses	13	(831,981)	(11,635)
Total equity		**(37,298)**	**(11,630)**

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 2017

	Issued Capital $	Reserves $	Accumulated Losses $	Total Equity $
Balance at 1 July 2015	5	-	(1,728)	(1,723)
Total comprehensive loss for the year	-	-	(9,907)	(9,907)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	-	-	-	-
Share based payments	-	-	-	-
Balance at 30 June 2016	5	-	(11,635)	(11,630)

	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)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	509,232		-	509,232
Fair value of liability extinguished via equity (note 12)	-	16,000	-	16,000
Share based payments (note 12)	-	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 2017

	Note	2017 $	2016 $
Cash flows from operating activities			
Receipts from customers		-	12,793
Payments to suppliers and employees		(575,184)	(16,197)
		(575,184)	(3,404)
Interest received		1,497	-
Interest and other finance costs paid		(327)	-
Net cash used in operating activities	21	(574,014)	(3,404)
Cash flows from investing activities			
Payments for plant and equipment		(4,989)	-
Net cash used in investing activities		(4,989)	-
Cash flows from financing activities			
Proceeds from issue of shares		600,395	-
Proceeds from borrowings		59,668	-
Share issue transaction costs		(51,163)	-
Net cash from financing activities		608,900	-
Net increase/(decrease) in cash and cash equivalents		29,897	(3,404)
Cash and cash equivalents at the beginning of the financial year		10,314	13,718
Cash and cash equivalents at the end of the financial year	5	40,211	10,314

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').

Going concern basis

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the normal course of business.

As disclosed in the financial statements, the Company incurred a loss of $820,346 and had net cash outflows from operating activities of $574,014 for the year ended 30 June 2017. As at that date, the Company had net current liabilities and net liabilities of $41,803 and $37,298 respectively.

The Directors believe that it is reasonably foreseeable that the Company will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report after consideration of the following factors:

- The Company intends to issue a prospectus in the near future to raise $5,000,000 before costs and facilitate a listing on ASX;
- The Company has demonstrated a history of being able to tailor its operations to its cash resources and if required can scale back its operations; and
- The continued support of the Company’s shareholders to fund continuing operations.

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.

Note 1. Significant accounting policies (continued)

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
Rendering of services revenue from computer maintenance fees is recognised by reference to the stage of completion of the contracts.

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.

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.

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	1-3 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 property, 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 2017. 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.

Note 1. Significant accounting policies (continued)

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 but the Company expects the impact to be insignificant as there is no operating lease as at the date of these financial statements.

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.

Note 4. Income tax expense

	2017 $	2016 $
Reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense from continuing operations	(820,346)	(9,907)
Tax benefit at the statutory tax rate of 28.5% (2016:28.5%)	(233,798)	(2,825)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Other non-deductible expenses	76,792	-
	(157,006)	(2,825)
Future tax benefit not recognised	157,006	2,825
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 28.5% not brought to account attributable to tax losses carried forward at reporting date is approximately $159,081 (2016: $2,075).

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

	2017 $	2016 $
Cash on hand	5	5
Cash at bank	40,206	10,309
	40,211	10,314

Note 6. Current assets - trade and other receivables

	2017 $	2016 $
GST receivables	14,407	-
	14,407	-

Note 7. Current assets - other

	2017 $	2016 $
Prepayments - IPO costs	84,468	-
Prepayments - other	7,761	-
	92,229	-

Note 8. Current liabilities - trade and other payables

	2017 $	2016 $
Trade payables	77,677	944
Other payables	50,000	5,000
	127,677	5,944

Refer to Note 22 for further information on financial instruments.

Note 9. Current liabilities - borrowings

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

The loans made by directors and shareholders are unsecured with no interest payable. 300,000 options were issued as a loan facility fee and expensed during the period at a deemed value of $3,600. The loan is repayable the earlier of either 21 days subsequent to a listing of the Company on the Australian Stock exchange or 31 December 2017.

Note 10. Non-current liabilities - borrowings

Loans from directors and shareholders	-	16,000
	-	16,000

Note 11. Equity - issued capital

	2017 Shares	2016 Shares	2017 $	2016 $
Ordinary shares - fully paid	49,499,993	5	509,237	5

Movements in ordinary share capital

Details	Date	Shares	Issue price	$
Balance	1 July 2015	5		5
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	49,499,993		509,237

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 12. Equity - reserves

	2017 $	2016 $
Option valuation reserve	285,446	-
	285,446	-

Note 12. Equity – reserves (continued)

Movements in option revaluation reserve
Movements in the current financial year are set out below:

		$
Balance at 30 June 2016		-
Grant date	**Details**	
Share based payments		
4 August 2016	Issue of 21,000,000 NANOPT1*	254,790
5 April 2017	Issue of 1,150,000 NANOPT1	11,056
		265,846
Borrowing costs expense		
5 April 2017	Issue of 300,000 NANOPT1*	3,600
		269,446
Fair value of liability extinguished via equity		
21 April 2017	Issue of 1,333,333 NANOPT1*	16,000
Balance at 30 June 2017		285,446

*The exercise price of NANOPT1 is $0.30 and the expiry date is 31 December 2020.

Share based payments
Options (as set out in the table 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	NANOPT2	900,000	$0.25	30 September 2019	$ -
Alfie Germano	5 April 2017	NANOPT3	900,000	$0.30	30 September 2020	$ -
Alfie Germano	5 April 2017	NANOPT4	900,000	$0.40	30 September 2021	$ -
Alfie Germano	21 June 2017	NANOPT2	200,000	$0.25	30 September 2019	$ -
Alfie Germano	21 June 2017	NANOPT3	200,000	$0.30	30 September 2020	$ -
Alfie Germano	21 June 2017	NANOPT4	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:

	NANOPT1
Expected volatility (%)	70.00
Risk-free interest rate (%)	1.44-1.84
Expected life of share options (years)	3.70-4.41
Weighted average share price ($)	0.06
Option value per option ($)	0.009-0.012

Note 12. Equity – reserves (continued)

	NANOPT2	NANOPT3	NANOPT4
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
Weighted average share price ($)	0.06	0.06	0.06
Probability (%)	0	0	0
Option value per option ($)	nil	nil	nil

Note 13. Equity – Accumulated losses

	2017 $	2016 $
Accumulated losses at the beginning of the financial year	(11,635)	(1,728)
Loss after income tax expense for the year	(820,346)	(9,907)
Accumulated losses at the end of the financial year	(831,981)	(11,635)

Note 14. Key Management Personnel Compensation

	2017 $	2016 $
Key management personnel remuneration has been included in the Remuneration Report section of the Directors' Report.		
Short-term employee benefits	33,698	-
Post-employment benefits	3,030	-
Share-based payments		
	36,728	-

Note 15. 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, its network firms and unrelated firms:

	2017 $	2016 $
Audit services – RSM Australia Partners		
Audit or review of the financial statements	13,750	5,000
Other services – RSM Australia Partners		
Early Stage Innovation Company advice	7,500	-
Preparation of income tax return	1,500	-
	9,000	-
	22,750	5,000

Note 16. Commitments
The Company has no capital or other expenditure commitments as at 30 June 2017 and 30 June 2016.

Note 17. Contingent assets
The Company has no contingent assets as at 30 June 2017 and 30 June 2016.

Note 18. Contingent liabilities
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 19. Events after the reporting period

On 9 August 2017, the Company appointed Alfie Germano as a director of the Company. In consideration for the issue of 500,000 shares in the capital of the Company, Mr Germano agreed to forgo any entitlement to cash remuneration prior to the Company's IPO. Mr Germano was also issued with 500,000 performance rights. The 250,000 Class A Performance Rights will convert into 250,000 ordinary shares if Mr Germano is engaged as the Managing Director for a period of 12 months after the Company lists on the ASX. The 250,000 Class B Performance Rights will convert into 250,000 ordinary shares if Mr Germano is engaged as the Managing Director for a period of 24 months after the Company lists on the ASX.

Note 20. Related Party Transactions

Key management personnel
Disclosures relating to key management personnel are set out in Note 14 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.

Note 20. Related Party Transactions (Continued)

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:

	30 June 2017 $	30 June 2016 $
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)	509	-

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

Payments to Epichem Pty Ltd (director related entity of Wayne Best) of $167,673 (2016: $nil) for research consultancy fees.

Payments to Valle Corporate Pty Ltd (director related entity of Winton Willesee) of $4,785 (2016: $nil) for book-keeping and accounting services 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:

	30 June 2017 $	30 June 2016 $
Loan payable to Wayne Best	25,000	4,000
Loan payable to Azalea Family Holdings Pty Ltd (director related entity of Winton Willesee)	25,000	4,000

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

Note 21. Reconciliation of loss after income tax to net cash used in operating activities

	2017 $	2016 $
Loss after income tax expense for the year	(820,346)	(11,907)
Adjustments for:		
Depreciation	484	498
Share-based payments	269,446	-
Change in operating assets and liabilities:		
Trade and other receivables	(13,102)	-
Prepayments	(92,229)	-
Trade and other payables	81,733	8,005
Net cash used in operating activities	(574,014)	(3,404)

Note 21. Reconciliation of loss after income tax to net cash used in operating activities (continued)

Non-cash financing activities

(i) Option issue
1,333,333 options were issued to the lenders of the loans as loan repayment. See note 12 for details.
300,000 options were issued to the lenders of the loans as borrowing fees. See note 12 for details.

Note 22. 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:

	2017	2016
Financial assets	**$**	**$**
Cash and cash equivalents	40,211	10,314
Trade and other receivables	14,407	-
	54,618	10,314
Financial liabilities		
Trade and other payables	127,677	5,944
Borrowings	60,973	-
	188,650	5,944

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 Director's 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.

(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 relate 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 2017 and 30 June 2016, other than, in 30 June 2016, there was borrowings of $16,000 in the 1-5 years maturity period.

Note 22. Financial Instruments (Continued)

Sensitivity analysis – interest rates

The sensitivity effect of possible interest rate movements have 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.

Nanollose Limited
Directors' declaration
30 June 2017

In the directors' opinion:

- 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;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board;

- the attached financial statements and notes give a true and fair view of the Company's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and

- 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

17 August 2017
Perth

RSM

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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 2017, 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 2017 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.

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 2017, 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/ar4.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 within the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Nanollose Limited, for the year ended 30 June 2017, 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

RSM AUSTRALIA PARTNERS

TUTU PHONG
Partner

Perth, WA
Dated: 17 August 2017