

De.mem Limited

ABN 12 614 756 642

Consolidated Financial Report - 31 December 2022

De.mem Limited
Corporate directory
31 December 2022

Directors

Cosimo Trimigliozi - Non-Executive Chairman
Andreas Kroell - Chief Executive Officer and Director
Bernd Dautel - Non-Executive Director
Stuart Carmichael - Non-Executive Director
Michael Edwards - Non-Executive Director
Mr Danny Conlon - Non-Executive Director

Company Secretary

Mr Tony Panther

Registered office

Level 4, 96-100 Albert Road
South Melbourne VIC 3205
Australia
Phone: (03) 9692 7222

Principal place of business

Level 4, 96-100 Albert Road
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Australia
Phone: (03) 9692 7222

Share register

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Australia
Phone: +61 1300 554 474

Auditor

William Buck
Level 20, 181 William Street
Melbourne Vic 3000
Australia
Phone: (03) 9824 8555

Solicitors

HopgoodGanim Lawyers
Level 27, Allendale Square
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Perth, WA, 6000
Australia

Bankers

Westpac Bank
Perth

Stock exchange listing

De.mem Limited shares are listed on the Australian Securities Exchange (ASX code: DEM)

Website

www.demembranes.com

De.mem Limited
Contents
31 December 2022

Directors' report	3
Auditor's independence declaration	21
Consolidated statement of profit or loss and other comprehensive income	22
Consolidated statement of financial position	23
Consolidated statement of changes in equity	24
Consolidated statement of cash flows	26
Notes to the consolidated financial statements	27
Directors' declaration	59
Independent auditor's report to the members of De.mem Limited	60
Shareholder information	64

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of De.mem Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2022.

Review of operations

Overview

De.mem Ltd (ASX:DEM) provides a “one stop shop” offering around high-quality water and waste treatment equipment, services, specialty chemicals, pumps and consumables. The Company's focus is on industrial customers across a wide range of industries including the mining & resources, infrastructure, food & beverage/agriculture, power generation and heavy industrial sectors.

The company serves large multinationals as well as SMEs (small and medium enterprises) through its offices in Australia (Melbourne, Brisbane, Perth, Launceston), Singapore and Velbert, Germany.

Equipment manufactured and sold by De.mem includes a wide range of membrane-based water and waste water treatment systems which are deployed on-site at the customer's facility. De.mem's de-centralized solutions are typically containerized, packaged and/or with modular design, for easy transport to and turn-key deployment at the customer site.

De.mem offers Operations & Maintenance services as well as a Build, Own, Operate (“BOO”) or Build, Own, Operate, Transfer (“BOOT”) option. Under a BOO or BOOT agreement, the equipment is provided to the customer under a leasing scheme and operated & maintained by De.mem under a long term arrangement. Based on its extended range of capabilities, the Company is uniquely positioned as a supplier of BOO/BOOT services to industrial customers in Australia.

The Company's offering is backed by leading hollow-fibre membrane technology and Intellectual Property developed and manufactured at the Company's facility in Singapore. De.mem's hollow fibre membranes often serve as the key component in the Company's integrated, turn-key systems, to provide its products with strong competitive advantage.

Key hollow-fibre membrane technologies offered by De.mem comprise the Company's Ultrafiltration, hollow-fibre Nanofiltration and Graphene-Oxide enhanced membranes.

De.mem's product and services range is complemented by specialty chemicals such as anti-scalants, membrane cleaners or flocculants & coagulants, which are typically required during the ongoing operations of membrane-based water treatment plants. The Company blends its specialty chemicals at its facilities in Perth, Australia, and Velbert, Germany.

2022 Highlights

During the year, De.mem made substantial progress and delivered on key business milestones.

Cash Receipts / Revenue growth

- Cash receipts increased by 16% to \$22.9 million (2021: \$19.8 million)
- As of 31 December 2022, the company has recorded 15 successive quarters of cash receipts growth vs. prior corresponding period
- Revenue increased by 8% to \$19.6 million; excluding a total of \$1.2 million in advance payments received which have not yet been recorded as revenues (2021: \$18.1 million)

Transition to recurring revenue segments drives growth and margins

- Strong growth of high-margin recurring revenue segments to from approx. 38% of total revenues in 2018 to more than 90% of total revenues in 2022
- In absolute numbers, recurring revenues up from \$13.5 million in 2021 to \$18.1 million in 2022 – corresponding to 34% year-on-year growth
- Gross margin up from 25% in 2018 to 35% in 2022

Substantially improved EBITDA loss and positive operating cash flow in the December Quarter 2022

- Adjusted EBITDA loss for the year 2022 reduced to approx. \$1.2 million, from \$2.2 million in 2021 and \$3.1 million in 2020 (Adjusted EBITDA = EBITDA less business acquisition cost, share based payments expense, and other one-off items; for further details please see section below)
- Strongly improved performance in the second half of the calendar year 2022: \$1.2 million adjusted EBITDA loss splits up in \$0.8 million incurred in the first half of the calendar year (see half year report) and \$0.4 million incurred in the second half
- Positive operating cash flows of \$203,000 reported for the December Quarter 2022 (see the Quarterly Activities Report lodged to the ASX on 22 January 2023)

Strong operational progress with milestone contracts announced

- Received \$1.4 million contract award for the supply of a membrane-based water treatment plant to South 32
- Signed \$2.1 million Build, Own, Operate contract with Givaudan (Singapore), to deploy a membrane based water treatment plant for industrial waste water treatment in Singapore
- Signed \$1.7 million service contract with Rio Tinto related to the operations & maintenance of the water treatment facilities at one of Rio Tinto's Queensland mining sites

Progressing with membrane technology R&D

- Announced partnership with Canadian Puraify, with the intention to commercialise De.mem's new Graphene Oxide enhanced membrane technology leading to substantial increases in throughput and, as a result, cost savings
- Progressing with NSF product certification of new Graphene-Oxide enhanced membrane technology – expecting to complete in Q2 CY 2023

Strategic development

- Acquired Stevco Seals & Pumps (Victoria) Pty Ltd effective 1 April 2022; contributing to growth and EBITDA
- Acquired remaining 25% of German De.mem-Geutec subsidiary effective 1 October 2022; providing strong platform for further growth in Germany and Europe

Strong balance sheet provides the ability to fund further growth

- Cash plus term deposits of \$5.4 million at 31 December 2022
- Net assets of \$14.3 million as at 31 December 2022 (\$14.4 million as at 31 December 2021)
- Strong cash position and improved EBITDA / operating cash flow leaves the company with the ability to fund further growth, for example through further Build, Own, Operate contracts with industrial clients

Business Development and Operations

Strong Growth in Recurring Revenue Segments

The Company achieved substantial revenue growth in its recurring revenue segments, which grew by 34% vs. prior year. De.mem's recurring revenue segments comprise in particular the Company's service (Build, Own, Operate and operations & maintenance) and specialty chemicals offering. During 2022, recurring revenue segments accounted for more than 90% of total revenues (2018: 38%).

Overall group revenues increased by 8% to \$19.6 million, as the Company reduced its exposure to one-off and lower margin projects business.

Cash receipts increased by 16% to \$22.9 million (2021: \$19.8 million). As of 31 December 2022, the company has recorded 15 successive quarters of cash receipts growth vs. prior corresponding period.

Expansion of Unique Build, Own, Operate & Service Offering for Industrial Clients, New Contracts Signed

Based on its extended range of capabilities, De.mem is uniquely positioned as a supplier of Build, Own, Operate ("BOO") services to industrial customers.

During the year, the Company signed a new BOO contract with Givaudan, world wide market leader in flavours & fragrances. The contract has a value of \$2.1 million over an initial fixed term of six years. Under the agreement, De.mem will be purifying industrial waste water from one of the client's Singapore facilities to regulatory discharge standards (see the announcement to the ASX on 29 August 2022 for further details).

Furthermore, De.mem signed a \$1.7m operations & maintenance agreement with Rio Tinto, under which it will operate & maintain the water treatment facilities at one of Rio Tinto's mining sites in Queensland, Australia. The agreement has a minimum term of three years (see the announcement to the ASX on 22 June 2022 for further details).

The Company also delivered on two previously announced Build, Own, Operate projects with the Selwyn Snow Resort and an industrial customer in Australia (see ASX announcements on 8 December 2021 and 15 September 2021, resp.). The construction of the plants was completed during 2021 and both plants have been deployed on site. While De.mem already received significant payments under both contracts, revenue recognition is expected to start from early 2023, over the 5-year term of each arrangement.

Milestone order from South 32 for \$1.4 million water treatment plant

On 17 October 2022, De.mem received a new contract award for the supply of a membrane-based water treatment plant to an Australian mining site. The project is worth approx. \$1.4m in revenue, the vast majority of which is expected to be recorded in CY 2023, with the commissioning scheduled for the second half of CY 2023. The customer is a subsidiary of South 32.

While the contract is a project and effectively one-off in a nature, it provides the Company with the opportunity to sell operations & maintenance services, chemicals, consumables and other water treatment products to the same client, thus opening up a potentially larger opportunity over the longer term.

For further details please refer to the ASX announcement dated 17 October 2022 "De.mem signs \$1.4m contract for water treatment plant supply".

Continued Expansion and Validation of Hollow Fibre Membrane IP Portfolio

Key partnership signed for commercialization of new GO enhanced membrane

De.mem presented its new Graphene Oxide enhanced membrane on 7 September 2021 (see ASX release "De.mem Presents Next Generation Membrane Technology"). The new technology delivers 20-40% higher water flux (=throughput, or volume of clean water produced) vs. standard polymer ultrafiltration membranes, leading to significant cost reductions for the user.

On 19 July 2022, De.mem announced a partnership with Purafy Clean Technologies, Kingston, Ontario, Canada ("Purafy"), related to the manufacturing, sales & distribution of the new GO membrane technology. Purafy is a division of Grafoid Inc., a graphene research, development and investment company that promotes a range of graphene-based products for applications in key commercial markets. Purafy manufactures and sells a range of products for domestic water filtration as well as portable water treatment systems.

Jointly, De.mem and Purafy intend to launch the new membrane as part of a domestic water filtration system into North America initially, and other countries later on.

Progressing with regulatory approval for drinking water applications in the USA

De.mem has initiated a process to obtain NSF (National Sanitation Foundation) certification for the new membrane, which is a prerequisite for usage of the technology in potable water treatment applications in the USA and many other countries. The process is ongoing and De.mem expects to conclude the certification during 2023.

Strategic Development of the Group with Acquisition in Victoria/Australia

Strong acquisition value-add track record continues with Stevco acquisition; adds customers and support capability in Victoria

On 1 April 2022, De.mem acquired Stevco Seals & Pumps (Victoria) Pty Ltd ("Stevco") for a total initial consideration of \$1.25 million in cash plus \$180,000 in DEM shares, plus two milestone payments of \$50,000 in cash and \$50,000 in DEM shares each, subject to the achievement of revenue targets.

Established in and operating since 2004, Stevco is a well-known supplier of pumps, small water treatment equipment and related operations & maintenance services to industrial and municipal clients in Victoria. Stevco has a reputation of supplying highest quality products and services. The Company has a workshop in Epping/Melbourne, Victoria.

Stevco's long-term customer base includes leading industrial players from the food & beverage, agricultural and heavy industrial sectors, as well as a number of municipalities in Victoria.

The company generated approx. \$2.3 million in annual revenues during the past 3 business years (on average) prior to the transaction. It generated approx. \$330,000 in normalized EBITDA (adjusted for one-off items). Revenues are largely recurring and a significant percentage is generated from the rendering of operations & maintenance services.

The transaction rationale included the following:

- Stevco brings an extensive, well-established industrial customer base in Victoria into De.mem group
- Substantial opportunity to cross-sell De.mem's wide product range and advanced membrane technology
- Strong operational synergies with De.mem-Pumptech business in Tasmania
- Completion of De.mem group's Australian-wide footprint with nationwide service & support capability
- Recurring revenue focus as large part of revenues generated from operations & maintenance services
- Profitable business with approx. \$330,000 in normalized EBITDA per annum generated
- Accretive and well-priced acquisition
- Stevco founders will join De.mem management team
- Integration of Stevco will add further to De.mem's move towards EBITDA breakeven

Stevco recorded revenues of \$2.3 million in the 9 months since the acquisition on 1 April 2022. Annualized, this corresponds to a revenue growth rate of approx. 33% relative to the average during the 3 business years prior to the transaction.

Purchase of remaining 25% stake in Geutec provides platform for further roll-out in Europe

Effective 1 October 2022, De.mem acquired the remaining 25% stake in its German subsidiary De.mem-Geutec GmbH, Velbert, Germany. De.mem now owns 100% in De.mem-Geutec GmbH. De.mem paid a total of approx. \$350,000 for the 25% acquisition.

De.mem acquired the initial 75% in De.mem-Geutec on 17 October 2019 (see the ASX release dated 17 October 2019, "De.mem acquires German industrial waste water treatment company", for further details). De.mem-Geutec supplies waste water treatment products and solutions to industrial customers from the heavy industrial, plating/galvanizing and metals processing industries. It has a strong customer base in Germany and Europe, with more than 100 Small-and-Medium Enterprises (SMEs) and a number of larger corporations as repeat customers. It is led by local Managing Director Mr. Uwe Graessel, who is committed to staying with the company, ensuring stability and strong local leadership for the ongoing expansion.

Financials

High-margin recurring revenues drive growth

Revenue growth was driven by the Company's recurring revenue segments. Recurring revenues are up from \$13.5 million in 2021 to \$18.1 million in 2022 – corresponding to 34% year-on-year growth.

De.mem's overall group revenues increased by 8% to \$19.6 million, excluding a total of \$1.2 million in advance payments received during 2022 which have not yet been recorded as revenues prior to year-end (2021: \$18.1 million).

Cash receipts increased by 16% to \$ 22.9 million (2021: \$19.7 million).

Increasing margins

Along with the transition to its high-margin recurring revenue segments, the Company's gross margin increased from 25% in 2018 to 35% in 2022.

Strongly reduced EBITDA loss and operating cash flow positive in December quarter 2022

Adjusted EBITDA loss for the year 2022 reduced to approx. \$1.2 million, from \$2.2 million in CY 2021 and \$3.1 million in 2020 (Adjusted EBITDA = EBITDA less business acquisition cost, share based payments expense, and other one-off items; for further details please see section below).

The adjusted EBITDA loss of \$1.2 million splits up in \$0.8 million incurred in the first half of the calendar year (see half year report) and \$0.4 million incurred in the second half.

Along with the improved EBITDA during the second half of the year, De.mem reported positive operating cash flows of \$203,000 for the December Quarter 2022 (see the Quarterly Activities Report lodged to the ASX on 22 January 2023).

The reconciliation of the loss before taxes to Adjusted EBITDA* (unaudited) is as follows:

	2022 \$'000	2021 \$'000	2020 \$'000
Loss before taxes	(3,412)	(4,362)	(3,535)
Add: Depreciation and amortisation	1,613	1,264	646
Add: Interest expense (net of interest income)	98	159	65
Adjustments for one off expenses	-	-	-
Add: Business acquisition cost**	40	353	-
Add: Share based payments	381	60	517
Add: Doubtful debts expense	81	63	-
Add: One-off expense***	-	277	-
Less: Covid-19 support payments	-	-	(830)
Adjusted EBITDA	(1,199)	(2,186)	(3,137)

*Underlying EBITDA is a non-IFRS earnings measure which does not have any standardised meaning defined by IFRS. Hence, it may not be comparable to EBITDA as presented by other companies. Adjusted EBITDA excludes the effect of significant items of income and expenditure which are considered one-off or non-recurring. These unaudited measures are important for the company to assess its performance.

**Cost items related to the acquisitions of Stevco and Capic which were expensed – including stamp duty and milestone payments

***Inventory write-offs, legal fees of one-off nature and severance payments.

Key risks and uncertainties

De.mem is subject to both De.mem specific as well as general risks.

Covid-19

There is a risk to the business from a potential deterioration of the Covid-19 pandemic. Should there be new lockdowns, this could have a substantial impact on De.mem's business, in particular the ability to secure new contracts and build new and existing customer relationships.

Overall macroeconomic situation

The worldwide macroeconomic situation appears fragile, in particular since the war in the Ukraine started in H1 2022. Should the crisis worsen and result in global macroeconomic recession, there could be an impact on De.mem's business or growth rates.

Inability to retain key personnel and to recruit new qualified personnel

The successful operation and expansion of De.mem's business relies on the company's ability to recruit and retain experienced and skilled management, scientists, engineers and technicians. Product know how, product development efforts and well as relationships with certain clients might be dependent on single individuals. The loss of such individuals could have an impact on De.mem's business or growth rates. Also, the labour market for such qualified staff is increasingly competitive, which can lead to increased labour costs for De.mem and a decline of its financial margins.

De.mem has addressed the risk through the introduction of appropriate incentive schemes including the payment of cash performance bonuses to senior staff and the award of share options and performance shares.

Inflation and higher prices for raw materials and components

Most countries are currently experiencing high inflation rates. De.mem is buying a substantial amount of raw materials and components for its business and hence, exposed to potential price increases. Higher prices could have a negative impact on De.mem's profitability and margins.

De.mem addresses the risk through supplier management, i.e. ensuring that there are alternative suppliers for key raw materials and components.

Workplace accidents

De.mem is providing on-site installations and service work at mining and other industrial sites. De.mem's staff are exposed to a general risk of workplace accidents.

De.mem addresses this risk through appropriate operational health & safety policies and compliance with the customer's site requirements, as well as adequate insurance policies.

Contract liability and warranty

Given the nature of De.mem's business, there is a risk of claims made by customers for indemnities or damages which may arise in connection with significant contracts.

De.mem addresses the risk through strict contract management and review and the ongoing review of insurance policies.

Legal & regulatory risk

In particular with respect to its service contracts and on-site maintenance work, the company may be exposed to environmental and regulatory regulations. The failure to meet such requirements may result in financial damages.

With respect to the company's membrane filtration products, there is a risk from not achieving regulatory product certifications. The Company currently is engaged in a process to obtain NSF (National Sanitation Foundation) approval, which would enable it to sell its Graphene Oxide enhanced membrane technology into the USA for drinking water applications. Should the Company fail to obtain such certification, the commercial market opportunity for its membrane technology might be significantly smaller than expected.

De.mem is managing the risk through strict contract management, ensuring proper qualification of its staff as well as appropriate policies, procedures & documentation.

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of De.mem Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2022.

Directors

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

Cosimo Trimigliozi - Non-Executive Chairman
Andreas Kroell - Chief Executive Officer and Director
Bernd Dautel - Non-Executive Director
Stuart Carmichael - Non-Executive Director
Michael Edwards - Non-Executive Director
Danny Conlon - Non-Executive Director (appointed on 20 June 2022)

Principal activities

De.mem designs, builds, owns and operates modern water treatment systems for clients from the industrial, municipal and residential sectors.

De.mem Limited (ASX:DEM) is an Australian-Singaporean de-centralised water and waste water treatment business that designs, builds, owns and operates water and waste water treatment systems for its clients. Established in 2013, the company has offices in Australia, Singapore, Vietnam and Germany.

De.mem operates in the industrial segment providing systems and solutions in particular to customers from mining, electronics, chemicals, oil and gas and food and beverage industries as well as in the municipal and residential segments. Customers include leading multinational corporations in their respective industries and municipalities and government organizations from the different countries.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

Refer to the Review of operations in the preceding section.

Significant changes in the state of affairs

On 23 February 2022, the Company issued 387,958 fully paid ordinary shares (Shares) at a deemed issue price of \$0.3222 (32.22 cents) per Share to the vendor of the Capic Business (Capic) in connection with the Capic acquisition as announced on 1 April 2021.

On 1 April 2022, the Company acquired the Stevco business pursuant to the execution of a sales and purchase agreement with the vendor. Stevco is a well-known supplier of pumps, small water treatment equipment and related operations & maintenance services to industrial and municipal clients in Victoria. Stevco's long-term customer base includes leading industrial players from the food & beverage, agricultural and heavy industrial sectors, as well as a number of municipalities in Victoria.

The consideration paid/payable for the acquisition of the Stevco business is as follows:

- \$1.25 million in cash plus \$250,000 in the Company's shares (based on the weighted average share price during the 20 trading days prior to the agreement date) upfront as "base consideration"; plus
- \$180,000 in cash plus \$30,000 in Company's shares (based on the weighted average share price during the 20 trading days prior to the agreement date) upfront for Stevco's inventory.

Included in the share sale agreement was the requirement of the selling shareholders to enter binding employment agreements for a 24-month period. During this period there are milestone performance criteria based on revenue targets over 12 and 24-month periods. These subsequent share and cash payments are not deemed contingent consideration as the commercial substance of the payment arrangement requires continued service, and instead is treated as remuneration when the performance criteria are met.

At the date of acquisition, management has assessed the likelihood of achieving the aforementioned contingent future consideration and have recognised a contingent liability in accordance with AASB 3 Business Combinations.

On 1 April 2022, the Company granted 2,000,000 unlisted options to a corporate advisor at the exercise price of \$0.2795 per share. The options will be issued in advance of each quarter of 500,000 options per quarter with the life of 3 years post their respective issuance. The first tranche of 500,000 was issued on 1 June 2022.

On 20 June 2022, the Company appointed Mr Danny Conlon as non-executive director.

On 24 June 2022 the Company has issued a total of 100,000 Fully Paid Ordinary Shares in relation to the exercise of vested performance rights with no consideration.

On 27 June 2022, the Company issued 500,000 unlisted options to the newly appointed non-executive director at the exercise price of \$0.2237 per share, expiring on 23 June 2025.

On 3 August 2022 the Company has issued a total of 20,197,358 Fully Paid Ordinary Shares (Shares) at an issue price of \$0.1400 (14.00 cents) per Share to institutional and sophisticated investors to fund the acquisition of the remaining 25% in De.mem-Geutec GmbH of \$350,000, taking ownership to 100%, additional Build, Own, Operate opportunities of \$1,000,000 following the successful delivery of two key BOO/BOOT projects; and general working capital of \$1,450,000.

On 3 August 2022 the Company issued 2,000,000 unlisted options with an exercise price of \$0.182 per share and expiring on 2 August 2025 to the joint lead managers to the placement.

On 3 August 2022 the Company issued the second tranche of 500,000 options to the corporate advisor at exercise price of \$0.2795 per share and expiring on 2 August 2025.

On 3 October 2022 the Company signed a binding agreement to acquire the remaining 25% stake in its German subsidiary De.mem-Geutec GmbH, Velbert, Germany. Subject to the pending completion of the acquisition, De.mem will own 100% in De.mem-Geutec GmbH. The consideration for acquiring the remaining 25% shareholding of Geutec is approximately \$360,000. The acquisition was completed on 10 October 2022.

On 3 October 2022 the Company issued the second tranche of 500,000 options to the corporate advisor at exercise price of \$0.2795 per share and expiring on 2 August 2025.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

The consolidated entity will continue to design, build, and operate water and waste water treatment systems for its clients.

Environmental regulation

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

Information on directors

Name: Cosimo Trimiglioizzi
Title: Non-Executive Chairman
Qualifications: MBA equivalent, University of Basel, Switzerland
Experience and expertise: Mr. Trimiglioizzi looks back at a successful, almost 30-year long career in the feed and food ingredients / flavors and fragrances industry, one of the key target sectors for De.mem Limited. In his last assignment, he was the COO of Wild Flavors International, Germany, responsible in particular for the Asian and South American business expansion. Mr. Trimiglioizzi was a member of the key management team involved in the sale of Wild Flavors on behalf of owner Mr. Wild and private equity investor KKR to ADM Group for approximately 2.5 billion USD. Prior to that, Mr. Trimiglioizzi had been in other senior management roles, amongst others as Managing Director – Asia for Givaudan, a multinational corporation headquartered in Switzerland.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: None
Interests in shares: 557,764 fully paid ordinary shares
Interests in options: 750,000 unlisted options
Contractual rights to shares: None

Name: Andreas Kroell
Title: Chief Executive Officer and Director
Qualifications: MBA equivalent, University of Frankfurt, Germany
Experience and expertise: Mr. Kroell has been the director and CFO of De.mem Singapore since the company was established and was appointed as the Chief Executive Officer in 2016. Prior to that, Mr. Kroell has been involved in the venture capital and finance industries in Germany and Singapore since 2000. Mr. Kroell has led investments and held board seats in numerous companies within the water, environmental, industrial and other technology related sectors and has managed over 20 venture capital investments throughout his career, including a number of exits by trade sale and initial public offerings. Andreas Kroell has worked with several portfolio companies in management and financial roles.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: None
Interests in shares: 3,213,341 fully paid ordinary shares
Interests in options: 500,000 unlisted options
Contractual rights to shares: None

Name: Bernd Dautel
Title: Non-Executive Director
Qualifications: Master of Chemical Engineering, University of Karlsruhe, Germany
Experience and expertise: Mr. Dautel has been a Venture Capital expert with New Asia Investments Pte Ltd in Singapore since 2012. In this function, he managed investments into companies from the chemicals and electronics sectors. Prior to this, Mr. Dautel was the Managing Director Asia/Pacific for Wieland Metals, a large German manufacturer of semi-finished copper goods. He built the company's business in the Asia/Pacific region from the early stage to approximately 400 million in annual revenues over 20 years, with operations in Singapore, China, India and many other countries in the Asia/Pacific region.

Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: None
Interests in shares: 800,000 fully paid ordinary shares
Interests in options: 500,000 unlisted options
Contractual rights to shares: None

**De.mem Limited
Directors' report
31 December 2022**

Name: Stuart Carmichael
 Title: Non-Executive Director
 Qualifications: Bachelor of Commerce, University of Western Australia, Perth
 Experience and expertise: Mr. Carmichael is a Chartered Accountant with over 20 years of experience in the provision of corporate advisory services both within Australia and internationally. Mr. Carmichael is a principal and director of Ventnor Equities & Advisory Pty Ltd and Ventnor Securities Pty Ltd which specialises in the provision of advisory services to ASX listed companies including capital raisings, initial public offerings, corporate restructures and mergers and acquisitions. Mr. Carmichael graduated from the University of Western Australia with a Bachelor of Commerce degree, gaining experience with KPMG Corporate Finance in Perth and London before joining ASX listed property services and engineering company UGL Limited (ASX:UGL).

Other current directorships: Non-Executive Chairman of KTIG Limited (ASX:KTG), Non-Executive Director of ClearVue Technologies Limited (ASX: CPV), and Non-Executive Director of Orexplore Technologies Limited (ASX:OXT)

Former directorships (last 3 years): Non-Executive Director of Osteopore Limited (ASX:OSX), Non-Executive Director of Swick Mining Services Limited (ASX:SWK), Non-Executive Chairman of Schrole Group Limited (ASX:SCL), and Non-Executive Director of Harvest Technology Group Limited (ASX:HTG)

Special responsibilities: None
 Interests in shares: 21,500 fully paid ordinary shares
 Interests in options: 500,000 unlisted options
 Contractual rights to shares: None

Name: Michael Edwards
 Title: Non-Executive Director
 Qualifications: Bachelor of Business (Economics and Finance), Curtin University of Technology, Bachelor of Science (Geology), University of Western Australia, Perth
 Experience and expertise: Mr Edwards is a Geologist and an Economist with over 25 years' experience in senior management roles in both the private and public sectors. He worked for Barclays Australia in their Corporate Finance department before working as an Exploration and Mine Geologist with several companies including Gold Mines of Australia, Eagle Mining and International Mineral Resources.

Mr Edwards has worked as a consultant across a range of industries both as a Geologist and Corporate Advisor, predominantly in Australia and Africa. He has been involved in numerous ASX listings, raising seed and IPO capital as well as being intimately involved in several reverse take overs across a range of commodities and industries.

Other current directorships: Non-Executive Chairman of Greenstone Resources Ltd (ASX:GSR), Executive Chairman of Auroch Minerals Ltd (ASX:AOU).

Former directorships (last 3 years): Non-Executive Chairman of Firefly Resources Ltd (ASX:FFR), Non-Executive Director of Norwood Systems Ltd (ASX:NOR), Non-Executive Director of Digital Wine Ventures Ltd (ASX:DW8).

Special responsibilities: None
 Interests in shares: None
 Interests in options: 500,000 unlisted options
 Contractual rights to shares: None

De.mem Limited
Directors' report
31 December 2022

Name: Danny Conlon
 Title: Non-Executive Director
 Experience and expertise: Mr Conlon is a proven water industry expert and veteran. Most recently, from 2018 to 2020, he was Veolia's CEO and Managing Director for the Australia & New Zealand region. In this role, he oversaw Veolia's broad portfolio of water, waste and energy operations, with a strong focus on driving the growth of recurring revenues and the company's service business. Mr. Conlon was responsible for more than 4,000 employees and 240 locations across the region.

Mr. Conlon's long-term career at Veolia started originally with an appointment at Collex Waste Management in 1998. He advanced within Veolia group over more than two decades and held several leadership positions during these years. Prior to being appointed as CEO he was the Executive General Manager of Veolia's East Coast Operations in Australia & New Zealand, a position he held since 2014.

Other current directorships: None
 Former directorships (last 3 years): None
 Special responsibilities: None
 Interests in shares: None
 Interests in options: 500,000 unlisted 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 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.

Joint company secretaries

Mr Anthony Panther CA AGIA ACIS (Appointed on 25 June 2021)

Mr Panther has over 30 years' experience in a variety of fields. Following completion of university commerce and law degrees he worked as an external auditor with a major international chartered accounting firm and has progressed to a range of internal audit, compliance, senior finance and company secretarial roles with a number of ASX-listed and unlisted public companies covering financial services, utilities, biotech, IT services and environmental technologies. He specialises in financial reporting and company secretarial practice.

Ms Patricia Vanni LLB AGIA (Appointed on 25 June 2021, resigned 14 December 2022)

Ms Vanni has more than 15 years of professional experience in corporate governance, mergers & acquisitions, project finance, engineering, procurement and construction contracts and compliance. She has been working as an in-house counsel of multinational companies, an associate in Brazilian Top tier law firms (300+ lawyers) and as company secretariat and joint company secretary providing outsourced corporate governance and company secretarial services to various Australian listed companies.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 31 December 2022, and the number of meetings attended by each director were:

	Full Board	
	Attended	Held
Cosimo Trimiglozzi	8	8
Andreas Kroell	8	8
Bernd Dautel	8	8
Stuart Carmichael	8	8
Michael Edwards	8	8
Danny Conlon	3	4

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 consolidated entity, 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 information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

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 annually by the Board of Directors. The Board of Directors 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 present at any discussions relating to the determination of his own remuneration. Non-executive directors do not receive share options or other incentives.

Executive directors and senior executives remunerations

Remuneration levels for Directors and senior executives of the Company will be competitively set to attract and retain appropriately qualified and experienced Directors and senior executives. The Board may obtain independent advice on the appropriateness of remuneration packages given trends in comparative companies both locally and internationally and the objectives of the Group's remuneration strategy. No such advice was obtained during the current year.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the Directors and senior executives;
- the Directors and senior executives ability to control the relevant performance;
- the Group's performance; and
- the amount of incentives within each Directors and senior executive's remuneration.

Remuneration packages include a mix of fixed remuneration and variable remuneration and short and long-term performance-based incentives. Short-term incentives include De.mem's Employee Incentive Option Plan. The Company's Employee Incentive Option Plan allows the Board from time to time, in its absolute discretion, make a written offer to any Eligible Participant (as defined in the Plan) to apply for Options, upon the terms set out in the Plan and upon such additional terms and conditions as the Board determines. In exercising that discretion, the Board may have regard to the following (without limitation):

- The Eligible Participant's length of service within the Group;
- The contribution made by the Eligible Participant to the Group;
- The potential contribution of the Eligible Participant to the Group; or
- Any other matter the Board considers relevant.

Fixed remuneration consists of base remuneration, as well as employer contributions to superannuation funds where applicable. Remuneration levels will be, if necessary reviewed annually by the Board through a process that considers the overall performance of the Group. During the year, external consultants were not used to provide any analysis nor advice to the Directors' and senior executives' with respect to remuneration.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

De.mem Limited
Directors' report
31 December 2022

The key management personnel of the consolidated entity consisted of the following directors of De.mem Limited:

- Cosimo Trimigliozi
- Andreas Kroell
- Bernd Dautel
- Stuart Carmichael
- Michael Edwards
- Danny Conlon (appointed on 20 June 2022)

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled	
2022	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Cosimo Trimigliozi	36,000	-	-	-	-	-	36,000
Bernd Dautel	30,000	-	-	-	-	-	30,000
Stuart Carmichael	30,000	-	-	3,087	-	-	33,087
Michael Edwards	30,000	-	-	3,087	-	-	33,087
Danny Conlon	15,000	-	-	1,575	-	32,295	48,870
<i>Executive Directors:</i>							
Andreas Kroell *	287,666	-	-	34,433	4,543	-	326,642
	428,666	-	-	42,182	4,543	32,295	507,686

* Included in cash salary and fees is movements in leave entitlements of \$17,666.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus **	Non-monetary	Super-annuation	Long service leave	Equity-settled	
2021	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Cosimo Trimigliozi	36,000	-	-	-	-	-	36,000
Bernd Dautel	30,000	-	-	-	-	-	30,000
Stuart Carmichael	30,000	-	-	3,175	-	-	33,175
Michael Edwards	30,000	-	-	3,175	-	-	33,175
<i>Executive Directors:</i>							
Andreas Kroell *	273,808	100,000	-	25,113	7,441	-	406,362
	399,808	100,000	-	31,463	7,441	-	538,712

* Included in cash salary and fees is movements in leave entitlements of \$11,308.

** The cash bonus was granted on 13 April 2021 based on a decision by the Board of Directors. It was based on the performance of the Group during the 2020 financial year. A total of \$100,000 was accrued as at 31 December 2021, of which \$65,000 had been paid out during the year ended 31 December 2022.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2022	2021	2022	2021	2022	2021
Non-Executive Directors:						
Cosimo Trimigliozi	100%	100%	-	-	-	-
Bernd Dautel	100%	100%	-	-	-	-
Stuart Carmichael	100%	100%	-	-	-	-
Michael Edwards	100%	100%	-	-	-	-
Danny Conlon	34%	-	-	-	66%	-
Executive Directors:						
Andreas Kroell	100%	75%	-	25%	-	-

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:	Andreas Kroell
Title:	Chief Executive Officer and Director
Agreement commenced:	1 November 2019
Term of agreement:	Permanent
Details:	Base salary of A\$230,000 per annum, annual allowances of \$50,000 and a performance bonus, payable at the discretion of the Board.

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

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 31 December 2022.

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year are as follows:

Grant date	Vesting date and exercisable date		Expiry date	Exercise price	Fair value per option at grant date
14 June 2022	14 June 2022		23 June 2025	\$0.224	\$0.064

Name	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
Danny Conlon	500,000	14 June 2022	14 June 2022	24 June 2025	\$0.224	\$0.064

The terms and conditions of each grant of options below have not affected the current year key management personnel remuneration as they were issued and vested in the year ended 31 December 2020.

Grant date	Vesting date and exercisable date		Expiry date	Exercise price	Fair value per option at grant date
29 May 2020	29 May 2020		24 June 2023	\$0.217	\$0.076

De.mem Limited
Directors' report
31 December 2022

Name	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
Cosimo Trimigliozi	750,000	29 May 2020	29 May 2020	24 June 2023	\$0.217	\$0.076
Andreas Kroell	500,000	29 May 2020	29 May 2020	24 June 2023	\$0.217	\$0.076
Bernd Dautel	500,000	29 May 2020	29 May 2020	24 June 2023	\$0.217	\$0.076
Stuart Carmichael	500,000	29 May 2020	29 May 2020	24 June 2023	\$0.217	\$0.076
Michael Edwards	500,000	29 May 2020	29 May 2020	24 June 2023	\$0.217	\$0.076

Options granted carry no dividend or voting rights.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 31 December 2022 are set out below:

Name	Number of options granted during the year 2022	Number of options granted during the year 2021	Number of options vested during the year 2022	Number of options vested during the year 2021
Danny Conlon	500,000	-	500,000	-

Performance rights

There were no performance rights over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 31 December 2022.

There were no performance rights over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 31 December 2022.

Additional information

The earnings of the consolidated entity for the five years to 31 December 2022 are summarised below:

	2022 \$'000	2021 \$'000	2020 \$'000	2019 \$'000	2018 \$'000
Loss after income tax	(3,455)	(4,440)	(3,539)	(3,517)	(2,004)

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2022	2021	2020	2019	2018
Share price at financial year end (\$)	0.11	0.23	0.23	0.26	0.14
Basic earnings per share (cents per share)	(1.51)	(2.15)	(2.02)	(2.58)	(1.76)
Diluted earnings per share (cents per share)	(1.51)	(2.15)	(2.02)	(2.58)	(1.76)

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 consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Other	Balance at the end of the year
<i>Ordinary shares</i>					
Cosimo Trimigliozi	557,764	-	252,580	-	810,344
Andreas Kroell	3,213,341	-	-	-	3,213,341
Bernd Dautel	800,000	-	-	-	800,000
Stuart Carmichael	21,500	-	-	-	21,500
Danny Conlon	-	-	-	-	-
	4,592,605	-	252,580	-	4,845,185

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 consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired	Balance at the end of the year
<i>Options over ordinary shares</i>					
Cosimo Trimigliozi	750,000	-	-	-	750,000
Andreas Kroell	500,000	-	-	-	500,000
Bernd Dautel	500,000	-	-	-	500,000
Stuart Carmichael	500,000	-	-	-	500,000
Michael Edwards	500,000	-	-	-	500,000
Danny Conlon	-	500,000	-	-	500,000
	2,750,000	500,000	-	-	3,250,000

Loans to key management personnel and their related parties

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

Other transactions with key management personnel and their related parties

There were no other transactions conducted between the Group and Key Management Personnel or their related parties, apart from those disclosed above and below, that were conducted other than in accordance with normal employee, customer or supplier relationships on terms no more favourable than those reasonably expected under arm's length dealings with unrelated persons.

This concludes the remuneration report, which has been audited.

Shares under option

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

Grant date	Expiry date	Exercise price	Number under option
29 May 2020	24 June 2023	\$0.217	2,750,000
10 July 2020	10 July 2024	\$0.180	750,000
1 April 2022	3 June 2025	\$0.280	500,000
1 April 2022	30 June 2025	\$0.280	500,000
1 April 2022	30 September 2025	\$0.280	500,000
1 April 2022	31 December 2025	\$0.280	500,000
14 June 2022	23 June 2025	\$0.224	500,000
28 July 2022	2 August 2025	\$0.182	2,000,000
16 January 2023	16 January 2026	\$0.120	500,000
			<u>8,500,000</u>

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

Shares under performance rights

Unissued ordinary shares of De.mem Limited under performance rights at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under rights
12 October 2021	31 July 2025	\$0.000	500,000
1 March 2022	31 December 2025	\$0.000	110,000
16 January 2023	16 January 2026	\$0.000	500,000
			<u>1,110,000</u>

The vesting of the performance rights granted are subject to a service period of 3 years, finishing in December 2024, and have no specific performance hurdles.

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the company or of any other body corporate.

Shares issued on the exercise of performance rights

There were no ordinary shares of De.mem Limited issued on the exercise of performance rights during the year ended 31 December 2022 and up to the date of this report.

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.

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the company

No 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.

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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 21 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 21 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 (including Independence Standards) 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.

Officers of the company who are former partners of William Buck

There are no officers of the Company who are former partners of William Buck.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

William Buck continues in office in accordance with section 327 of the Corporations Act 2001.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors support and have adhered to principles of sound corporate governance. The Company continued to follow best practice recommendations as set out by 3rd edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. Where the Company has not followed best practice for any recommendation, explanation is given in the Corporate Governance Statement which is available on the Company's website at <http://demembranes.com>.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001. The directors have the power to amend and reissue the financial statements.

On behalf of the directors

Mr Andreas Kroell
Director

28 February 2023
Melbourne

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF DE.MEM LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2022 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

William Buck
William Buck Audit (Vic) Pty Ltd
ABN 59 116 151 136



N. S. Benbow
Director

Melbourne, 28 February 2023

De.mem Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2022

	Note	Consolidated 2022 \$'000	2021 \$'000
Revenue	5	19,644	18,078
Cost of sales		(12,840)	(11,988)
Gross profit		6,804	6,090
Other income		150	267
Employee benefits and other related expenses		(5,415)	(6,100)
Superannuation		(297)	(329)
Operating profit/(loss)		1,242	(72)
Administrative and corporate expenses	6	(2,926)	(2,515)
Finance income		23	10
Interest expense		(98)	(159)
Depreciation and amortisation expense		(1,613)	(1,264)
Share of loss on investment in associate		-	(9)
Business acquisition costs		(40)	(353)
Loss before income tax expense		(3,412)	(4,362)
Income tax expense		(43)	(78)
Loss after income tax expense for the year		(3,455)	(4,440)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		200	137
Other comprehensive income for the year, net of tax		200	137
Total comprehensive loss for the year		<u>(3,255)</u>	<u>(4,303)</u>
Loss for the year is attributable to:			
Non-controlling interest		37	33
Owners of De.mem Limited		(3,492)	(4,473)
		<u>(3,455)</u>	<u>(4,440)</u>
Total comprehensive loss for the year is attributable to:			
Non-controlling interest		37	33
Owners of De.mem Limited		(3,292)	(4,336)
		<u>(3,255)</u>	<u>(4,303)</u>
		Cents	Cents
Basic earnings per share	29	(1.51)	(2.02)
Diluted earnings per share	29	(1.51)	(2.02)

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

De.mem Limited
Consolidated statement of financial position
As at 31 December 2022

	Note	Consolidated 2022 \$'000	2021 \$'000
Assets			
Current assets			
Cash and cash equivalents	7	5,138	8,688
Trade and other receivables	8	2,890	2,869
Inventories	9	842	718
Term deposits		253	136
Prepayments		210	137
Contract assets		412	290
Total current assets		9,745	12,838
Non-current assets			
Term deposits		50	197
Property, plant and equipment	11	3,696	2,658
Right-of-use assets	10	1,102	1,303
Intangible assets	12	5,969	5,056
Total non-current assets		10,817	9,214
Total assets		20,562	22,052
Liabilities			
Current liabilities			
Trade and other payables	13	2,510	3,791
Contract liabilities		577	109
Borrowings		48	148
Lease liabilities	14	461	390
Deferred consideration	15	164	431
Income tax payable		3	-
Employee benefits	16	823	785
Other provisions		38	-
Total current liabilities		4,624	5,654
Non-current liabilities			
Contract liabilities		630	634
Borrowings		-	138
Lease liabilities	14	886	964
Deferred consideration	15	79	238
Employee benefits	16	28	43
Total non-current liabilities		1,623	2,017
Total liabilities		6,247	7,671
Net assets		14,315	14,381
Equity			
Issued capital	17	39,238	36,243
Reserves		881	452
Accumulated losses		(25,804)	(22,347)
Equity attributable to the owners of De.mem Limited		14,315	14,348
Non-controlling interest		-	33
Total equity		14,315	14,381

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

De.mem Limited
Consolidated statement of changes in equity
For the year ended 31 December 2022

Consolidated	Issued capital \$'000	Foreign currency translation reserve \$'000	Share based payment reserve \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 January 2021	24,054	25	552	(17,916)	-	6,715
Profit/(loss) after income tax expense for the year	-	-	-	(4,473)	33	(4,440)
Other comprehensive income for the year, net of tax	-	137	-	-	-	137
Total comprehensive income/(loss) for the year	-	137	-	(4,473)	33	(4,303)
<i>Transactions with owners in their capacity as owners:</i>						
Contributions of equity, net of transaction costs (note 17)	9,890	-	-	-	-	9,890
Share-based payments (note 30)	-	-	60	-	-	60
Proceeds from options exercised	989	-	-	-	-	989
Shares issued in settlement of business acquisition	1,030	-	-	-	-	1,030
Exercise and expiry of share options	280	-	(322)	42	-	-
Balance at 31 December 2021	<u>36,243</u>	<u>162</u>	<u>290</u>	<u>(22,347)</u>	<u>33</u>	<u>14,381</u>

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

De.mem Limited
Consolidated statement of changes in equity
For the year ended 31 December 2022

Consolidated	Issued capital \$'000	Foreign currency translation reserve \$'000	Share based payment reserve \$'000	Acquisition reserve \$'000	Accumulated losses \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 January 2022	36,243	162	290	-	(22,347)	33	14,381
Profit/(loss) after income tax expense for the year	-	-	-	-	(3,492)	37	(3,455)
Other comprehensive income for the year, net of tax	-	200	-	-	-	-	200
Total comprehensive income/(loss) for the year	-	200	-	-	(3,492)	37	(3,255)
<i>Transactions with owners in their capacity as owners:</i>							
Contributions of equity, net of transaction costs (note 17)	2,584	-	-	-	-	-	2,584
Shares issued for the acquisition of Capic business (note 17)	125	-	-	-	-	-	125
Shares issued for the acquisition of Stevco (note 17)	280	-	-	-	-	-	280
Vesting of share-based payment arrangements (note 30)	-	-	561	-	-	-	561
Exercise of performance rights	6	-	(6)	-	-	-	-
Expiry of share options	-	-	(35)	-	35	-	-
Adjustment arising from change in non-controlling interest to acquisition of 25% non-controlling interest of the equity held in De.mem-Geutec GmbH	-	-	-	(291)	-	(70)	(361)
Balance at 31 December 2022	<u>39,238</u>	<u>362</u>	<u>810</u>	<u>(291)</u>	<u>(25,804)</u>	<u>-</u>	<u>14,315</u>

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

De.mem Limited
Consolidated statement of cash flows
For the year ended 31 December 2022

		Consolidated	
	Note	2022	2021
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		22,951	19,661
Payments to suppliers and employees (inclusive of GST)		(24,717)	(21,742)
Interest received		23	10
Interest and other finance costs paid		(98)	(159)
Income tax paid		(40)	(75)
Net cash used in operating activities	28	(1,881)	(2,305)
Cash flows from investing activities			
Payments for property, plant and equipment		(1,464)	(1,429)
Payments for intangibles	12	(305)	-
Payment for consideration for acquisition of businesses, net of cash acquired	25	(1,403)	(3,330)
Payment for investments in Pumptech, Capic and Geutec		(829)	-
Proceeds from release of security deposits		30	450
Net cash used in investing activities		(3,971)	(4,309)
Cash flows from financing activities			
Proceeds from issue of shares		2,998	10,610
Proceeds from the exercise of share options		-	990
Share issue transaction costs		(255)	(721)
Repayment of borrowings		(138)	(65)
Repayment of lease liabilities		(282)	(273)
Net cash from financing activities		2,323	10,541
Net increase/(decrease) in cash and cash equivalents		(3,529)	3,927
Cash and cash equivalents at the beginning of the financial year		8,609	4,639
Effects of exchange rate changes on cash and cash equivalents		58	43
Cash and cash equivalents at the end of the financial year	7	<u>5,138</u>	<u>8,609</u>

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

De.mem Limited
Notes to the consolidated financial statements
31 December 2022

Note 1. General information

The financial statements cover De.mem Limited as a consolidated entity consisting of De.mem Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is De.mem Limited's functional and presentation currency.

De.mem Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 4, 96-100 Albert Road
South Melbourne VIC 3205
Australia

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2023. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

The consolidated entity 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 deferred consideration measured at fair value.

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 consolidated entity'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 3.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 24.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of De.mem Limited ('company' or 'parent entity') as at 31 December 2022 and the results of all subsidiaries for the year then ended. De.mem Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Note 2. Significant accounting policies (continued)

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity as acquisition reserve and attributed to the owners of the Company.

Foreign currency translation

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

Foreign currency transactions and balance

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

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

Foreign operations

The financial results and position of foreign controlled entities whose functional currency is different from the presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- Income and expenses are translated at average exchange rates for the period; and
- Retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign controlled entities are transferred directly to the foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of profit or loss and other comprehensive income in the period in which the operation is disposed.

Revenue recognition

The consolidated entity recognises revenue as follows:

Revenues earned under construction contracts (contracting revenue)

Revenues earned under construction contracts are earned over the life of the contract according to the fulfilment of distinct and separable performance milestones. The % of budgeted expenditure method is applied for these contracts, which records revenue proportionately to the quantum of actual expenditure incurred under each performance milestone relative to its budgeted expenditure, less any expectations for any future losses under the contract.

Revenues earned for the provision of waste water treatment services (rendering of services)

These revenues are earned as services are rendered under contract.

Note 2. Significant accounting policies (continued)

Revenues earned from the sale of waste water treatment products (sale of goods)

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

Differences between the timing of invoicing for services and recording of revenue

From time to time, revenues are billed to customers that may be in-advance or in-arrears for when that revenue is earned. When in-advance, the difference is recorded as a contract liability; when in-arrears, the difference is recorded as a contract asset.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

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.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Current and non-current classification

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

Note 2. Significant accounting policies (continued)

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity'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 consolidated entity'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.

Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- amortised cost
- fair value through profit or loss
- equity instruments at fair value through other comprehensive income
- debt instruments at fair value through other comprehensive income

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses. Classifications are determined by both:

- The entities business model for managing the financial asset
- The contractual cash flow characteristics of the financial assets

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables, which is presented within other expenses.

Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

Impairment of financial assets

AASB 9's impairment requirements use more forward-looking information to recognize expected credit losses – the 'expected credit losses (ECL) model'. Instruments within the scope of these requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under AASB 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Note 2. Significant accounting policies (continued)

The Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition of that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date. '12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument. The lifetime expected credit losses method is used for trade receivables.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

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.

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.

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 2. Significant accounting policies (continued)

Reclassification

Certain amounts reported in prior years in the financial statements have been reclassified to conform to the current year's presentation.

Note 3. 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 consolidated entity 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.

Construction contracts

Construction revenue is recognised by management after assessing all factors relevant to each contract. Significant management estimation is required in assessing the following:

- Estimation of total contract revenue, including determination of contractual entitlement and assessment of the probability of customer approval of variations and acceptance of claims;
- Estimation of total contract costs, including revisions to total forecast costs for events or conditions that occur during the performance of the contract, or are expected to occur to complete the contract;
- Estimation of project contingencies and variations; and
- Estimation of stage of completion.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

Provision for impairment of inventories

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

Fair value measurement hierarchy

The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Estimation of useful lives of assets

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

Capitalisation of development costs

Directors considered it is probable that the process by the consolidated entity during the year ended 31 December 2022 to obtain National Sanitation Foundation approval to sell its Graphene Oxide enhanced membrane technology into the USA for drinking water applications ("the process") will be a success considering its commercial and technical feasibility; the Group's ability to benefit from the process; and reliability in measuring the costs incurred. The directors recognised the costs incurred in the process according to the accounting policy set out in note 12 to consolidated statement of financial position.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and carry forward losses only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment. The weighted average incremental borrowing rate applied to lease liabilities was 6.45%.

Employee benefits provision

As discussed in note 2, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Business combinations

Business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting are retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

The directors have examined the net present value of the cash inflows expected to be received from the customer relationships acquired from the acquisitions of Stevco. Refer to note 12 and note 25 for further details. In assessing this, the directors assumed the following: a) a growth rate in revenues from recurring customers of 3%; b) gross margins per customer of between 30% and 50%; c) a post-tax discount rate on those revenues of 12% (Geutec) and 15% (Pumptech); and d) an expected churn of the customer base of 10% per annum.

The directors have also assessed the customer base post acquisition, nothing having come to their attention which indicates that the customer relationships recognised on acquisition is inappropriately recognised and measured.

The useful life of the respective customer relationships has been assessed as 10 years, based upon past experience of customer turnover within these businesses and general expectations of ongoing customer relationships. The respective businesses experience with their customers indicates that: both businesses are well-established and have long relationships with their customers; the type of customer obtained by these business is usually larger businesses which are better able to survive variations in overall business and economic conditions; the type of products and services sold by the businesses are long-lived, resulting in greater probability of ongoing service arrangements with those customers and repeat business. This assessed 10 year life is reflected in the expected churn of 10% per annum used in the net present value calculations.

Due to the limited input from market observable factors, this fair valuation is a level 3 valuation.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Acquisition of 25% non-controlling interest of held in De.mem-Geutec GmbH

During the year ended 31 December 2022, the Company acquired the remaining 25% stake in its German subsidiary De.mem-Geutec GmbH, Velbert, Germany ("Geutec") for a consideration of approximately \$360,000 ("the acquisition"). The directors recognised the acquisition according to the accounting policy set out in note 2 to the acquisition reserve in equity.

Impairment

In accordance with the impairment policy, the directors considered whether or not any indicator of impairment existed as at report date of any of its non-current and non-monetary assets. In assessing whether or not any trigger existed, the directors specifically considered the following:

- (a) Each of its cash-generating units, which are the same as those geographic areas set out in the segment note, continue to operate according to their projected plans;
- (b) The overall market capitalisation of the Group is in excess of the Group's net assets as at report date; and
- (c) There were no exogenous matters in the industry or market that would impact the value of those assets. In particular, the directors specifically considered the impact of COVID-19 on the business and the resilience of the Group's cash-generating units to the pressures of COVID-19, including overall increases sales and improving profitability.

Note 4. Segment Reporting

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Directors in order to allocate resources to the segment and to assess its performance. Information regarding these segments is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies. The following tables are an analysis of the Group's revenue and results by reportable segment provided to the Directors.

Major customers

During the year ended 31 December 2022, approximately \$3.1 million (2021: \$2.0 million) of the consolidated entity's external revenue was derived from sales to a customer through the Australia segment.

Other represents head office.

Operating segment information

Consolidated - 2022	Singapore \$'000	Australia \$'000	Germany \$'000	Other \$'000	Total \$'000
Revenue					
Revenue from external customers	885	15,812	3,205	-	19,902
Intersegment revenue	(147)	(111)	-	-	(258)
Total revenue	738	15,701	3,205	-	19,644
 Segment result (before tax)	 (557)	 (1,267)	 180	 (1,948)	 (3,592)
Assets					
Segment assets	2,490	5,048	800	29,404	37,742
Intersegment eliminations					(17,180)
Total assets					20,562
<i>Total assets includes:</i>					
Acquisition of non-current assets	306	1,707	-	1,312	3,325
 Liabilities					
Segment liabilities	82	10,570	339	(96)	10,895
Intersegment eliminations					(4,648)
Total liabilities					6,247

Note 4. Segment Reporting (continued)

Consolidated - 2021	Singapore \$'000	Australia \$'000	Germany \$'000	Other \$'000	Total \$'000
Revenue					
Revenue from external customers	457	14,913	3,180	-	18,550
Intersegment revenue	(98)	(374)	-	-	(472)
Total revenue	<u>359</u>	<u>14,539</u>	<u>3,180</u>	<u>-</u>	<u>18,078</u>
Segment result (before tax)	<u>(1,005)</u>	<u>(2,613)</u>	<u>131</u>	<u>(875)</u>	<u>(4,362)</u>
Assets					
Segment assets	<u>2,107</u>	<u>11,346</u>	<u>705</u>	<u>23,012</u>	<u>37,170</u>
Intersegment eliminations					<u>(15,118)</u>
Total assets					<u>22,052</u>
<i>Total assets includes:</i>					
Acquisition of non-current assets	<u>731</u>	<u>2,495</u>	<u>1</u>	<u>3,981</u>	<u>7,208</u>
Liabilities					
Intersegment eliminations	<u>393</u>	<u>16,757</u>	<u>425</u>	<u>388</u>	<u>17,963</u>
Total liabilities					<u>(10,292)</u>
					<u>7,671</u>

Note 5. Revenue

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

Consolidated - 2022	Rendering of services \$'000	Sale of goods \$'000	Projects and equipment \$'000	Total \$'000
<i>Geographical regions</i>				
Australia	2,654	11,604	1,443	15,701
Singapore	738	-	-	738
Germany	219	2,906	80	3,205
	<u>3,611</u>	<u>14,510</u>	<u>1,523</u>	<u>19,644</u>
<i>Timing of revenue recognition</i>				
Goods transferred at a point in time	-	14,510	-	14,510
Services transferred over time	<u>3,611</u>	<u>-</u>	<u>1,523</u>	<u>5,134</u>
	<u>3,611</u>	<u>14,510</u>	<u>1,523</u>	<u>19,644</u>

Note 5. Revenue (continued)

Consolidated - 2021

Geographical regions

	Rendering of services \$'000	Sale of goods \$'000	Projects and equipment \$'000	Total \$'000
Australia	2,618	7,430	4,490	14,538
Singapore	359	-	-	359
Germany	195	2,930	56	3,181
	<u>3,172</u>	<u>10,360</u>	<u>4,546</u>	<u>18,078</u>

Timing of revenue recognition

Goods transferred at a point in time	-	10,360	-	10,360
Services transferred at point in time	3,172	-	-	3,172
Services transferred over time	-	-	4,546	4,546
	<u>3,172</u>	<u>10,360</u>	<u>4,546</u>	<u>18,078</u>

Note 6. Administrative and corporate expenses

	Consolidated	
	2022	2021
	\$'000	\$'000
Sales, marketing and business development costs	305	429
Consulting, professional fees and legal costs	95	327
Compliance, listing and other regulatory costs	176	180
Legal expenses	186	179
Insurance	179	159
Consulting costs	138	148
Technology and IT	121	139
Share based payments	381	60
Bad and doubtful debts	81	63
Fair value movement of deferred consideration	6	-
Other administration and corporate expense	<u>1,258</u>	<u>831</u>
	<u>2,926</u>	<u>2,515</u>

Note 7. Cash and cash equivalents

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current assets</i>		
Cash on hand	2	2
Cash at bank	3,787	4,339
Cash on deposit	1,349	4,347
	<u>5,138</u>	<u>8,688</u>

Reconciliation to cash and cash equivalents at the end of the financial year

The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	5,138	8,688
Bank overdraft	-	(79)
Balance as per statement of cash flows	<u>5,138</u>	<u>8,609</u>

Accounting policy for 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.

Note 8. Trade and other receivables

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current assets</i>		
Trade receivables	2,769	2,814
Less: Allowance for expected credit losses	(54)	(17)
	<u>2,715</u>	<u>2,797</u>
Other receivables	<u>175</u>	<u>72</u>
	<u>2,890</u>	<u>2,869</u>

The Company has \$111,000 (2021: \$156,000) in retentions receivables as at 31 December 2022. These amounts may not be receivable in the case of a defects liability claim under the respective customer contracts.

Note 8. Trade and other receivables (continued)

Allowance for expected credit losses

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

Consolidated	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2022 %	2021	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Not overdue	-	-	2,675	2,606	-	-
0 to 2 months overdue	-	-	178	195	-	-
3 to 4 months overdue	-	-	21	15	-	-
Over 4 months overdue	77%	24%	70	70	54	17
			<u>2,944</u>	<u>2,886</u>	<u>54</u>	<u>17</u>

Note 9. Inventories

	Consolidated	
	2022 \$'000	2021 \$'000
<i>Current assets</i>		
Consumables and supplies	<u>842</u>	<u>718</u>

During the year ended 31 December 2022, \$24,000 (2021: \$197,000) of inventory was written off.

Accounting policy for inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

Note 10. Right-of-use assets

	Consolidated	
	2022 \$'000	2021 \$'000
<i>Non-current assets</i>		
Land and buildings - right-of-use	1,804	1,670
Less: Accumulated depreciation	<u>(853)</u>	<u>(447)</u>
	<u>951</u>	<u>1,223</u>
Motor vehicles - right-of-use	459	203
Less: Accumulated depreciation	<u>(308)</u>	<u>(123)</u>
	<u>151</u>	<u>80</u>
	<u>1,102</u>	<u>1,303</u>

Note 10. Right-of-use assets (continued)

Reconciliations

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

Consolidated	Motor vehicles - right-of-use \$'000	Land and buildings - right-of-use \$'000	Total \$'000
Balance at 1 January 2021	152	278	430
Additions	-	1,494	1,494
Disposals	(43)	(227)	(270)
Depreciation expense	(29)	(322)	(351)
Balance at 31 December 2021	80	1,223	1,303
Additions	59	134	193
Additions through business combinations (note 25)	67	-	67
Exchange differences	-	8	8
Depreciation expense	(55)	(414)	(469)
Balance at 31 December 2022	<u>151</u>	<u>951</u>	<u>1,102</u>

Accounting policy for right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Note 11. Property, plant and equipment

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Non-current assets</i>		
Leasehold improvements - at cost	121	100
Less: Accumulated depreciation	(109)	(91)
	<u>12</u>	<u>9</u>
Plant and equipment - at cost	3,160	3,377
Less: Accumulated depreciation	(1,033)	(1,246)
	<u>2,127</u>	<u>2,131</u>
Construction in progress	1,548	509
Buildings	9	9
	<u><u>3,696</u></u>	<u><u>2,658</u></u>

Reconciliations

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

Consolidated	Buildings \$'000	Leasehold improvements \$'000	Property, plant and equipment at cost \$'000	Construction in progress \$'000	Total \$'000
Balance at 1 January 2021	9	21	1,314	-	1,344
Additions	-	-	663	509	1,172
Additions through business combinations of Capic business	-	-	495	-	495
Disposals	-	-	(27)	-	(27)
Exchange differences	-	-	46	-	46
Depreciation expense	-	(12)	(360)	-	(372)
Balance at 31 December 2021	9	9	2,131	509	2,658
Additions	-	21	404	1,039	1,464
Additions through business combinations (note 25)	-	-	4	-	4
Exchange differences	-	-	10	-	10
Depreciation expense	-	(18)	(422)	-	(440)
Balance at 31 December 2022	<u><u>9</u></u>	<u><u>12</u></u>	<u><u>2,127</u></u>	<u><u>1,548</u></u>	<u><u>3,696</u></u>

Accounting policy for property, 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.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Note 11. Property, plant and equipment (continued)

The depreciable amount of all fixed assets is depreciated over its useful life commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Plant and equipment	10 - 66.67%
Leasehold improvements	10 - 50%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date and where adjusted, shall be accounted for as a change in accounting estimate. Where depreciation rates or method are changed, the net written down value of the asset is depreciated from the date of the change in accordance with the new depreciation rate or method.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Note 12. Intangible assets

In relation to the business acquisitions, the consolidated entity had performed a provisional assessment of the fair value of the assets and liabilities as at the date of the acquisitions. For the purposes of the balance sheet, the assets and liabilities had been recorded at their provisional fair values. Under Australian Accounting Standards, the consolidated entity had up to 12 months from the date of acquisition to complete its initial acquisition accounting.

At the completion of this exercise, the consolidated entity determined that the entire goodwill amount represented an intangible asset - Customer relationships, as this was the fair value of intangible assets acquired.

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Non-current assets</i>		
Development - at cost	286	-
Software - at cost	77	58
Less: Accumulated amortisation	(60)	(57)
	17	1
Customer relationships	7,009	5,697
Less: Accumulated amortisation	(1,343)	(642)
	5,666	5,055
	<u>5,969</u>	<u>5,056</u>

Note 12. Intangible assets (continued)

Reconciliations

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

Consolidated	Development \$'000	Customer relationships \$'000	Total \$'000
Balance at 1 January 2021	-	1,544	1,544
Additions through acquisition of Capic Business	-	3,981	3,981
Amortisation expense	-	(469)	(469)
Balance at 31 December 2021	-	5,056	5,056
Additions	285	-	285
Additions through acquisition of Stevco (note 25)	-	1,312	1,312
Amortisation expense	-	(701)	(701)
Balance at 31 December 2022	<u>285</u>	<u>5,667</u>	<u>5,952</u>

Accounting policy for intangible assets

Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Development cost

During the year ended 31 December 2022, the consolidated entity has engaged in a process to obtain National Sanitation Foundation ("NSF") approval ("the process"), which would enable the consolidated entity to sell its Graphene Oxide enhanced membrane technology into the USA for drinking water applications. The process is expected to conclude in the year ended 31 December 2023. The costs incurred for the process were recognised in the consolidated statement of financial position as internally generated intangible asset. Upon the conclusion of the process, no additional cost will be capitalised and the capitalised costs will be amortised over 5 years.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- an intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development

Note 13. Trade and other payables

	Consolidated	
	2022 \$'000	2021 \$'000
<i>Current liabilities</i>		
Trade payables	1,627	1,774
Accruals and other payables	<u>883</u>	<u>2,017</u>
	<u>2,510</u>	<u>3,791</u>

Note 13. Trade and other payables (continued)

Refer to note 18 for further information on financial instruments.

Accounting policy for trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity 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.

Note 14. Lease liabilities

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current liabilities</i>		
Lease liability - land and buildings	356	194
Lease liability - motor vehicles	105	196
	<u>461</u>	<u>390</u>
<i>Non-current liabilities</i>		
Lease liability - land and buildings	658	113
Lease liability - motor vehicles	228	851
	<u>886</u>	<u>964</u>
	<u><u>1,347</u></u>	<u><u>1,354</u></u>

Refer to note 18 for further information on financial instruments.

	Within 1 year	Between 1 and 5 years	Total
Future minimum lease payments at 31 December 2022			
Lease payments	505	937	1,442
Finance charges	(44)	(51)	(95)
	<u>461</u>	<u>886</u>	<u>1,347</u>
Net present values			
Future minimum lease payments at 31 December 2021			
Lease payments	442	1,028	1,470
Finance charges	(52)	(64)	(116)
	<u>390</u>	<u>964</u>	<u>1,354</u>

Note 15. Deferred consideration

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current liabilities</i>		
Deferred consideration	164	431
<i>Non-current liabilities</i>		
Deferred consideration	79	238
	243	669

Deferred consideration payable in respect of the Capic business acquisition as at 31 December 2022 is \$164,000 (2021: \$281,000) and \$79,000 (2021: \$238,000) are current and non-current obligations, respectively. Refer to note 19 for fair value measurement of deferred consideration.

Note 16. Employee benefits

	Consolidated	
	2022	2021
	\$'000	\$'000
<i>Current liabilities</i>		
Annual leave	679	613
Long service leave	144	172
	823	785
<i>Non-current liabilities</i>		
Annual leave	9	-
Long service leave	19	43
	28	43
	851	828

Short-term employee benefits

Short-term employee benefits are benefits, other than termination benefits, that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. Examples of such benefits include wages and salaries, non-monetary benefits and accumulating sick leave. Short-term employee benefits are measured at the undiscounted amounts expected to be paid when the liabilities are settled.

Long-term employee benefits

The liability for 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 high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The Group presents employee benefit obligations as current liabilities in the statement of financial position if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period, irrespective of when the actual settlement is expected to take place.

Note 17. Issued capital

	2022 Shares	Consolidated 2021 Shares	2022 \$'000	2021 \$'000
Ordinary shares - fully paid	<u>244,406,335</u>	<u>221,150,572</u>	<u>39,238</u>	<u>36,243</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 January 2021	175,561,009		24,054
Placement	23 March 2021	32,142,856	\$0.280	9,000
Issue of shares as partial consideration for business acquisition	31 March 2021	3,196,773	\$0.320	1,030
Share Purchase Plan	21 April 2021	5,749,934	\$0.280	1,610
Exercise of options	30 September 2021	45,000	\$0.220	10
Exercise of options	13 October 2021	275,000	\$0.220	61
Exercise of options	20 October 2021	447,800	\$0.220	99
Exercise of options	21 October 2021	141,000	\$0.220	31
Exercise of options	26 October 2021	359,700	\$0.220	79
Exercise of options	29 October 2021	343,900	\$0.220	76
Exercise of options	4 November 2021	246,400	\$0.220	54
Exercise of options	10 November 2021	347,500	\$0.220	76
Exercise of options	15 November 2021	268,900	\$0.220	59
Exercise of options	19 November 2021	219,100	\$0.220	48
Exercise of options	26 November 2021	491,790	\$0.220	108
Exercise of options	25 October 2021	206,010	\$0.220	45
Exercise of options	17 December 2021	545,000	\$0.220	120
Exercise of options	30 December 2021	562,900	\$0.220	124
Allocation of share based payment reserve		-	\$0.000	280
Share issue costs		-	\$0.000	(721)
Balance	31 December 2021	221,150,572		36,243
Issue of shares as partial consideration for acquisition of Capic business	23 February 2022	387,958	\$0.320	125
Issue of shares as partial consideration for acquisition of Stevco	1 April 2022	1,356,161	\$0.210	280
Exercise of performance rights	23 June 2022	100,000	\$0.000	6
Placement	3 August 2022	20,197,358	\$0.140	2,828
Placement	3 October 2022	1,214,286	\$0.140	170
Share issue costs		-	\$0.000	(414)
Balance	31 December 2022	<u>244,406,335</u>		<u>39,238</u>

Accounting policy for issued capital

Ordinary shares are classified as equity. Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

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.

Note 17. Issued capital (continued)

Ordinary shares entitle the holder to the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid on the shares held.

Ordinary shares entitle holders to one vote, either in person or by proxy at a meeting of the Company.

The Company has an unlimited authorised capital and the shares have no par value.

Note 18. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: foreign currency risk, credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed, such as sensitivity analysis and maturity analysis.

The Consolidated entity's principal financial instruments are as follows.

	Consolidated	
	2022	2021
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	5,138	-
Trade and other receivables	2,890	-
Term deposits	253	-
	-	197
Total Financial assets	8,281	197
Financial liabilities		
Trade and other payables	2,510	3,791
Borrowings	48	-
Lease liabilities	1,347	-
Deferred consideration	243	669
Borrowings	48	138
Total financial liabilities	4,196	4,598

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets		Liabilities	
	2022	2021	2022	2021
Consolidated	\$'000	\$'000	\$'000	\$'000
Euros	557	276	251	273
Singapore dollars	661	474	50	258
	1,218	750	301	531

Note 18. Financial instruments (continued)

The consolidated entity had net assets denominated in foreign currencies of \$219,000 as at 31 December 2021 (2020: net assets of \$219,000).

Based on this exposure, the following sensitivity analysis has been performed. The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 12 months each year and the spot rate at each reporting date.

Consolidated - 2022	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Euro	25%	77	77	25%	(77)	(77)
Singapore dollar	25%	153	153	25%	(153)	(153)
		<u>230</u>	<u>230</u>		<u>(230)</u>	<u>(230)</u>
Consolidated - 2021	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Euro	25%	1	1	25%	(1)	(1)
Singapore dollar	25%	54	54	25%	(54)	(54)
		<u>55</u>	<u>55</u>		<u>(55)</u>	<u>(55)</u>

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Note 18. Financial instruments (continued)

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2022	Weighted average interest rate %	1 year or less \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives					
<i>Non-interest bearing</i>					
Trade and other payables	-	2,510	-	-	2,510
<i>Interest-bearing - fixed rate</i>					
Lease liabilities	-	461	886	-	1,347
Borrowings	-	48	-	-	48
Total non-derivatives		3,019	886	-	3,905

Consolidated - 2021	Weighted average interest rate %	1 year or less \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives					
<i>Non-interest bearing</i>					
Trade and other payables	-	3,791	-	-	3,791
Deferred consideration	-	431	238	-	669
<i>Interest-bearing - fixed rate</i>					
Lease liabilities	-	390	964	-	1,354
Borrowings	-	-	148	-	148
Total non-derivatives		4,612	1,350	-	5,962

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

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

Note 19. Fair value measurement

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: Unobservable inputs for the asset or liability.

Note 19. Fair value measurement (continued)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated - 2022				
<i>Liabilities</i>				
Deferred consideration	-	243	-	243
Total liabilities	-	243	-	243
Consolidated - 2021				
<i>Liabilities</i>				
Deferred consideration	-	669	-	669
Total liabilities	-	669	-	669

There were no transfers between levels during the financial year.

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.

Note 20. Key management personnel disclosures

Directors

The following persons were directors of De.mem Limited during the financial year:

Cosimo Trimigliozi	Non-Executive Chairman
Andreas Kroell	Chief Executive Officer and Director
Bernd Dautel	Non-Executive Director
Stuart Carmichael	Non-Executive Director
Michael Edwards	Non-Executive Director
Mr Danny Conlon	Non-Executive Director

Note 20. Key management personnel disclosures (continued)

Compensation

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

	Consolidated	
	2022	2021
	\$	\$
Short-term employee benefits	433,209	507,249
Post-employment benefits	42,182	31,463
Share-based payments	32,295	-
	<u>507,686</u>	<u>538,712</u>

Note 21. Remuneration of auditors

	Consolidated	
	2022	2021
	\$	\$
<i>Audit services - William Buck</i>		
Audit or review of the financial statements	<u>61,024</u>	<u>54,500</u>
<i>Other services -</i>		
Tax advisory services	<u>-</u>	<u>21,500</u>
	<u>61,024</u>	<u>76,000</u>

Note 22. Contingent liabilities

As at 31 December 2021 there are \$633 thousand in current term deposits held (in note 7), representing bank warranties relating to three projects and the completion of the defect liability period and bank guarantees for lease obligations.

Note 23. Related party transactions

Parent entity

De.mem Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 26.

Key management personnel

Disclosures relating to key management personnel are set out in note 20 and the remuneration report included in the directors' report.

Transactions with related parties

With the exception of the below, there were no transactions with related parties during the current year.

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

Loans to/from related parties

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

De.mem Limited
Notes to the consolidated financial statements
31 December 2022

Note 24. Parent entity information

	Parent 2022 \$'000	Parent 2021 \$'000
Financial position		
Total current assets	10,820	8,347
Total non-current assets	10,454	6,893
Total assets	<u>21,274</u>	<u>15,240</u>
Total current liabilities	<u>96</u>	<u>381</u>
Net assets	<u>21,178</u>	<u>14,859</u>
	Parent 2022 \$'000	Parent 2021 \$'000
Issued capital	39,238	31,521
Reserves	482	895
Accumulated losses	<u>(18,722)</u>	<u>(17,557)</u>
Total equity	<u>20,998</u>	<u>14,859</u>
	Parent 2022 \$'000	Parent 2021 \$'000
Financial performance		
Profit/(Loss) for the year	<u>(1,165)</u>	<u>(888)</u>

Note 25. Business combinations

Stevco acquisition

On 1 April 2022, the Company acquire 100% in the shares of Stevco Seals & Pumps Victoria Pty Ltd, Epping, Victoria, Australia ("Stevco").

Established in and operating since 2004, Stevco is a well-known supplier of pumps, small water treatment equipment and related operations & maintenance services to industrial and municipal clients in Victoria. Stevco has a reputation of supplying highest quality products and services. Stevco's long-term customer base includes leading industrial players from the food & beverage, agricultural and heavy industrial sectors, as well as a number of municipalities in Victoria.

The Company acquired Stevco for \$1.25 million in cash and 1,210,857 Company's fully paid ordinary shares at \$0.2065 each (fair value of the share price on acquisition date), plus an additional \$0.18 million in cash and 145,303 Company's fully paid ordinary shares at \$0.2065 each for Stevco's inventory.

Included in the share sale agreement was the requirement of the selling shareholders to enter binding employment agreements for a 24-month period. During this period there are milestone performance criteria based on revenue targets over 12 and 24-month periods. These subsequent share and cash payments are not deemed contingent consideration as the commercial substance of the payment arrangement requires continued service, and instead is treated as remuneration when the performance criteria are met.

At the date of acquisition, management has assessed the likelihood of achieving the aforementioned contingent future consideration and have recognised a contingent liability in accordance with AASB 3 Business Combinations.

The acquisition has been accounted for under AASB3 Business combinations. The provisional fair value of customer relationships of \$1,312,000 represents the value of future benefits that will accrue to the Group in the future from the Stevco's customer base on the date of acquisition. The acquired business contributed revenues of \$2,284,000 and loss after tax of \$137,000 to the consolidated entity for the period from the date of acquisition to 31 December 2022.

If the acquisition of Stevco had been completed on the first day of the financial year, Group revenue for the year ended 31 December 2022 would have been \$21,781,000 and the Group loss would have been \$3,494,000.

Note 25. Business combinations (continued)

	Fair value \$'000
Cash and cash equivalents	67
Trade receivables and other receivables	617
Inventories	210
Plant and equipment	71
Customer relationships	1,312
Trade and other payables	(468)
Employee benefits	(80)
Borrowings	(61)
Acquisition-date fair value of the total consideration transferred	1,668
Representing:	
Cash used or payable to vendor	1,430
De.mem Limited shares issued to vendor	280
Receivables from vendor	(30)
	1,680
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	1,680
Add: receivables from vendor	30
Less: cash acquired	(67)
Less: shares issued by company as part of consideration	(280)
Net cash used	1,363

Business acquisition costs for the acquisition of Stevco was \$40,000 and was formed part of the investing activities in the consolidated statement of cashflows.

Accounting policy for business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Deferred consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the deferred consideration classified as an asset or liability is recognised in profit or loss. Deferred consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Note 25. Business combinations (continued)

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Note 26. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2022 %	2021 %
De.mem-Akwa Pty Ltd	Australia	100.00%	100.00%
Akwa Facility Maintenance Pty Ltd	Australia	100.00%	100.00%
De.mem Pte Ltd	Singapore	100.00%	100.00%
De.mem Vietnam Ltd	Vietnam	100.00%	100.00%
De.mem-Pumptech Pty Ltd (formerly Pumpteck Tasmania Pty Ltd)	Australia	100.00%	100.00%
De.mem-Geutec GmbH (formerly Geutec Umwelt- and Abwassertechnik GmbH)	Germany	100.00%	75.00%
De.mem-Capic Pty Ltd	Australia	100.00%	100.00%
Stevco Seals & Pumps Victoria Pty Ltd	Australia	100.00%	-

Note 27. Events after the reporting period

No matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 28. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2022	2021
	\$'000	\$'000
Loss after income tax expense for the year	(3,455)	(4,440)
Adjustments for:		
Depreciation and amortisation	1,613	1,264
Share-based payments	381	60
Bad debt expense	81	-
Business acquisition costs	40	125
Write off of inventory	23	-
Fair value movement of deferred consideration	6	-
Other gains	-	(88)
Share of loss - associates	-	9
Foreign exchange differences	(42)	-
Movements in assets and liabilities:		
Decrease/(increase) in trade and other receivables	695	(1,212)
Decrease/(increase) in contract assets	(116)	116
Decrease/(increase) in inventories	86	(10)
(Increase)/decrease in Other assets	(73)	30
Increase/(decrease) in trade and other payables	(1,568)	1,170
Increase in contract liabilities	464	634
Increase/(decrease) in employee benefits	(57)	37
Increase in other provisions	38	-
Increase/(decrease) in Income tax balances	3	-
Net cash used in operating activities	<u>(1,881)</u>	<u>(2,305)</u>

Note 29. Loss per share

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	231,147,882	206,938,871
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>231,147,882</u>	<u>206,938,871</u>
	Cents	Cents
Basic earnings per share	(1.49)	(2.15)
Diluted earnings per share	(1.49)	(2.15)
	Consolidated	
	2022	2021
	\$'000	\$'000
Loss after income tax	(3,455)	(4,440)
Non-controlling interest	<u>(37)</u>	<u>(33)</u>
Loss after income tax attributable to the owners of De.mem Limited	<u>(3,492)</u>	<u>(4,473)</u>

Note 29. Loss per share (continued)

Accounting policy for earnings per share

Basic loss per share

Basic loss per share is calculated by dividing the profit attributable to the owners of De.mem 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 loss per share

Diluted loss per share adjusts the figures used in the determination of basic loss 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.

In addition to the rights to shares held by option and rights holders, the rights of the vendor of the Capic business to a settlement through issue of fully paid ordinary shares in the Company have not been included in the weighted average number of ordinary shares for the purposes of calculating diluted loss per share as they do not meet the requirements for inclusion in AASB 133 Earnings per Share. The rights are non-dilutive as the consolidated entity has generated a loss for the year.

Note 30. Share-based payments

A share option has been established by the entity, whereby the entity may grant options and performance rights over ordinary shares in the company to certain key management personnel, employees and consultants of the entity. The options are issued for nil consideration.

Set out below are summaries of options granted and on issue under at the end of the year:

2022							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
29/05/2020	24/06/2023	\$0.217	2,750,000	-	-	-	2,750,000
10/07/2020	10/07/2024	\$0.180	1,250,000	-	-	(500,000)	750,000
01/04/2022	31/05/2025	\$0.280	-	500,000	-	-	500,000
01/04/2022	30/06/2025	\$0.280	-	500,000	-	-	500,000
01/04/2022	30/09/2025	\$0.280	-	500,000	-	-	500,000
01/04/2022	31/12/2025	\$0.280	-	500,000	-	-	500,000
14/06/2022	23/06/2025	\$0.224	-	500,000	-	-	500,000
28/07/2022	02/08/2025	\$0.182	-	2,000,000	-	-	2,000,000
			4,000,000	4,500,000	-	(500,000)	8,000,000
Weighted average exercise price			\$0.205	\$0.230	\$0.000	\$0.180	\$0.221
2021							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
10/04/2018	10/04/2021	\$0.300	250,000	-	-	(250,000)	-
13/04/2018	13/04/2021	\$0.300	250,000	-	-	(250,000)	-
24/06/2020	24/06/2023	\$0.217	2,750,000	-	-	-	2,750,000
10/07/2020	10/07/2024	\$0.180	1,750,000	-	-	(500,000)	1,250,000
28/08/2020	30/12/2021	\$0.220	4,500,000	-	(4,500,000)	-	-
			9,500,000	-	(4,500,000)	(1,000,000)	4,000,000
Weighted average exercise price			\$0.216	\$0.000	\$0.220	\$0.240	\$0.205

The weighted average remaining life of options outstanding at 31 December 2022 was 1.78 years (2021: 1.88 years).

Note 30. Share-based payments (continued)

Set out below are the options exercisable at the end of the financial year:

Grant date	Expiry date	2022 Number	2021 Number
29/05/2020	24/06/2023	2,750,000	2,750,000
01/04/2022	31/05/2025	500,000	-
01/04/2022	30/06/2025	500,000	-
01/04/2022	30/09/2025	500,000	-
14/06/2022	23/06/2025	500,000	-
01/04/2022	31/12/2025	500,000	-
28/07/2022	02/08/2025	2,000,000	-
		<u>7,250,000</u>	<u>2,750,000</u>

Set out below are summaries of performance rights granted

2022

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
12/10/2021	31/07/2025	\$0.000	1,000,000	-	(100,000)	(400,000)	500,000
01/03/2022	31/12/2025	\$0.000	-	110,000	-	-	110,000
			<u>1,000,000</u>	<u>110,000</u>	<u>(100,000)</u>	<u>(400,000)</u>	<u>610,000</u>

2021

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
12/10/2021	31/07/2025	\$0.000	-	1,000,000	-	-	1,000,000
			<u>-</u>	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 2.66 years (2021: 3.58 years).

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
01/04/2022	31/05/2025	\$0.215	\$0.280	100.00%	-	2.35%	\$0.127
01/04/2022	30/06/2025	\$0.215	\$0.280	100.00%	-	2.35%	\$0.129
01/04/2022	30/09/2025	\$0.215	\$0.280	100.00%	-	2.35%	\$0.133
01/04/2022	31/10/2025	\$0.215	\$0.280	100.00%	-	2.35%	\$0.137
14/06/2022	23/06/2025	\$0.150	\$0.224	77.94%	-	3.48%	\$0.065
28/07/2022	02/08/2025	\$0.175	\$0.182	77.21%	-	3.48%	\$0.090

For the performance rights granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
01/03/2022	31/12/2025	\$0.205	\$0.000	-	-	-	\$0.205

Note 30. Share-based payments (continued)

Accounting policy for 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 are 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 consolidated entity 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 are 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.

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 consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity 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.

De.mem Limited
Directors' declaration
31 December 2022

In the directors' opinion:

- The consolidated financial statements and notes comply with the Corporations Act 2001, the Australian 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 as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2022 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



Mr Andreas Kroell
Director

28 February 2023
Melbourne

De.mem Limited
Independent auditor's report to members

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of De.mem Limited (the Company) and its controlled entities (together, the Group), which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- i. giving a true and fair view of the Group's financial position as at 31 December 2022 and of its financial performance for the year ended on that date; 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 Group 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 (including independence standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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.

Revenue Recognition	
Area of focus Refer also to notes 2 and 5	How our audit addressed it
For the year ended 31 December 2022, the Group recognised revenue totalling \$19,644,000 which is made up of several different revenue streams including: - Rendering of services; - Sale of goods; and - Projects and equipment. Each revenue stream requires a bespoke revenue recognition model to ensure that revenue is only recognised: a) when a performance milestone is achieved; b) can be reliably measured; and c) there is a low likelihood for dispute by the customer for revenues that are recognised which are beyond that originally scoped at the inception of the engagement. The audit team is required to obtain sufficient audit evidence as to whether the assumptions used by management to recognise revenue are reasonable and accurate in accordance with the relevant accounting and auditing standards. Due to the above, revenue recognition is a key audit matter.	Our audit procedures included: - Determining whether revenue recognised is in-compliance with AASB 15 <i>Revenue from Contracts with Customers</i> and the Group's accounting policies; - Identifying and verifying the achievement of performance milestones and recognition of revenue relative to the accretion of that achievement; - Agreeing revenue streams to a sample of underlying contracts with third parties; - Examining the existence of the revenue, both by testing to contract and to subsequent receipt of invoicing of the revenue to the customer; - Examining significant aged debtors for evidence of collectability and/or dispute with the services provided; and - Analytically reviewing the reasonableness of accrued revenue and billings-in-advance accounts. -We also assessed the appropriateness of disclosures attached to revenues and expected credit losses on receivables, particularly those mandatorily required by the Accounting Standard AASB 15 and AASB 7 <i>Financial Instruments: Disclosures</i>.
Acquisition of Stevco	
Area of focus Refer also to notes 2 and 25	How our audit addressed it
The Group acquired the Stevco Seals & Pumps Victoria Pty Ltd ("Stevco") business on 1 April 2022. The transaction included areas of accounting complexity for the following areas: — Assessing that the acquiree met the accounting definition of a business, which	Our audit procedures included: — Reviewing the acquisition agreements to understand the key terms and conditions of the acquisition; — Reviewing the particulars of the acquisition, including the appropriateness of defining

would allow the application of business combinations accounting; — Accounting for and appropriately fair valuing consideration paid for the transaction, including amounts paid through cash and scrip; — Identifying and allocating the intangible assets acquired to the appropriate cash-generating unit (CGU) for subsequent impairment testing; — Appropriately measuring and classifying in the profit or loss transaction costs relating to the acquisition; and — Setting an appropriate accounting policy for the amortisation of identifiable intangible assets arising from the purchase. We note that at reporting date the fair value attribution accounting is not complete, including: a) the attribution of identifiable intangible assets; and b) identifying any vendor guarantees or contingent liabilities that may be separately fair valued as part of the business purchase. Due to these complexities, it has been included as a key audit matter.	Stevco as a business under accounting standards; — Ensuring that transaction costs are expensed in compliance with AASB 3 <i>Business Combinations</i>; — Discussing with management their program for ensuring that they complete their analysis of fair values of assets and liabilities acquired by the anniversary of the acquisition date; — Examining the intangible asset allocation journals processed by management for their appropriateness, in the context of the 12 months grace afforded for truing up the values of those asset values; and — Assessing the appropriateness of the allocation of intangible assets to their CGU, as included in the Group's impairment trigger assessments. We also considered the adequacy of the Group's disclosures in relation to the business combination.
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Other Information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2022, 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 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 Group 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 Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of these financial statements is located at the Auditing and Assurance Standards Board website at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our independent auditor's report.

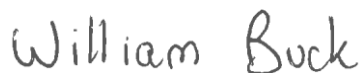
Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2022. In our opinion, the Remuneration Report of De.mem Limited for the year ended 31 December 2022 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.



William Buck Audit (Vic) Pty Ltd
ABN 59 116 151 136



N. S. Benbow
Director
Melbourne, 28 February 2023

The shareholder information set out below was applicable as at 17 February 2023.

Corporate Governance Statement

Refer to the Company's Corporate Governance statement at: <https://demembranes.com/investors/>.

Distribution of equity securities

Analysis of number of equity security holders by size of holding:

	Ordinary shares % of total		Options over ordinary shares % of total		Performance rights over ordinary shares % of total performance rights issued	
	Number of holders	shares issued	Number of holders	options issued	Number of holders	
1 to 1,000	57	-	-	-	-	-
1,001 to 5,000	372	0.46	-	-	-	-
5,001 to 10,000	190	0.62	-	-	-	-
10,001 to 100,000	443	6.91	-	-	-	-
100,001 and over	173	92.01	13	100.00	3	100.00
	<u>1,235</u>	<u>100.00</u>	<u>13</u>	<u>100.00</u>	<u>3</u>	<u>100.00</u>
Holding less than a marketable parcel	<u>299</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares % of total shares issued	
	Number held	
NA SINGAPORE EARLY-STAGE VENTURE FUND I PTE LTD	41,295,168	16.90
NATIONAL NOMINEES LIMITED	37,811,752	15.47
BNP PARIBAS NOMS PTY LTD	32,866,674	13.45
NEW ASIA INVESTMENTS PTE LTD	12,785,897	5.23
BNP PARIBAS NOMINEES PTY LTD	12,467,147	5.10
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD	4,328,146	1.77
BNP PARIBAS NOMS(NZ) LTD	4,049,142	1.66
CIPAC HOLDINGS PTY LTD	3,584,731	1.47
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	3,492,259	1.43
SPURGIN SMSF PTY LTD	3,338,285	1.37
ANDREAS KROELL	3,213,340	1.31
MR GEOFFREY IAN FOLEY & MRS PATRICIA ERIKA FOLEY	2,788,123	1.14
CITICORP NOMINEES PTY LIMITED	2,643,281	1.08
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	2,505,000	1.02
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,347,273	0.96
SLO CONCEPTS PTY LTD	1,985,000	0.81
MR HIEN QUANG TRINH	1,697,035	0.69
F & T SPAGNOLO PTY LTD	1,301,208	0.53
DR AFSHIN POUR MIRZA	1,111,111	0.45
ACMAIOS GMBH	1,111,111	0.45
	<u>176,721,683</u>	<u>72.29</u>

De.mem Limited
Shareholder information
31 December 2022

Unquoted equity securities

	Number on issue	Number of holders
Director options - exercise price \$0.217 (21.7cents), expiring 24 June 2023	2,750,000	5
Employee options - various exercise prices and expiry dates	1,250,000	4
Corporate advisor options - exercise price \$0.2795 (27.95 cents) with various expiry dates	2,000,000	1
Director sign-on options - exercise price \$0.2237 (22.37 cents), expiring 24 June 2023	500,000	1
Joint lead manager options - exercise price \$0.182 (18.2 cents), expiring 2 August 2025	2,000,000	2
Performance rights - various expiry dates	1,110,000	3

The following persons hold 20% or more of unquoted equity securities:

Name	Class	Number held
Blue Ocean Equities Pty Ltd	Corporate advisor options - exercise price \$0.2795 (27.95 cents) with various expiry dates	2,000,000
Danny Conlon	Director sign-on options - exercise price \$0.2237 (22.37 cents), expiring 24 June 2023	500,000
Blue Ocean Equities Pty Ltd	Joint lead manager options - exercise price \$0.182 (18.2 cents), expiring 2 August 2025	1,000,000
Bell Potter Nominees Ltd (BP Nominees A/C)	Joint lead manager options - exercise price \$0.182 (18.2 cents), expiring 2 August 2025	1,000,000

Substantial holders

Substantial holders in the company, as disclosed in substantial holding notices given to the company under the Corporations Act, are set out below:

	Ordinary Shares Number held
NA Singapore Early-Stage Venture Fund I Pte Ltd	41,795,168
Perennial Value Management Limited (PVM)	24,937,546
Pathfinder Asset Management Limited, and its related bodies corporate, and each of Gough Investments Limited and Alvarium RE Limited	13,744,308
New Asia Investments Pte Ltd	11,921,611
Andreas Hendrick De Wit	6,890,786

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

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.

Other classes of equity securities do not carry voting rights.

On-market buy-back

There is no current on-market buy-back.

Securities subject to voluntary escrow

Class	Expiry date	Number of shares
Fully paid ordinary shares	31 March 2023	3,196,773
Fully paid ordinary shares	1 October 2023	1,356,161
		<u>4,552,934</u>