BABYLON OPERATIONS PTY LTD
ABN 37 617 350 731

SPECIAL PURPOSE FINANCIAL REPORT

FOR THE PERIOD ENDED

30 JUNE 2017

Contents

Statement of profit or loss and other comprehensive income

For the period ended 30 June 2017

	30 June 2017
Revenue	62,996
Cost of sales	(69,794)
Employee benefits expense	(83,388)
Other expenses	(148,065)
Earnings before interest, tax and depreciation	**(238,251)**
Depreciation	(11,377)
Operating loss	**(249,628)**
Finance income	649
Net financing income	**649**
Loss before tax	**(248,979)**
Income tax expense	-
Loss for the period	**(248,979)**
Total comprehensive loss for the period	**(248,979)**

This special purpose financial report should be read in conjunction with the accompanying notes

Statement of financial position

As at 30 June 2017

	30 June 2017
Assets	
Cash and cash equivalents	299,346
Trade and other receivables	88,244
Total current assets	**387,590**
Plant and equipment	335,160
Total non-current assets	**335,160**
Total assets	**722,750**
Liabilities	
Trade and other payables	51,729
Total current liabilities	**51,729**
Total liabilities	**51,729**
Net assets	**671,021**
Equity	
Share capital	920,000
Retained earnings	(248,979)
Total equity	**671,021**

This special purpose financial report should be read in conjunction with the accompanying notes.

Statement of cash flows

For the period ended 30 June 2017

	30 June 2017
Cash flows from operating activities	
Payments to suppliers and employees	(274,766)
Interest received	649
Net cash used in operating activities	**(274,117)**
Cash flows from investing activities	
Purchase of plant and equipment	(346,537)
Net cash used in investing activities	**(346,537)**
Cash flows from financing activities	
Proceeds from issue of shares	920,000
Net cash provided by financing activities	**920,000**
Net increase in cash held	299,346
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalent at the end of the period	**299,346**

This special purpose financial report should be read in conjunction with the accompanying notes

1. Basis of preparation

Babylon Operations Pty Ltd is a company domiciled in Australia. The address of the company's registered office is Level 1, 1109 Hay Street, West Perth, Western Australia. The financial statements of the company have been presented as at and for the period 13 February 2017 to 30 June 2017.

In the Director's opinion, the company is not a reporting entity because there are no users dependent on general purpose financial statements. These are special purpose financial statements. The Director has determined that the accounting policies adopted are appropriate to meet the needs of the users.

The financial statements have been prepared under the historical cost convention and do not take into account changing monetary values. The accrual and going concern basis have been adopted.

These financial statements have been prepared in accordance with the recognition and measurement requirements specified by the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the disclosure requirements of AASB 101 ' Presentation of Financial Statements', AASB 107 ' Statement of Cash Flows', AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors', AASB 1028 'Interpretations of Standards' and AASB 1054 'Australian Additional Disclosures' as appropriate for profit entities.

2. Significant accounting policies

Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts (if any).

Trade and Other Receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from 14 days to 31 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Company in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Company. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income

Trade and Other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

2. Significant accounting policies (continued)

Going concern

For the period ended 30 June 2017 the company recorded a loss of $248,979 and had net cash outflows from operating activities of $274,117.

The ability of the company to continue as a going concern is dependent upon the success of the fundraising under the prospectus and continued shareholder support to continue to fund its operational activities and marketing activities.

These conditions indicate a material uncertainty that may cast a significant doubt about the company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management believes there are sufficient funds to meet the company's working capital requirements and as at the date of this report.

The financial statements have been prepared on the basis that the company is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business as the company is currently in the process of completing a prospectus to raise approximately $3.8m to $6m in funds.

Should the company not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

Plant and equipment

Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and are recognised net within other income / (expense) in the statement of profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

Subsequent costs

The cost of replacing a part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

2. Significant accounting policies (continued)

Plant and equipment (continued)

Power generation assets

Power generation assets comprise the plant, equipment, fixtures and fittings of the Company's wholly owned power stations. In the opinion of the directors, these assets comprise a separate class of assets.

The power generation assets have been componentised in the following categories and are being depreciated over their estimated useful lives as follows:

- Gas and diesel engines 20 years
- Other assets 5 to 30 years

Power generation assets of the Company require ongoing maintenance and minor / major overhaul works over time. This is managed as part of an ongoing major cyclical maintenance program. The cost of this maintenance is charged as an expense as incurred, except where the cost relates to the replacement of a component of an asset, in which case costs are capitalised and depreciated in accordance with the component classifications above. Other routine maintenance, repair costs and minor renewals are also charged as expenses as incurred.

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.

The estimated useful lives of other classes of assets for current and comparative periods are as follows:

- Office and equipment 2-5 years

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

Revenue

Rendering of services

Revenue from the rendering of services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- Contract income is recognised by reference to the total actual costs incurred at the end of the reporting period relative to the proportion of the total costs expected to be incurred over the life of the contract;

- Servicing fees are recognised by reference to the proportion of the total cost of providing the service for the product sold; and

- Revenue from time and material contracts are recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets). Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

2. Significant accounting policies (continued)

Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.
Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Share Capital

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.
Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

New standards and interpretations not yet adopted

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application date or future reporting periods and which the Company has decided not to early adopt. A discussion of those future requirements and their impact on the Company is as follows:

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the entity.

2. Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition.

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

AASB 16 Leases

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

Director's Declaration
For the period ended 30 June 2017

The sole director declares that the Company is not a reporting entity. The Director of the Company has determined that this special purpose financial report should be prepared in accordance with the accounting policies described in Note 1 to the financial statements.

The Director of the Company declares that:

(a) The financial statements and notes, as set out on pages 3 to 10 presents fairly the Company's financial position as at 30 June 2017 and its performance for the period then ended in accordance with the accounting policies described in Note 2 to the financial statements;

(b) In the Director's opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the director:

Managing Director

Dated at Perth this 2nd day of August 2017

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INDEPENDENT ASSURANCE PRACTITIONER'S REASONABLE ASSURANCE REPORT HISTORICAL FINANCIAL INFORMATION

To the Directors of Babylon Operations Pty Ltd

Reasonable Assurance Report

Scope

We have undertaken a reasonable assurance engagement of the accompanying historical financial information of Babylon Operations Pty Ltd prepared for the purposes of meeting the requirements of ASIC's Regulatory Guidance 228.

The historical financial information comprises:

- The Statement of Profit or Loss and Other Comprehensive Income for the period from 13 February 2017 to 30 June 2017;
- The Statement of Financial Position as at 30 June 2017;
- The Statement of Cash Flows for the period from 13 February 2017 to 30 June 2017; and
- A Summary of Significant Accounting Policies.

Directors' responsibility

The directors of Babylon Operations Pty Ltd are responsible for the preparation of the historical financial information in accordance with the basis of preparation described in Note 1. This includes responsibility for such internal controls as the directors determine are necessary to enable the preparation of historical financial information that is free from material misstatement, whether due to fraud or error.

Our independence and quality control

We have complied with the relevant ethical requirements relating to assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

In accordance with Auditing Standard ASQC 1, BDO Audit (WA) Pty Ltd maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our responsibility

Our responsibility is to express an opinion on the historical financial information based on the procedures performed and the evidence we have obtained. We conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information. That standard requires that that we plan and perform the engagement to obtain reasonable assurance about whether the historical financial information is free from material misstatement.

A reasonable assurance engagement involves performing procedures to obtain evidence about the amounts and disclosures in the historical financial information. The procedures selected depend on the assurance practitioner's judgement, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, the assurance practitioner considers internal control relevant to the company's preparation of the historical financial information. A reasonable assurance engagement also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors.

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

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

Opinion

In our opinion, the historical financial information presents fairly in all material respects with the stated basis of preparation as described in the scope section of this report.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 2 of the financial report which describes the events and /or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Restriction on use

Without modifying our opinion, we draw attention to Note 1, which describes the purpose of the financial information. As a result, the financial information may not be suitable for use for another purpose.

BDO Audit (WA) Pty Ltd

BDO

Jarrad Prue

Director

Perth,2 August 2017