

# **PIVOTAL SYSTEMS CORPORATION**

## **ANNUAL FINANCIAL REPORT**

**31 DECEMBER 2017**

**31 DECEMBER 2016**

**31 DECEMBER 2015**



# Pivotal Systems Corporation

Directors' report	2
Financial report	
Statement of profit or loss and other comprehensive income	8
Statement of financial position	9
Statement of changes in equity	10
Statement of cash flows	11
Notes to the financial statements	12
Directors' declaration	37
Independent auditor's report to the members of Pivotal Systems Corporation	38

# Pivotal Systems Corporation | Directors' report

The directors present their report, together with the financial report of Pivotal Systems Corporation (referred to hereafter as the "Company", "Pivotal Systems" or "Pivotal") for the year ended 31 December 2017, 31 December 2016 and 31 December 2015 and the auditor's report thereon.

## Directors

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

### John Hoffman

John Hoffman is Director and CEO of Pivotal Systems. He has over 25 years of Global High Technology management experience primarily in the semiconductor capital equipment and information technology markets. Prior to joining Pivotal Systems, John was a Senior VP with Spencer Trask Ventures, a New York based venture capital firm. While at Spencer Trask, John was primarily involved in the solar and integrated circuit efforts of the firm. Prior to Spencer Trask, John was the Chief Executive Officer of RagingWire Enterprise Solutions, an Inc 500 fastest growing private company. John reorganised the company and enabled its record growth in revenue and profitability during his tenure. Prior to RagingWire, John worked in various general manager roles at Applied Materials for 18 years. This included Chief Information Officer, Etch Product Business Group President, Process Control and Diagnostics General Manager and General Manager of the Customer Service Division.

John has a B.S. from the United States Military Academy at West Point and an Executive MBA (AEA) from Stanford University. He currently serves on several Boards of Directors and Advisory Boards.

### Joseph Monkowski

Joseph Monkowski is Director, President and Chief Technology Officer of Pivotal Systems of Pivotal Systems. He has extensive experience in the semiconductor industry focused on providing process equipment and metrology solutions for next generation device manufacturing. Prior to joining Pivotal, Joseph was the SVP of Business Development for Advanced Energy Industries, where he led the company's M&A strategy to expand its product portfolio and position the company as a market leader in the semiconductor subsystems space. Previously, he held senior executive positions at Pacific Scientific, Photon Dynamics and Lam Research, where he served as EVP and CTO. During his career, Joseph led efforts to design and build a number of leading CVD and plasma etch systems, winning the R&D 100 award and multiple Semiconductor International Best Product awards. He has authored numerous patents and publications.

Joseph Monkowski has a B.S., M.S. and Ph.D. in Electrical Engineering and an M.S. in Materials Science, all from Penn State University. He also served as a Professor of Electrical Engineering for six years at Penn State University.

### Ryan A. Benton

Ryan A. Benton is Independent Director of Pivotal Systems. He has been the CFO of BrainChip (ASX: BRN) since August 2017. Prior to joining BrainChip, Ryan served as CEO and Board Member at Exar Corporation (NYSE: EXAR), which was acquired by MaxLinear Corporation (NASDAQ: MXL) in May 2017. Mr. Benton joined Exar as CFO in 2012. Prior to joining Exar, Ryan was CFO of SynapSense Corporation, a private venture-backed company. Prior to SynapSense, from February 2007 to May 2012, Ryan was CFO of SoloPower, Inc., a manufacturer of thin-film solar cells and flexible solar modules. From November 2004 to February 2007, Ryan served as a financial consultant for the United States subsidiary of ASM International NV in Phoenix, Arizona, a semiconductor capital equipment company. He also served as CFO for PB Unlimited, an advertising specialty manufacturer from April 2002 through November 2004. Ryan served as corporate controller for eFunds, which was a public company that provides information technology solutions for the financial service industry, where he was employed from September 2000 to March 2002.

Ryan began his career in 1991 at Arthur Anderson after receiving a B.A. from the University of Texas at Austin. Mr. Benton is a licensed Certified Public Accountant.



# Pivotal Systems Corporation | Directors' report

## Kevin Landis

Kevin Landis is chief investment officer of Firsthand Capital Management (FCM), an investment management firm he founded in 1994.

FCM is the investment adviser to Firsthand Technology Value Fund (NASDAQ: SVVC), a publicly-traded venture capital fund. Born and raised in Silicon Valley, Kevin has over two decades of experience in engineering, market research, product management, and investing in the technology sector.

Kevin holds a bachelor's degree in electrical engineering and computer science from the University of California at Berkeley and an MBA from Santa Clara University.

## David Michael

David Michael is Managing Director at Anzu Partners, an investment partnership which invests in innovative industrial technology companies. In addition to his role at Pivotal Systems, he is also Board member of Nuburu (industrial lasers), Axsun (MEMS-based sensors for medical and industrial uses), and Terapore (nanofiltration membranes for ultrapure water and other applications).

David was formerly Senior Partner and Managing Director of The Boston Consulting Group (BCG), where his career spanned numerous leadership roles across the firm. He formerly led BCG's Greater China business and their Asia Technology Practice. He served a range of clients in semiconductors, components, hardware, software, and services. He was based for 7 years in Silicon Valley and for 16 years in Greater China. He remains a Senior Advisor to the firm. David is also a board member of Taiwan Cement Corporation, a publicly traded industrial conglomerate whose businesses include specialty chemicals, lithium ion batteries, and power generation.

David holds a B.A. in Economics from Harvard University and a M.B.A. from Stanford.

## Principal Activities

Pivotal Systems designs, develops, manufactures and sells high-performance gas flow controllers (GFC). We provide high quality gas flow monitoring and control technology platform for the global semiconductor industry. The Company's proprietary hardware and software utilises advanced machine learning to enable preventative diagnostic capability resulting in an order of magnitude increase in fab productivity and capital efficiency for existing and future technology nodes.

The platform includes Pivotal's Gas Flow Controller (GFC) product lines that offer high-accuracy, real-time monitoring and control of the most critical parameters difficult to control in wafer processing today: Gas Flow and Chamber Condition.

During all financial years, the principal activities of the Company consisted of the development and introduction of new lines of gas flow controllers and increasing sales of existing products for both device manufacturers and equipment companies in the semi-conductor manufacturing industry.

## Dividends

No dividends were paid during the financial year (2016: \$Nil, 2015: \$Nil).

## Review of Operations and Financial Results

### Overview

In 2017, we maintained our strategic focus, continued making breakthroughs, and created real value for our customers. Our annual revenue was \$15.45 million (2016: \$8.18 million, 2015: \$4.81 million), up 89% between 2016 and 2017, with gross profit of \$2.97 million (2016: \$1.64 million, 2015: \$0.45 million), up 81% between 2016 and 2017.

Overall, the net loss after tax for the year was \$9.82 million (2016: \$12.71 million, 2015: \$4.55 million) which has been driven mainly by fair value loss on measurement of liabilities held at fair value through profit and loss of \$5.82 million and \$8.47 million in 2017 and 2016 respectively (2015: \$Nil).

On September 15, 2017, Pivotal Systems introduced its new gas flow controllers, GFC-H-5L, GFC-H-20L and GFC-H-50L, for precise flow control up to maximum of 50 liters at an accuracy of  $\pm 1.0\%$  of set point. These new products complement the existing GFC product family of GFC-20, GFC-200, GFC-1000 and GFC-2000 which will encompass all of the semiconductor processes.

Flow from 2L to 50L require a new level of technical capability in both flow accuracy and control which has a high potential to enhance performance to the industry and enables Pivotal Systems to provide solutions across the entire semiconductor gas flow range.

Pivotal's existing product line of gas flow controllers (GFC) have registered a significant increase in sales from 2016. Leading IDMs, foundries and OEMs continue using Pivotal's products to dramatically increase yield and productivity by avoiding catastrophic scrap events, tightening process windows, and matching chambers and eliminating off line flow calibration.

## Future Developments

Pivotal's business is positively impacted by the stable, profitable and growing semiconductor industry, which growth is driven by diverse connected applications, a broad set of market trends Big Data, Industry 4.0, VR/AR/MR and autonomous vehicles bringing incredible inflections in new processor architectures, next-generation devices and packaging schemes, in a new era of computing centered on artificial intelligence.

Pivotal's roadmap of continuous innovation in gas flow control is a response to semiconductor manufacturers' critical needs of making their production effective and efficient and getting the highest possible yields.

Semiconductor flow control requires precision and repeatability in a dynamic environment, which has been tackled by our products. Our products are the combination of decades of know-how with several highly proprietary manufacturing processes and new processes specified in by the device manufacturer.

Our products are superior in comparison with today's thermal MFC's, designed out by leading IDM's, which are technically not fast enough to be competitive. Additionally, today's pressure based MFC's are not fast enough, suffer from pressure perturbations and have a limited range. The Pivotal GFC is Nano-Technology using real-time information to flow the correct amount of gas. The following are the main characteristics of our products:

- Gas Pressure (Millisecond Readings)
- Gas Temperature (Millisecond Readings)
- Gas Specific Factors like compressibility
- Valve Position measured to the Nanometer at the Millisecond

Today the Pivotal GFC is the Fastest Flow Controller in the world, operating at the millisecond level. In the near future, the Pivotal GFC will be capable of operating at the microsecond level - with no mechanical changes.

Only some electronic components need to be changed to make the GFC over 100X faster than it is today. In contrast, pressure Based MFC's will require a complete redesign to function in this speed paradigm. There are no known work-arounds. As a result, our proprietary GFC technology is not only the best today, it is extendable to the future.

Pivotal owns several patents issued in the United States, China, France, Germany, Great Britain, Ireland, Japan, South Korea, and Taiwan and has several patents applications pending for resolution.

## Risk

Our patent applications may not result in issued patents, which may have a material adverse effect on our ability to prevent others from commercially exploiting products similar to ours.

Risk factors that may impact sales growth include delays in product development, commercial viability of new products, delays in the establishment of a high performance sales organization and the global economy.

The majority of the Company's revenue was generated from three customers.

The timing of new product releases is a key factor in new license and subscription growth. New technology in releases carry inherent risks of delay and quality. Forward planning of the technology requirements for each release and disciplined project management and quality assurance processes mitigate these risks. As the Company diversifies its product base the risk of the commercial viability of new products increases. This risk will be mitigated through in depth market research, as well as continued investment in R&D and a nimble approach to product development to keep pace with market demands.

Sales of GFC require lengthy lead times for evaluation of product in customer premises. Failure to provide product enhancements required by customers in a timely and effective manner could reduce revenue growth. This risk is mitigated through the engage of the customer in the development phase of the product and comprehensive testing.

New financial risks can arise from expanding the geographic reach of the Company, broadening the customer base through new product lines or new services.

We do not anticipate declaring any cash dividends to holders of our common stock in the foreseeable future. Consequently, investors may need to rely on sales of their common stock after price appreciation, which may never occur, as the only way to realise any future gains on their investment.

## Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Company during the financial years ended 31 December 2017, 31 December 2016 and 31 December 2015.

## Matters subsequent to the end of the financial year

On 8 January 2018, the Company amended their loan agreement with Bridge Bank. This amendment acknowledged the Company was not in compliance with their financial covenants as of 30 November 2017 and offered a waiver on the default. The agreement modified the loan amount to allow the Company to borrow an aggregate amount of \$4 million. An additional advance of \$1,896,842 was made to the Company on 9 January 2018.

On 28 February 2018 the Board of Directors of Pivotal approved the grant 950,000 options to purchase Class B Common Stock to certain employees listed below. The options are exercisable at a price equal to the fair market value at the date of grant and expire 10 years thereafter. The options were issued as follows:

John Hoffman	300,000 (1)
Joseph Monkowski	300,000 (1)
Omesh Sharma	200,000 (1)
Consultant	150,000 (2)

- (1) Options vest in four equal tranches subject to (a) the achievement individually of Milestones and each tranche vesting 25% per year on each anniversary of the grant date, and subject to Single-Trigger change of control conditions.
- (2) Options vest in two equal tranches subject to achievement of certain Milestones and each tranche vesting 25% per year on each anniversary of the grant date.

# Pivotal Systems Corporation | Directors' report

The Board approved the following issues of Class B Common Stock Options to employees and consultants under the 2012 Equity Incentive Plan. The options are exercisable at \$0.37 per option with an expiry date 10 years from grant date:

15 February 2018	25,000
29 March 2018	84,000 (issued to Non-Executive Director, Ryan Benton)
15 April 2018	230,000

On March 12, 2018, the Company appointed the investment banks Moelis Australia, and Shaw and Partners, to explore a potential 2018 listing on the Australian Securities Exchange.

On 16 March 2018, Pivotal Systems incorporated a wholly-owned subsidiary in the Republic of South Korea named Pivotal Systems Korea Limited.

On 11 April 2018, the Company amended their loan agreement with Bridge Bank. This amendment acknowledged the Company was not in compliance with their financial covenants for the period ended 31 December 2017 and the subsequent period 12 January - 30 January 2018. The agreement offered a waiver on these existing defaults.

No other matters or circumstances have arisen since 31 December 2017 which has significantly affected, or may significantly affect the Company's operations in future financial years; or the results of those operations in future financial years, or the Company's state of affairs in future financial years.

## Likely developments and expected results of operations

Pivotal Systems plans to accelerate expansion into local operations in Asia, as well as expand operations in the United States. The Company also intends to enter into other large industrial markets where its intelligent sensing and control technologies offer advantages.

Completion of a listing and capital raising on the Australian Securities Exchange in July 2018 is expected to provide sufficient funding to support this expansion.

At the date of this report there are no other likely developments in the operations of the Company that would materially impact the results of the Company. The key opportunities that may benefit the Company are set out in the "Future developments" section above, and the associated risks are set out under the heading "Risk" above.

## Presentational currency

The functional and presentation currency of the Company is United States Dollars ('US dollars'). The financial report is presented in US Dollars with all references to dollars, cents or \$'s in these financial statements presented in US currency, unless otherwise stated.

## State of incorporation

The Company is incorporated in the State of Delaware, United States of America.

## Environmental regulation

The Company is not subject to any significant environmental regulation under United States of America legislation. The Company is committed to the sustainable management of environmental, health, and safety (EHS) concerns as a core business principle. This includes ensuring compliance with all applicable government standards and regulations and providing a safe and healthy workplace, while reducing our environmental footprint. We integrate health, safety, and environmental considerations into all aspects of our business, including product design and services, to provide productive and responsible solutions by:

- Striving for zero accidents through the application of an EHS Management System.
- Implementing pollution prevention control strategies.
- Committing to continual improvement for our customers, Company, and Company's personnel.

The Board of Directors considers that adequate systems are in place to manage the Company's obligations and is not aware of any breach of environmental requirements as they relate to the Company.

## Share options

Share options over issued shares in the Company were granted both during the year, and also subsequent to the financial year end. The number of options outstanding as at the date of this reports, and all other movements in share options, are disclosed in Notes 16 and 20 to the financial statements.

## Indemnity and insurance of officers

The Company has indemnified directors and executive of the Company for costs incurred, in their capacity as a non-executive director, 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 of \$18,998 (2016: \$20,266; 2015: \$18,366) to insure the Directors and officers of Pivotal. The liabilities insured are legal costs and other expenses that may be incurred in defending any civil or criminal proceedings that may be brought against them in their capacity as Directors or officers of the Company.

## 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 proceedings have been brought or intervened in on behalf of the Company.

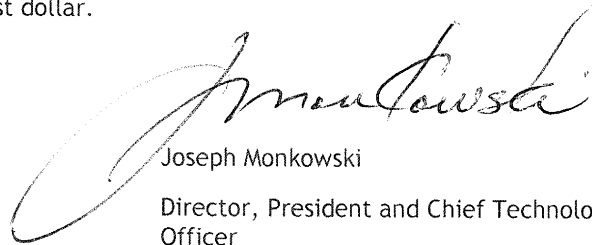
## Rounding of amounts

Amounts in this report have been rounded off in accordance with Corporations Instrument 2016/191 to the nearest thousand dollars, or in certain cases, the nearest dollar.

On behalf of the directors



John Hoffman  
Director and Chief Executive Officer



Joseph Monkowski  
Director, President and Chief Technology Officer

11 May 2018, Fremont, CA

**Statement of profit or loss and other comprehensive income**  
**For the years ended 31 December 2017, 31 December 2016 and 31 December 2015**

	Note	2017 US\$'000	2016 US\$'000	2015 US\$'000
Revenue	2	15,446	8,175	4,805
Cost of goods sold		(12,472)	(6,535)	(4,357)
Gross profit		2,974	1,640	448
<b>Expenses</b>				
Research & development	3	(2,451)	(1,976)	(1,555)
Selling & marketing	3	(2,650)	(1,744)	(1,835)
General & administrative	3	(1,789)	(1,969)	(1,501)
Total expenses		(6,890)	(5,689)	(4,891)
Operating loss		(3,916)	(4,049)	(4,443)
Finance expenses	3	(81)	(187)	(109)
Other financial items	3	(5,820)	(8,470)	-
Loss before income tax expense		(9,817)	(12,706)	(4,552)
Income tax expense	4	-	-	-
Loss after income tax expense		(9,817)	(12,706)	(4,552)
<b>Other comprehensive income</b>				
Other comprehensive income for the year, net of tax		-	-	-
Total comprehensive loss for the year attributable to the owners of Pivotal Systems Corporation		(9,817)	(12,706)	(4,552)

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

# Statement of financial position

As at 31 December 2017, 31 December 2016 and 31 December 2015

	Note	2017 US\$'000	2016 US\$'000	2015 US\$'000
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	5	1,148	4,658	1,913
Trade and other receivables	6	2,563	3,002	595
Inventories	7	4,687	2,855	2,614
Other assets		119	93	61
<b>Total current assets</b>		<b>8,517</b>	<b>10,608</b>	<b>5,183</b>
<b>Non-current assets</b>				
Property, plant and equipment	8	341	125	268
Intangible assets	9	8,349	7,720	6,881
Other assets		9	8	8
<b>Total non-current assets</b>		<b>8,699</b>	<b>7,853</b>	<b>7,157</b>
<b>Total assets</b>		<b>17,216</b>	<b>18,461</b>	<b>12,340</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	10	4,392	2,730	1,001
Employee benefits	11	341	264	236
Warranty provision	12	459	298	235
Borrowings	13	3,008	2,482	-
Financial liabilities	14	39,009	33,765	18,096
<b>Total current liabilities</b>		<b>47,209</b>	<b>39,539</b>	<b>19,568</b>
<b>Non-current liabilities</b>				
Borrowings	13	-	-	2,500
<b>Total non-current liabilities</b>		<b>-</b>	<b>-</b>	<b>2,500</b>
<b>Total liabilities</b>		<b>47,209</b>	<b>39,539</b>	<b>22,068</b>
<b>Net liabilities</b>		<b>(29,993)</b>	<b>(21,078)</b>	<b>(9,728)</b>
<b>Equity</b>				
Contributed equity	15	43,263	42,405	41,491
Reserves	16	1,179	1,135	693
Accumulated losses		(74,435)	(64,618)	(51,912)
<b>Total equity</b>		<b>(29,993)</b>	<b>(21,078)</b>	<b>(9,728)</b>

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

# Statement of changes in equity

For the years ended 31 December 2017, 31 December 2016 and 31 December 2015

	Contributed equity US\$'000	Reserves US\$'000	Accumulated losses US\$'000	Total equity US\$'000
Balance at 1 January 2015	41,475	645	(47,360)	(5,240)
Loss after income tax expense for the year	-	-	(4,552)	(4,552)
Other comprehensive loss for the year, net of tax	-	-	-	-
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>(4,552)</b>	<b>(4,552)</b>
<i>Transactions with owners in their capacity as owners:</i>				
Issue of ordinary share capital	16	-	-	16
Share-based payments (note 16)	-	48	-	48
<b>Balance at 31 December 2015</b>	<b>41,491</b>	<b>693</b>	<b>(51,912)</b>	<b>(9,728)</b>

	Contributed equity US\$'000	Reserves US\$'000	Accumulated losses US\$'000	Total equity US\$'000
Balance at 1 January 2016	41,491	693	(51,912)	(9,728)
Loss after income tax expense for the year	-	-	(12,706)	(12,706)
Other comprehensive loss for the year, net of tax	-	-	-	-
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>(12,706)</b>	<b>(12,706)</b>
<i>Transactions with owners in their capacity as owners:</i>				
Issue of ordinary share capital	914	-	-	914
Share-based payments (note 16)	-	442	-	442
<b>Balance at 31 December 2016</b>	<b>42,405</b>	<b>1,135</b>	<b>(64,618)</b>	<b>(21,078)</b>

	Contributed equity US\$'000	Reserves US\$'000	Accumulated losses US\$'000	Total equity US\$'000
Balance at 1 January 2017	42,405	1,135	(64,618)	(21,078)
Loss after income tax expense for the year	-	-	(9,817)	(9,817)
Other comprehensive loss for the year, net of tax	-	-	-	-
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>(9,817)</b>	<b>(9,817)</b>
<i>Transactions with owners in their capacity as owners:</i>				
Issue of ordinary share capital	858	-	-	858
Share-based payments (note 16)	-	44	-	44
<b>Balance at 31 December 2017</b>	<b>43,263</b>	<b>1,179</b>	<b>(74,435)</b>	<b>(29,993)</b>

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



## Statement of cash flows

For the years ended 31 December 2017, 31 December 2016 and 31 December 2015

	Note	2017 US\$'000	2016 US\$'000	2015 US\$'000
<b>Cash flows used in operating activities</b>				
Receipts from customers		15,884	5,768	5,133
Payments to suppliers and employees		(16,675)	(8,090)	(8,305)
Interest paid		(81)	(187)	(70)
<b>Net cash used in operating activities</b>		<b>(872)</b>	<b>(2,509)</b>	<b>(3,242)</b>
<b>Cash flows used in investing activities</b>				
Payments for property, plant and equipment	8	(385)	(41)	(85)
Payments for patents	9	-	(50)	-
Payments for capitalised development		(3,066)	(2,597)	(2,261)
<b>Net cash used in investing activities</b>		<b>(3,451)</b>	<b>(2,688)</b>	<b>(2,346)</b>
<b>Cash flows from financing activities</b>				
Proceeds from exercise of options		31	5	26
Proceeds from issue of preferred stock		-	5,850	200
Proceeds from exercise of warrants		255	5	-
Proceeds from issue of promissory notes		-	2,100	200
Repayment of promissory notes		-	-	-
Proceeds from bank loans		3,425	-	2,500
Repayment of bank loans		(2,898)	(18)	(1,056)
<b>Net cash from financing activities</b>		<b>813</b>	<b>7,942</b>	<b>1,870</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(3,510)</b>	<b>2,745</b>	<b>(3,718)</b>
Cash and cash equivalents at the beginning of the financial year		4,658	1,913	5,631
<b>Cash and cash equivalents at the end of the financial year</b>	5	<b>1,148</b>	<b>4,658</b>	<b>1,913</b>

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

## Note 1. Significant accounting policies

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

### Basis of preparation

These financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and interpretations issued by the Australian Accounting Standards Board. The Company is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

#### *Historical cost convention*

The financial statements, except for the cash flow information, have been prepared on an accrual basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed throughout the financial statements.

### Going Concern

This financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realization of assets and settlement of liabilities in the normal course of business.

During the period ended 31 December 2017, the Company incurred a net loss after tax of \$9.8 million (2016: \$12.7 million, 2015: \$4.6 million) and a cash outflow from operating activities of \$0.8 million (2016: \$0.3 million, 2015: \$3.0 million).

As at 31 December 2017, the Company had cash and cash equivalents of \$1.1 million (2016: \$4.7 million, 2015: \$1.9 million), net liabilities of \$30.0 million (2016: \$21.1 million, 2015: \$9.7 million), and net current liabilities of \$38.7 million (2016: \$28.9 million, 2015: \$14.4 million).

Whilst the Company is in a net liability position as at year end, this was primarily driven by the significant debt financing through warrants and preferred stock of \$39.9 million (2016: \$33.8 million, 2015: \$18.1 million), which is due to be converted to equity upon the successful listing of the Company on the Australian Securities Exchange (ASX). Excluding these balances, the Company was in net asset position of \$9.0 million at 31 December 2017 (2016: \$12.7 million, 2015: \$8.4 million).

The Company has prepared a detailed cash flow forecast which estimates a positive net cash inflow over the 12-month period from the date of this report. However, this forecast is reliant upon the receipt of additional financing in the period. As a result, there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

The Company plans to obtain funding in mid-2018 through the issue of equity as part of a listing on the ASX and is currently undergoing due diligence procedures as part of the prospective listing.

Should the listing prove to be unsuccessful, the Company has alternative sources of finance through the issue of debt and equity instruments. To date management has a proven track record of obtaining significant financing through debt and equity instruments and the Directors have reasonable expectations that they will be able to raise further financing as required over the next 12 months.

The Directors have considered the funding and operational status of the business in arriving at their assessment of going concern and believe that the going concern basis of preparation is appropriate, based upon the following:

- The ability to further vary cash flows through control of headcount and other expenses;
- The negotiation and commencement of new commercial agreements; and

- The ability of the Company to obtain funding through various debt and/or equity issues, including the listing of the Company on the ASX which is currently being investigated by management.

Should the Company not continue as a going concern it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial report does not include adjustments relating to the recoverability or classification of the recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

### Functional currency

The financial statements are presented in US dollars, which is the functional and presentational currency of Pivotal Systems Corporation. There has been no change in the functional and presentational currency of the Company.

### Foreign currency transactions

Foreign currency transactions are translated into the 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 held at fair value are reported at the exchange rate at the date when the fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss.

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

### Current and non-current classification

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

An asset is current when it is expected to be realised or intended to be sold or consumed in 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 current when it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

### Fair value assessment

The Company measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Company would receive to sell an asset or would have to pay to transfer a liability in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instruments, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

### **Rounding of amounts**

Amounts in this report have been rounded off in accordance with Corporations Instrument 2016/191 to the nearest thousand dollars, or in certain cases, the nearest dollar.

### **New, revised or amended Accounting Standards and Interpretations adopted**

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

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

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Company.

### **New standards and interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

**AASB 15 Revenue from contracts with customers:** The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards. When adopted, the standard will affect the Company's accounting for its revenue contracts with customers. Management are currently performing an ongoing assessment of whether there will be a material impact on the Company's revenue when the standard is adopted. The date of adoption by the Company will be 1 January 2018.

**AASB 9 Financial Instruments:** This standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. While the Company has yet to undertake a detailed assessment of the classification and measurement of financial assets and financial liabilities, the Company does not anticipate a significant impact from the adoption of this standard on 1 January 2018.

**AASB 16 Leases:** This standard will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts. At this stage, the Company does not expect that there will be a material impact on the Company's assets and liabilities when the standard is adopted.

## Note 2. Revenue

	2017 US\$'000	2016 US\$'000	2015 US\$'000
Product revenue	15,492	8,201	4,816
Service revenue	2	30	-
Other revenue	10	-	47
Provision for sales returns	(58)	(56)	(58)
<b>Total revenue</b>	<b>15,446</b>	<b>8,175</b>	<b>4,805</b>

### *Accounting policy for revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. The Company recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Company.

### *Sale of goods*

Product revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract.

### *Provision for sales returns*

Provision is made for the estimated costs of rebates, discounts and returns and cost to repair or replace products under warranty at the time of sale.

## Note 3. Expenses

Loss before income tax includes the following specific expenses:

	2017 US\$'000	2016 US\$'000	2015 US\$'000
<b><i>Research &amp; development</i></b>			
Amortisation of capitalised development costs	2,451	1,976	1,555
<b><i>Selling &amp; marketing</i></b>			
Salary and benefits expense	765	514	490
Commissions and bonuses	1,063	419	403
Travel and outside services	549	589	684
Other	273	222	258
	<b>2,650</b>	<b>1,744</b>	<b>1,835</b>
<b><i>General &amp; administrative</i></b>			
Salary and benefits expense	921	865	840
Travel and outside services	447	341	400
Other	421	763	261
	<b>1,789</b>	<b>1,969</b>	<b>1,501</b>
<b><i>Finance expenses</i></b>			
Interest paid	81	187	109
<b><i>Other financial items</i></b>			
Loss from financial liabilities measured at fair value through the profit or loss	5,820	8,470	-

### Note 3. Expenses (*continued*)

#### *Research costs*

Expenditure on research activities, undertaken with the prospect of obtaining new technical knowledge and understanding, is recognised in the statement of profit or loss and other comprehensive income as an expense when it is incurred.

#### *Other expenses*

Other expenses classified according to their function, as selling & marketing or general & administrative, include expenses mainly related with facilities, materials, depreciation, and share-based payment transactions.

### Note 4. Income tax expense

	2017 US\$'000	2016 US\$'000	2015 US\$'000
<i>Income tax expense</i>			
Current tax	-	-	-
<b>Aggregate income tax expense</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Effective tax rate:</i>			
Loss before income tax expense	(9,817)	(12,706)	(4,552)
<b>Tax at the statutory tax rate of 34%</b>	<b>(3,338)</b>	<b>(4,320)</b>	<b>(1,548)</b>
<i>Tax effect amounts which are not deductible/(taxable) in calculating taxable income:</i>			
Temporary differences	(293)	(55)	(305)
Permanent differences	12	184	62
Disallowable expenses	1,979	2,880	-
Unutilised losses carried forward at 34%	1,886	1,311	1,791
Effect on unutilised losses of future reduction in tax rate to 21%	(246)	-	-
<b>Income tax expense</b>	<b>-</b>	<b>-</b>	<b>-</b>

Based on historical losses and the expectation of future losses, management cannot conclude that it is more likely than not that the net deferred tax assets will be fully realisable. Accordingly, the Company has provided a full valuation allowance against its net deferred tax assets for years ended 31 December 2015 through 2017.

As of 31 December 2017, the Company had federal and state net operating loss carry forwards of approximately \$27.8 million and \$4.5 million, respectively, available to reduce future taxable income, if any. The net operating loss carry forwards will expire beginning 2032 for both federal and California income tax purposes.

As of 31 December 2017, the Company had state research credit carry forwards of \$0.7 million. The state tax credits have no expiration date.

Utilization of the net operating loss carry forwards and credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

## **Note 4. Income tax expense (*continued*)**

### ***Accounting policy for Income tax***

The income tax expense for the year comprises current income tax expenses and deferred tax expenses.

Current income tax expense charged to the profit or loss in the tax payable on taxable income for the current period. Current tax liabilities are measured as the amounts expected to be paid to the relevant tax authority using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are only recognised to the extent that it is probably that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

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.

### ***Critical accounting judgements, estimates and assumptions***

The Company is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax audit issues based on the Company's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

## **Note 5. Current assets - cash and cash equivalents**

	2017 US\$'000	2016 US\$'000	2015 US\$'000
Cash at bank	1,148	4,658	1,913
	<b>1,148</b>	<b>4,658</b>	<b>1,913</b>

The Company has a line of credit at 31 December 2017 of \$1million (2016: \$1million; 2015: \$Nil).

There is no restrictions or limitations on the use of cash and cash equivalents.

### ***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 or that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## Note 6. Current assets - trade and other receivables

	2017 US\$'000	2016 US\$'000	2015 US\$'000
Trade receivables	2,563	3,002	595
	<b>2,563</b>	<b>3,002</b>	<b>595</b>

### Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables generally have 30 to 90 day terms. Collectability of trade receivables is reviewed on an ongoing basis. Receivables which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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

### Critical accounting judgements, estimates and assumptions

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

## Note 7. Current assets - inventories

	2017 US\$'000	2016 US\$'000	2015 US\$'000
Raw materials	1,488	697	778
Work in progress	915	892	169
Finished goods	2,584	1,759	1,852
Less: Provision for impairment	(300)	(493)	(185)
	<b>4,687</b>	<b>2,855</b>	<b>2,614</b>

### Accounting policy for inventory

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

The Company's inventories are concentrated in high-technology parts and components that may be specialised in nature or subject to rapid technological obsolescence. These factors are considered in estimating required reserves to state inventories at the lower of cost or net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### Critical accounting judgements, estimates and assumptions

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.



## Note 8. Non-current assets - property, plant and equipment

	2017 US\$'000	2016 US\$'000	2015 US\$'000
Leasehold improvements - at cost	11	11	11
Less: Accumulated depreciation	(11)	(11)	(10)
<b>Net book value leasehold improvements</b>	-	-	1
Plant and equipment - at cost	1,353	968	943
Less: Accumulated depreciation	(1,012)	(843)	(676)
<b>Net book value plant and equipment</b>	341	125	267
<b>Net book value property, plant and equipment</b>	341	125	268

	Leasehold improvements US\$'000	Plant & equipment US\$'000	Total US\$'000
<b>Balance at 1 January 2015</b>	6	397	403
Additions	-	85	85
Disposals / write offs	-	(40)	(40)
Depreciation expense	(5)	(175)	(180)
<b>Balance at 31 December 2015</b>	1	267	268
Additions	-	41	41
Disposals / write offs	-	(18)	(18)
Depreciation expense	(1)	(165)	(166)
<b>Balance at 31 December 2016</b>	-	125	125
Additions	-	385	385
Depreciation expense	-	(169)	(169)
<b>Balance at 31 December 2017</b>	-	341	341

	2017 US\$'000	2016 US\$'000	2015 US\$'000
<b>Reconciliation of depreciation expense</b>			
Depreciation expensed to general & administrative	33	29	30
Depreciation expensed to selling & marketing	2	4	6
Depreciation allocated to capitalised development costs	33	31	55
Depreciation expensed to cost of goods sold	101	102	89
<b>Total depreciation expense</b>	169	166	180

## Note 8. Non-current assets - property, plant and equipment *(continued)*

### *Accounting policy for property, plant and equipment*

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Plant and equipment are depreciated, and leasehold improvements are amortised, over their estimated useful lives using the straight-line method.

The expected useful lives of the assets are as follows:

Plant & equipment	2-5 years
Leasehold improvements	over the remaining lease term

The residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date or when there is an indication that they have changed.

A carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

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

### *Critical accounting judgements, estimates and assumptions*

#### *Estimation of useful lives of assets*

The Company 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.

## Note 9. Non-current assets - intangible assets

	2017 US\$'000	2016 US\$'000	2015 US\$'000
Patent - at cost	50	50	-
Less: Accumulated amortisation	(23)	(3)	-
	<b>27</b>	<b>47</b>	<b>-</b>
Capitalised development - at cost	15,298	12,199	9,431
Less: Accumulated amortisation	(6,976)	(4,526)	(2,550)
	<b>8,322</b>	<b>7,673</b>	<b>6,881</b>
<b>Net written down value intangible assets</b>	<b>8,349</b>	<b>7,720</b>	<b>6,881</b>

**Note 9. Non-current assets - intangible assets (continued)**

	Patent US\$'000	Capitalised Development US\$'000	Total US\$'000
Balance at 1 January 2015	-	6,049	6,049
Additions	-	2,387	2,387
Amortisation expense	-	(1,555)	(1,555)
<b>Balance at 31 December 2015</b>	<b>-</b>	<b>6,881</b>	<b>6,881</b>
Additions	50	2,768	2,818
Amortisation expense	(3)	(1,976)	(1,979)
<b>Balance at 31 December 2016</b>	<b>47</b>	<b>7,673</b>	<b>7,720</b>
Additions	-	3,100	3,100
Amortisation expense	(20)	(2,451)	(2,471)
<b>Balance at 31 December 2017</b>	<b>27</b>	<b>8,322</b>	<b>8,349</b>

**Accounting policy for intangible assets**

*Development costs*

Development costs on an individual project are recognised as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale.
- Its intention to complete and its ability and intention to use or sell the asset.
- How the asset will generate future economic benefits.
- The availability of resources to complete the asset.
- The ability to measure reliably the expenditure during the development.

The costs that are eligible for capitalisation of development costs are the following:

- Hardware and Software engineers' compensation for time directly attributable to coding the software.
- An allocated amount of indirect costs, such as overhead related to programmers and the facilities they occupy.
- Costs associated with testing the software for market (i.e. alpha, beta tests).
- Borrowing costs.
- Patents acquisition and registration costs (patents, application fees, and legal fees).
- Other direct developing costs that are incurred to bring the hardware with embedded software to market.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit which is 5 years.

Amortisation is recorded in profit or loss. During the period of development, the asset is tested for impairment annually.

Development costs are amortised on a straight-line basis over the period of expected future sales from the related project.

At the end of the year, the Company has considered indicators of impairment of the intangible assets and determined there were none.

*Patents and trademarks*

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

## Note 9. Non-current assets - intangible assets *(continued)*

### *Critical accounting judgements, estimates and assumptions*

#### *Capitalised development costs*

The Company capitalises development costs for a project in accordance with the accounting policy. Initial capitalisation of cost is based on management's judgement that technological and economic feasibility is confirmed. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of the benefits.

#### *Impairment of intangible assets*

The Company assesses impairment of intangible assets at each reporting date by evaluating conditions specific to the Company and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

## Note 10. Current liabilities - trade and other payables

	2017 US\$'000	2016 US\$'000	2015 US\$'000
Trade payables and accruals	2,771	1,576	528
Accrued expenses	1,621	1,154	473
	<b>4,392</b>	<b>2,730</b>	<b>1,001</b>

### *Accounting policy for trade and other payables*

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

## Note 11. Current provisions - employee benefits

	2017 US\$'000	2016 US\$'000	2015 US\$'000
Provision for annual leave	341	264	236
	<b>341</b>	<b>264</b>	<b>236</b>

### *Accounting policy for employee benefits*

#### *Short-term employee benefits*

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

## Note 12. Current provisions - warranty provision

	2017 US\$'000	2016 US\$'000	2015 US\$'000
Provision for warranty	459	298	235
	<b>459</b>	<b>298</b>	<b>235</b>

### *Accounting policy for provisions*

The provision represents the estimated warranty claims in respect of products sold which are still under warranty at the reporting date. The provision is estimated based on historical warranty claim information, sales levels and any recent trends that may suggest future claims could differ from historical amounts.

## Note 12. Current provisions - warranty provision (*continued*)

### *Critical accounting judgements, estimates and assumptions*

In determining the level of provision required for warranties the Company has made judgements in respect of the expected performance of the products, the number of customers who will actually claim under the warranty and how often, and the costs of fulfilling the conditions of the warranty. The provision is based on estimates made from historical warranty data associated with similar products and services.

## Note 13. Borrowings

Borrowings includes the following liabilities carried at amortised cost:

	2017 US\$'000	2016 US\$'000	2015 US\$'000
<b>Current</b>			
Financial liability with Bridge Bank	3,008	-	-
Financial liability with Square One Bank	-	2,482	-
	<b>3,008</b>	<b>2,482</b>	<b>-</b>
<b>Non-Current</b>			
Financial liability with Square One Bank	-	-	2,500
	<b>-</b>	<b>-</b>	<b>2,500</b>

Details	Comerica Bank US\$'000	Square One Bank US\$'000	Bridge Bank US\$'000	Total US\$'000
<b>Balance 1 January 2015 (1)</b>	<b>1,056</b>	<b>-</b>	<b>-</b>	<b>1,056</b>
Repayment of loans (1)	(1,056)	-	-	(1,056)
Financial liability with Square One Bank (2)	-	2,500	-	2,500
Interest accrued on facility	30	40	-	70
Interest paid on facility	(30)	(40)	-	(70)
<b>Balance 31 December 2015</b>	<b>-</b>	<b>2,500</b>	<b>-</b>	<b>2,500</b>
Interest accrued on facility	-	259	-	259
Interest paid on facility	-	(259)	-	(259)
Repayment of facility	-	(18)	-	(18)
<b>Balance 31 December 2016</b>	<b>-</b>	<b>2,482</b>	<b>-</b>	<b>2,482</b>
Financial liability with Bridge Bank (3)	-	-	2,500	2,500
Financial liability with Bridge Bank (3)	-	-	925	925
Interest accrued on facility	-	58	106	164
Interest paid on facility	-	(58)	(106)	(164)
Repayment of facility	-	-	(417)	(417)
Repayment of facility (2)	-	(2,482)	-	(2,482)
<b>Balance 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>3,008</b>	<b>3,008</b>

## Note 13. Borrowings (*continued*)

(1) Comerica Bank Loan

In September 2008 Pivotal entered into a Loan Agreement with Comerica Bank. The principal and interest on the Comerica Loan balance was repaid in July 2015 and the remaining Comerica accounts were officially closed in December 2016.

(2) Square One Bank Loan

In July 2015, the Company entered into a Debt Facility Agreement with Square One Bank for \$2.5 million for a term of 24 months with an interest rate of the Bank's prime rate of 1.75% and \$1.5 million line of credit with an interest rate of the Bank's prime rate plus 1%. Interest only payments were required for the first 24 months with a reduction in principal due thereafter.

The Company issued warrants to purchase 43,103 shares of Series C convertible preference shares in connection with the Debt Facility agreement. The warrants have not been converted as at 31 December 2017. Refer Note 14 (a) (3) (i).

The loan was repaid on 4 March 2017.

(3) Bridge Loan

On 31 March 2017, the Company entered into a Debt Facility Agreement with Bridge Bank for a first tranche of \$2.5 million and an additional amount of \$925,000 subject to the achievement of certain funding milestones which were completed on September 2017. Interest accrued at a per annum rate equal to 2% above the Prime Rate and \$1.5million AR line of credit with an interest rate of the Bank's prime rate plus 1.25%. The facility term provided interest only payments until 31 August 2017 with repayments of principal and interest for 24 months thereafter.

The Bridge Bank loan outstanding at 31 December 2017 is secured over all personal property of the Company, whether presently existing or hereafter created or acquired, as per the loan agreement.

### *Accounting policy for Borrowings*

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

Borrowing costs are capitalised as part of the cost of a qualifying asset when it takes a substantial period of time to get ready for its intended use or sale. The Company capitalised borrowing costs for an internally generated intangible asset in the development phase since 2015. The interest capitalisation rate is applied only to costs that themselves have been capitalised as development costs.

## Note 14. Financial liabilities

	2017 US\$'000	2016 US\$'000	2015 US\$'000
Warrant liability at fair value (a)	8,082	6,959	-
Preferred stock at fair value (b)	30,927	26,806	17,896
Promissory notes (c)	-	-	200
	<b>39,009</b>	<b>33,765</b>	<b>18,096</b>

## Note 14. Financial liabilities (*continued*)

### (a) Warrants on Issue

	Common Stock B Number	Series C Preferred Number	Series D Preferred Number	Total Number	Total \$'000
As at 1 January 2015	2,323	-	-	2,323	-
Warrant issued (3) (i)	-	43,103	-	43,103	-
Warrants expired	(1,523)	-	-	(1,523)	-
As at 31 December 2015	800	43,103	-	43,903	-
Warrants issued (1) (i)	26,329,930	-	-	26,329,930	5,206
Warrants issued (2) (i)	-	-	8,520,148	8,520,148	616
Converted to common stock (1) (ii)	(4,506,398)	-	-	(4,506,398)	(891)
Fair value remeasurement of warrants on issue	-	-	-	-	2,028
As at 31 December 2016	21,824,332	43,103	8,520,148	30,387,583	6,959
Warrants issued (2) (ii)	-	-	193,826	193,826	14
Converted to common stock (1) (iii)	(2,212,822)	-	-	(2,212,822)	(828)
Converted to preferred stock (2) (iii)	-	-	(363,068)	(363,068)	(33)
Fair value remeasurement of warrants on issue	-	-	-	-	1,970
As at 31 December 2017	19,611,510	43,103	8,350,906	28,005,519	8,082

### (1) Class B Common Stock Warrants

- (i) In connection with secured note financing in February 2016, the Company issued warrants to purchase 23,622,147 shares of Class B Common Stock at an exercise price of \$0.001 per share on 26 February 2016. The Company later issued further warrants to purchase 2,707,783 shares of Class B Common Stock on 12 August 2016, also at an exercise price of \$0.001. These warrants may be exercised at any time prior to seven years from the issuance date. This resulted in an increase in the fair value of the warrants of \$5,206,137. The fair value of \$0.20 was determined using the Black Scholes model.
- (ii) On 1 April 2016 1,798,615 Class B Common Stock Warrants were exercised at the exercise price of \$0.001 per share. On 12 August 2016, a further 2,707,783 were exercised at the exercise price of \$0.001. This resulted in a reduction in the fair value of the warrants of \$891,036.
- (iii) On 20 January 2017, 2,212,822 Class B Common Stock Warrants were exercised at the exercise price of \$0.001 per share. This resulted in a reduction in the fair value of the warrants of \$828,159.

## Note 14. Financial liabilities (continued)

### (2) Series D Preferred Stock Warrants

- (i) On 6 September 2016, the Company issued Series D Preferred Stock Warrants to purchase 8,520,148 shares of Series D Convertible Preferred Stock at an exercise price of \$0.6965 per share. These warrants may be exercised at any time prior to 6 September 2023. This resulted in an increase in the fair value of warrants of \$615,631. The fair value of \$0.07 was determined by using the Black Scholes model.
- (ii) On 31 March 2017, in connection with the Loan and Security Agreement with Bridge Bank, the Company issued 193,826 of Series D Convertible Preferred Stock at an exercise price of \$0.6965 per share. The warrants may be exercised at any time prior to 31 March 2027. The warrants include a put option for which the Company shall purchase all rights that holder has for a cash payment of \$135,000, in case of certain events prior to the expiration date and at the request of warrant holder. This resulted in an immaterial increase in the fair value of the warrants.
- (iii) On 24 August 2017, 363,068 Series D Preferred Stock Warrants were exercised at the exercise price of \$0.6965 per share. This resulted in a reduction in the fair value of the warrants of \$32,955.

### (3) Series C Preferred Stock Warrants

- (i) In connection with the loan and security agreement entered into in July 2015 with Square One Bank, the Company issued warrants to purchase 43,103 shares of Series C Convertible Preferred Stock at an exercise price of \$1.16. These warrants may be exercised at any time prior to ten years from the issuance date. This resulted in an immaterial increase in the fair value of the warrants. The fair value was determined using the Black Scholes model.

### (b) Preferred Stock

	Series Seed Preferred Stock	Series A Preferred Stock	Series B Preferred Stock	Series C Preferred Stock	Series D Preferred Stock	Total Number	Total US\$000
Balance at 1 January 2015	1,702,416	16,576,103	9,928,514	4,543,681	-	32,750,715	15,578
Issued (1) (i)	-	-	-	173,103	-	173,103	148
Issued on conversion of notes (2) (i)	-	-	5,122,425	-	-	5,122,425	2,170
Fair value adjustment	-	-	-	-	-	-	-
<b>Balance at 31 December 2015</b>	<b>1,702,416</b>	<b>16,576,103</b>	<b>15,050,939</b>	<b>4,716,784</b>	<b>-</b>	<b>38,046,243</b>	<b>17,896</b>
Issued on conversion of notes (3) (i)	-	-	-	-	4,381,098	4,381,098	2,199
Issued (3) (i)	-	-	-	-	8,399,121	8,399,121	4,215
Fair value adjustment	-	-	-	-	-	-	2,496
<b>Balance at 31 December 2016</b>	<b>1,702,416</b>	<b>16,576,103</b>	<b>15,050,939</b>	<b>4,716,784</b>	<b>12,780,219</b>	<b>50,826,462</b>	<b>26,806</b>
Issued on conversion of warrants (3) (ii)	-	-	-	-	363,068	363,068	229
Fair value adjustment	-	-	-	-	-	-	3,892
<b>Balance at 31 December 2017</b>	<b>1,702,416</b>	<b>16,576,103</b>	<b>15,050,939</b>	<b>4,716,784</b>	<b>13,143,287</b>	<b>51,189,530</b>	<b>30,927</b>



## Note 14. Financial liabilities (continued)

### (1) Series C Preferred Stock

- (i) On 16 January 2015 and 20 January 2015, 43,103 and 130,000 shares of Series C Preferred Stock were issued respectively with a par value of \$0.00001. The fair value of \$147,829 was determined using the Black Scholes model.

### (2) Series B Preferred Stock

- (i) On 4 July 2015, 5,122,425 shares of Series B Preferred Stock were issued with a par value of \$0.0001 via conversion of a promissory note. The fair value of \$2,169,832 was determined using the Black Scholes model.

### (3) Series D Preferred Stock

- (i) On 6 September 2016, 12,780,219 shares of Series D Preferred Stock were issued with a par value of \$0.00001 via conversion of promissory notes and cash payment. The fair value of \$6,413,605 was determined using the Black Scholes model.
- (ii) On 24 August 2017, 363,068 shares of Series D Preferred Stock were issued with a par value of \$0.00001 via conversion of a warrant and cash payment. The fair value of \$228,883 was determined using the Black Scholes model.

### (c) Promissory Notes

	Convertible Bridging Notes US\$'000	Convertible Promissory Notes US\$'000	Total US\$'000
Balance at 1 January 2015 (1) (2)	2,210	-	2,210
Advance from third parties (2)	-	200	200
Interest accrued on facility	111	-	111
Conversion of notes to Series B shares (1)	(2,321)	-	(2,321)
<b>Balance 31 December 2015</b>	<b>-</b>	<b>200</b>	<b>200</b>
Convertible note issued	-	2,100	2,100
Interest accrued on convertible note	-	142	142
Interest accrued on convertible note	-	15	15
Notes converted to shares (2)	-	(2,441)	(2,441)
<b>Balance 31 December 2016</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>

### (1) 2013 Convertible Notes

- (i) On 18 December 2013 the Company entered into a Convertible Bridge Note Financing with Firsthand Technology Value Fund, Inc., ("Firsthand") and other investors mutually acceptable to Firsthand and the Company (collectively, the "Investors"). The minimum financing amount of \$2 million was issued to investors (maximum was \$2.5million). The notes accrued interest at 10% per annum with a maturity. On 1 July 2015 the notes were converted to 5,122,425 Series B Preferred Stock. Refer Note 14 (b)(2)(i).

## **Note 14. Financial liabilities (*continued*)**

### **(2) 2016 Convertible Notes**

- (i) In February, March, April and August 2016, convertible promissory notes with a total value of \$2.3million were issued to investors. Included in this amount was \$200,000 which was advanced to the Company in the prior year. The notes accrued interest at 10% per annum until June 11, 2016 and then 20% thereafter. The notes were converted into 4,381,098 Series D Preferred Stock on 6 September 2016 (refer Note 14(b)(3)(i)).

### ***Accounting policy for financial liabilities***

Common stock warrants and preferred stock warrants are derivatives classified as a financial liability. Convertible preferred stock are financial liabilities designated at fair value through profit or loss considering that the preferred stock conversion feature is an embedded derivative whose value increases with the value of the common stock. Formal valuations have been obtained for these instruments and have been communicated to key management personnel.

As at all financial year ends included in the financial statements, the fair value of the common stock warrants, preferred stock warrants and preferred stock is determined using the Black Scholes model, which requires the use of subjective assumptions including volatility, expected term, risk free rate and the fair value of the underlying common stock.

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

Borrowing costs on promissory notes are capitalised as part of the cost of a qualifying asset when it takes a substantial period of time to get ready for its intended use or sale. The Company capitalised borrowing costs for an internally generated intangible asset in the development phase since 2015. The interest capitalisation rate is applied only to costs that themselves have been capitalised as development costs.

### ***Critical accounting judgements, estimates and assumptions***

Critical accounting judgements are required to be made by management in determining as to whether the above mentioned financial instruments should be classified as debt or equity. The factors entering in to the determination for each instrument are as follows:

#### ***Common and preferred stock warrants***

The terms of the common stock warrant and preferred stock warrant purchase agreements stipulate that the holder has an option to 'Net Exercise' the warrant if the fair market value of one exercise share is greater than the exercise price. If this option is chosen, no cash is paid by the holder on exercise, and a further calculation is performed to determine how many shares the holder is entitled to. As a result of this, the warrants fail the fixed-for-fixed rule with regards to being classified as equity, and as such, have been recognised as a financial liability.

#### ***Preferred stock***

The terms of the certificate of incorporation (COI) of the Company stipulate that preferred stock holders are entitled to vote, and that they vote together with the common stock holders as a single class, as though they had already converted their preferred stock. The preferred stock holders control the board as a result of this. The COI also stipulates that in the event of any voluntary or involuntary liquidation, deemed liquidation, dissolution, winding up of the Company, the preferred stock holders are entitled to redeem their preferred stock. Given that the preferred stock holders control the board; management have acknowledged that they could force an event which results in liquidation. As a result of this, redemption is at the option of the holder of the instrument, and as such they have been classified as a financial liability.

## Note 15. Equity - Contributed equity

	2017 Shares	2017 US\$'000	2016 Shares	2016 US\$'000	2015 Shares	2015 US\$'000
Ordinary shares - common stock	15,056,268	43,263	12,708,006	42,405	8,107,776	41,491

(a) Movements in ordinary shares on issue

Details	Shares	US\$'000
Balance as at 1 January 2015	7,844,026	41,475
Shares issued on exercise of options	263,750	16
Balance as at 31 December 2015	8,107,776	41,491
Shares issued on exercise of options	37,083	19
Shares issued on exercise of restricted securities	56,749	-
Shares issued on exercise of warrants	4,506,398	895
Balance as at 31 December 2016	12,708,006	42,405
Shares issued on exercise of warrants	2,212,822	825
Shares issued on exercise of option	135,440	33
Balance 31 December 2017	15,056,268	43,263

(b) Terms and conditions of contributed equity

*Ordinary Shares*

The holders of ordinary shares participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have a par value of \$0.00001 and the Company has a limited amount of authorised capital of 120,000,000 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.

*Accounting policy for issued capital*

Ordinary shares are classified as equity.

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

## Note 16. Share-based payments

### Share based payment reserve

The reserve is used to recognise the value of equity benefits provided to employees, consultants and directors as part of their remuneration, and other parties as part of their compensation for services.

	Share options Number	Share Based Payment Reserve US\$'000
<b>Opening reserve 1 January 2015</b>	<b>8,137,757</b>	<b>645</b>
Expense in the period	-	48
Granted	-	-
Exercised	(263,750)	-
Forfeited	(227,040)	-
Expired	(156,523)	-
<b>Closing reserve 31 December 2015</b>	<b>7,490,444</b>	<b>693</b>
<b>Opening reserve 1 January 2016</b>	<b>7,490,444</b>	<b>693</b>
Expense in the period	-	442
Granted	4,958,431	-
Exercised	(37,083)	-
Forfeited	(427,293)	-
Expired	(213,124)	-
<b>Closing reserve 31 December 2016</b>	<b>11,771,375</b>	<b>1,135</b>
<b>Opening reserve 1 January 2017</b>	<b>11,771,375</b>	<b>1,135</b>
Expense in the period	-	44
Granted	2,765,500	-
Exercised	(135,440)	-
Forfeited	(71,022)	-
Expired	(498,433)	-
<b>Closing reserve 31 December 2017</b>	<b>13,831,980</b>	<b>1,179</b>

	2017 US\$'000	2016 US\$'000	2015 US\$'000
Share based payment expense:			
Options issued to directors, employee and consultants	44	442	48
	<b>44</b>	<b>442</b>	<b>48</b>

The Company grants stock options to its employees, directors, and consultants for a fixed number of shares with an exercise price equal to the fair value of the shares at the date of grant.

The 2003 Equity Incentive Plan expired in 2012 however 27,962 unexercised options are still outstanding as at 31 December 2017.

The 2012 Equity Incentive Plan (the "Plan") was adopted on 29 June 2012 and authorised the Company to grant incentive stock options and non-statutory stock options to employees, directors, and consultants for up to 16,720,222 shares of common stock. Incentive Stock Options (ISO) may be granted only to employees. Nonqualified stock options may be granted to employees, directors and consultants. The Company issues new shares of common stock upon the exercise of stock options.

The Share Plan grants are based on employee's contribution and commitment to the Company over a period of several years plus the ability of the employees to impact and influence the outcome and direction of the organization in the future. The shares under the Share Plan which are not yet vested will be accounted for as non-cash expense over the remainder of the vesting period.

## Note 16. Share-based payments *(continued)*

### Option Pricing Model

The fair value of the equity-settled share options granted throughout the year is estimated as at the date of grant using a Black Scholes Option Pricing Model.

The following tables list the inputs to the models used for the valuation of options granted in the years ended 31 December 2017 and 2016. Note that no options were granted in the year to 31 December 2015.

	Grant date					
	20-Jan-17	20-Jan-17	20-Jan-17	8-Dec-17	8-Dec-17	8-Dec-17
Number of options issued	335,500	150,000	10,000	1,895,000	285,000	90,000
Fair value at measurement date \$	0.087	0.122	0.122	0.043	0.053	0.093
Share price at Grant date \$	0.21	0.21	0.21	0.37	0.37	0.37
Exercise price \$	0.21	0.21	0.21	0.37	0.37	0.37
Expected volatility	49%	49%	49%	49%	49%	49%
Vesting conditions	Type 1	Type 5	Type 3	Type 5	Type 1	Type 5

	Grant date				
	11-Jul-16	14-Jul-16	14-Jul-16	14-Jul-16	14-Jul-16
Number of options issued	312,000	672,500	3,758,931	65,000	150,000
Fair value at measurement date \$	0.117	0.084	0.103	0.117	0.117
Share price at Grant date \$	0.21	0.21	0.21	0.21	0.21
Exercise price \$	0.21	0.21	0.21	0.21	0.21
Expected volatility	49%	49%	49%	49%	49%
Vesting conditions	Type 1	Type 1	Type 2	Type 5	Type 4

### Vesting conditions

Type 1	25% of the options vest 12 months from vesting date, with the remaining 75% vesting on a monthly basis over the following 48 months.
Type 2	Options vest immediately at grant date.
Type 3	50% options vesting immediately at grant date. 50% vest monthly over 48 months from grant date.
Type 4	Options have vesting conditions linked to specific performance criteria.
Type 5	Options vest on a monthly basis over 48 months from vesting date.

The expected dividend yield for all options granted during these periods was nil. The expected life of the share options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

## Note 16. Share-based payments (*continued*)

### *Accounting policy for share-based payments*

Under the employee share scheme, shares issued under the 2012 Equity Incentive Plan to employees, directors and consultants for no cash consideration vest immediately on grant date. On this date, the market value of the shares issued is recognised as an employee benefits expense with a corresponding increase in equity.

The Company provides benefits to employees (including Directors) in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions) via the 2012 Equity Incentive Plan (“the Plan”).

The terms of the share options are as determined by the Board. The cost of these equity-settled transactions to employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a Black & Scholes model.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of (i) the grant date fair value of the award; (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and (iii) the expired portion of the vesting period.

The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not the market condition is fulfilled, provided that all other conditions are satisfied.

If a non-vesting condition is within the control of the Company or the employee, the failure to satisfy the condition is treated as a cancellation. If a non-vesting condition within the control of neither the Company nor employee is not satisfied during the vesting period, any expense for the award not previously recognised is recognised over the remaining vesting period, unless the award is forfeited.

## Note 17. Financial Instruments - Fair value and risk management

### *Accounting classification and fair values*

The following table shows the carrying amounts of financial liabilities measured at fair value, including their levels in the fair value hierarchy. It does not include fair value information for financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2017	Other financial liabilities USD\$'000	Total USD\$,000	Fair value Level 1 USD\$'000	Fair value Level 2 USD\$'000	Fair value Level 3 USD\$'000	Fair value Total USD\$'000
Warrant liability	8,082	8,082	-	-	8,082	8,082
Preferred stock liability	30,927	30,927	-	-	30,927	30,927
Total	39,009	39,009	-	-	39,009	39,009

## Note 17. Financial Instruments - Fair value and risk management (continued)

31 December 2016	Other financial liabilities USD\$'000	Total USD\$,000	Fair value Level 1 USD\$'000	Fair value Level 2 USD\$'000	Fair value Level 3 USD\$'000	Fair value Total USD\$'000
Warrant liability	6,959	6,959	-	-	6,959	6,959
Preferred stock liability	26,806	26,806	-	-	26,806	26,806
Total	33,765	33,765	-	-	33,765	33,765

31 December 2015	Other financial liabilities USD\$'000	Total USD\$,000	Fair value Level 1 USD\$'000	Fair value Level 2 USD\$'000	Fair value Level 3 USD\$'000	Fair value Total USD\$'000
Preferred stock liability	17,896	17,896	-	-	17,896	17,896
Total	17,896	17,896	-	-	17,896	17,896

Fair values of warrants and preferred stock liabilities do not have quoted prices and have been determined based on professional appraisals that would be classified as Level 3 of the fair value hierarchy as defined in IFRS 13 Fair Value Measurement.

### Financial risk management objectives

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Company'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 Company. The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks, ageing analysis for credit risk and liquidity risk.

Risk management is carried out by senior finance executives ("Finance"). Risk management includes identification and analysis of the risk exposure of the Company and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Company's operating units. Finance reports to the Board on a quarterly basis.

## Note 18. Commitments

	2017 US\$'000	2016 US\$'000	2015 US\$'000
<i>Lease commitments - operating</i>			
Committed at the reporting date but not recognised as liabilities, payable:			
Within one year	169	95	48
One to five years	308	-	-
More than five years	-	-	-
	477	95	48

Operating lease commitments includes contracted amounts for warehouses and offices under non-cancellable operating leases expiring within one to three years with, in some cases, options to extend. The lease has various escalation clauses. On renewal, the terms of the lease are renegotiated.

## Note 19. Related party transactions

### *Key management personnel*

The following persons were directors of Pivotal Systems Corporation during the financial year:

John Hoffman	Chief Executive Officer
Joseph Monkowski	Chief Technical Officer
Ryan A. Benton	Non-Executive Director
Kevin Landis	Non-Executive Director
David Michael	Non-Executive Director

### *Other key management personnel*

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, during the financial year:

Omesh Sharma	Chief Financial Officer
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### **Compensation**

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

### *Directors and other key management personnel*

	2017 US\$'000	2016 US\$'000	2015 US\$'000
Aggregate compensation	1,151	1,053	1,061
Share-based payments	9	58	1
	<b>1,160</b>	<b>1,111</b>	<b>1,062</b>

### *Share options granted to directors and other key management personnel*

	Class of underlying shares	2017 Number Granted	2016 Number Granted	2015 Number Granted
Omesh Sharma	Ordinary	200,000	500,000	-
John Hoffman	Ordinary	300,000	1,120,355	-
Joseph Monkowski	Ordinary	300,000	1,118,762	-
Ryan A. Benton	Ordinary	-	312,000	-
Kevin Landis	Ordinary	-	-	-
David Michael	Ordinary	-	-	-
		<b>800,000</b>	<b>3,051,117</b>	<b>-</b>

### *Transactions with related parties*

#### *Receivable from and payable to related parties*

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

#### *Loans to/from related parties*

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



## Note 19. Related party transactions (continued)

### Financial instrument balances held with related parties

Related party name	Nature of related party relationship	Financial instrument type	Number of instruments held - 2015	Number of instruments held - 2016	Number of instruments held - 2017
Firsthand ventures	Directors in common	Preferred stock	27,270,713	33,508,691	33,508,691
Omesh Sharma	Key management personnel	Preferred stock	141,870	141,870	141,870
John Hoffman	Director	Preferred stock	141,870	141,870	141,870
Joseph Monkowski	Director	Preferred stock	141,870	141,870	141,870
Anzu Pivotal LLC	Directors in common	Preferred stock	-	4,307,251	4,307,251
Anzu Industrial Capital Partners LP	Directors in common	Preferred stock	-	2,128,101	2,128,101
Pivotal Systems Investment Group LLC	Related entity	Preferred stock	1,309,482	191,171	191,171
Pivotal Systems Investors LLC	Related entity	Preferred stock	-	191,171	191,171
Firsthand ventures	Directors in common	Common stock warrants	-	18,180,475	18,180,475
Anzu Industrial Capital Partners LP	Directors in common	Common stock warrants	-	-	1,418,734
Pivotal Systems Investors LLC	Related entity	Common stock warrants	-	872,988	-
Anzu Pivotal LLC	Directors in common	Preferred stock warrants	-	2,871,502	2,871,502
Firsthand Venture Investors	Directors in common	Preferred stock warrants	-	4,158,654	4,158,654
Pivotal Systems Investment Group, LLC	Related entity	Preferred stock warrants	-	127,447	127,447
Pivotal Systems Investors LLC	Related entity	Preferred stock warrants	-	127,447	127,447

### Promissory notes balances held with related parties

#### 31 December 2015

Related party name	Nature of related party relationship	Principal	Interest incurred on note	Balance outstanding at year end
Firsthand Venture Investors	Directors in common	2,000,000	111,363	-

#### 31 December 2016

Related party name	Nature of related party relationship	Principal	Interest incurred on note	Balance outstanding at year end
Firsthand Venture Investors	Directors in common	500,000	33,333	-
Pivotal Systems Investors, LLC	Related entity	100,000	6,521	-
Pivotal Systems Investment Group, LLC	Related entity	100,000	6,521	-
Firsthand Venture Investors	Directors in common	881,102	61,367	-

## **Note 20. Events after the reporting period**

On 8 January 2018, the Company amended their loan agreement with Bridge Bank. This amendment acknowledged the Company was not in compliance with their financial covenants as of 30 November 2017 and offered a waiver on the default. The agreement modified the loan amount to allow the Company to borrow an aggregate amount of \$4 million. An additional advance of \$1,896,842 was made to the Company on 9 January 2018.

On 28 February 2018 the Board of Directors of Pivotal approved the grant 950,000 options to purchase Class B Common Stock to certain employees and consultants, listed below. The options are exercisable at a price equal to the fair market value at the date of grant and expire 10 years thereafter. The options were issued as follows:

John Hoffman	300,000 (1);
Joseph Monkowski	300,000 (1);
Omesh Sharma	200,000 (1);
Consultant	150,000 (2);

- (1) Options vest in four equal tranches subject to (a) the achievement individually of Milestones and each tranche vesting 25% per year on each anniversary of the grant date, and subject to Single-Trigger change of control conditions.
- (2) Options vest in two equal tranches subject to achievement of certain Milestones and each tranche vesting 25% per year on each anniversary of the grant date.

The Board approved the following issues Class B Common Stock Options to employees and consultants under the 2012 Equity Incentive Plan. The options are exercisable at \$0.37 per option with an expiry date 10 years from grant date:

15 February 2018	25,000
29 March 2018	84,000 (issued to Non-executive Director, Ryan Benton)
15 April 2018	230,000

On March 12, 2018, the Company appointed the investment banks Moelis Australia, and Shaw and Partners, to explore a potential 2018 listing on the Australian Securities Exchange.

On 16 March 2018, Pivotal Systems incorporated a wholly-subsiidiary in the Republic of South Korea named Pivotal Systems Korea Limited.

On 11 April 2018, the Company amended their loan agreement with Bridge Bank. This amendment acknowledged the Company was not in compliance with their financial covenants for the period ended 31 December 2017 and the subsequent period 12 January - 30 January 2018. The agreement offered a waiver on these existing defaults.

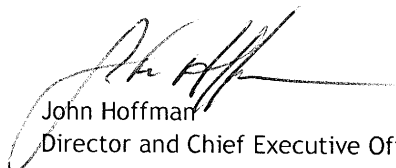
No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

**DIRECTORS' DECLARATION FOR THE YEAR ENDED 31 DECEMBER 2017,  
31 DECEMBER 2016 AND 31 DECEMBER 2015**

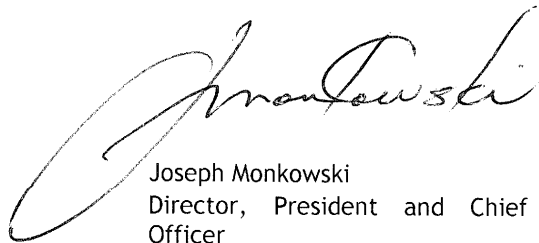
In accordance with a resolution of the directors of Pivotal Systems Corporation, the directors of the Company declare that:

1. The financial statements and notes thereto, are in accordance with Australian Accounting Standards - Reduced Disclosure Requirements;
2. The financial statements and notes thereto, give a true and fair view of the Company's financial position as at 31 December 2017, 31 December 2016 and 31 December 2015 and of the performance for the years ended on that date; and
3. In the directors' opinion there are reasonable grounds to believe that Pivotal Systems Corporation will be able to pay its debts as and when they become due and payable.

On behalf of the directors



John Hoffman  
Director and Chief Executive Officer



Joseph Monkowski  
Director, President and Chief Technology Officer

11 May 2018  
Fremont, CA

## INDEPENDENT AUDITOR'S REPORT

To the members of Pivotal Systems Corporation

### Report on the Audit of the Financial Report

#### Qualified opinion

We have audited the financial report of Pivotal Systems Corporation (the Company), which comprises the statement of financial position as at 31 December 2017, 31 December 2016 and 31 December 2015, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the three years then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion, except for the effects of the matter described in the *Basis for qualified opinion* section of our report, the accompanying financial report presents fairly, in all material respects, the financial position of the Company as at 31 December 2017, 31 December 2016 and 31 December 2015 and its financial performance and its cash flows for the three years then ended in accordance with Australian Accounting Standards - Reduced Disclosure Requirements.

#### Basis for qualified opinion

We were appointed as auditors of the Company on 27 February 2018 and thus did not observe the counting of physical inventories as at the beginning of the years ending 31 December 2017, 31 December 2016 and 31 December 2015 or the end of the years ending 31 December 2016 and 31 December 2015. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at these dates.

Since both opening and closing inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments to the results of operations and opening retained earnings might have been necessary in respect of the years ended 31 December 2017, 31 December 2016 and 31 December 2015. We were satisfied with the inventory quantities held at 31 December 2017.

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

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

**Material uncertainty related to going concern**

We draw attention to Note 1 in 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. Our opinion is not modified in respect of this matter.

**Other information**

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Directors Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, 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 - Reduced Disclosure Requirements 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or 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 the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:  
[http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf)

This description forms part of our auditor's report.

**BDO East Coast Partnership**

A handwritten signature in black ink, appearing to read 'Martin Coyle', is written over a faint, light blue BDO logo.

Martin Coyle  
Partner

Sydney, 11 May 2018