



Annual Financial Report Incorporating Appendix 4E

Xenith IP Group Limited and its controlled entities
For the year ended 30 June 2018

RESULTS FOR ANNOUNCEMENT TO THE MARKET

APPENDIX 4E FOR THE YEAR ENDED 30 JUNE 2018

| | 2018 \$'000 | 2017 \$'000 | Change |
|--|----------------|----------------|--------|
| Revenues from ordinary activities | 126,343 | 85,036 | 49% |
| Statutory (loss) / profit from ordinary activities after tax attributable to the owners of Xenith IP Group Limited | (14,684) | 3,957 | (471%) |
| Statutory (loss) / profit attributable to the owners of Xenith IP Group Limited | (14,684) | 3,957 | (471%) |
| Underlying net profit after tax ("NPAT") ¹ | 7,381 | 8,365 | (12%) |
| Underlying net profit after tax, before amortisation of acquired intangibles ("NPATA") ¹ | 10,441 | 9,741 | 7% |
| Underlying earnings before interest, taxation, depreciation and amortisation ("EBITDA") ¹ | 18,119 | 15,480 | 17% |

¹ Underlying NPAT, NPATA and EBITDA are non-IFRS measures that are presented to provide an understanding of the underlying performance of Xenith IP Group Limited, excluding the impact of impairment losses and significant acquisition, integration and IPO related expenses. Refer to the reconciliation of statutory to underlying results in the Directors' report.

| Dividends (fully franked) | Cents per share |
|---------------------------|-----------------|
| Interim dividend | 3.0 |
| Final dividend | 4.5 |

The record date for determining the entitlement to the final dividend is 21 September 2018

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Directors' report

For the year ended 30 June 2018

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Xenith IP Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled during the year ended 30 June 2018.

Directors

The following persons were Directors of the Company during or since the end of the financial year:

- Sibylle Krieger
- Craig Dower (appointed 9 August 2017)
- Susan Forrester
- Andrew Harrison
- Kathryn Spargo
- Stuart Smith

Information on Directors

The skills, experience, expertise and special responsibilities of each person who has been a Director of the Company at any time during or since the end of the financial year is provided below, together with details of the Company Secretary as at the year end.

Sibylle Krieger

*LLB (Hons), LLM,
MBA, FAICD*

Chair

Non-Executive
Director

Experience

Sibylle was appointed independent Non-Executive Chair in October 2015.

Sibylle is a professional independent non-executive director with over 35 years of broad commercial experience. Her early career was in professional services as a corporate lawyer in private practice, followed by a period as an economic regulator. Her particular focus as a non-executive director has been on corporate governance, professional services, infrastructure and regulated industries, and sectors undergoing significant change or reform.

In her earlier professional career, Sibylle was a partner of two major commercial law firms (Baker & McKenzie, a global law firm, and Clayton Utz, a top tier Australian law firm) for a combined period of 22 years, holding several strategic planning and management roles. Her client work included corporate law, governance and Directors' duties. During this time, Sibylle faced many of the governance issues experienced by professional service firms transitioning from traditional partnerships to more corporate business models.

Other Current Listed Company Directorships

- Non-Executive Director of MyState Limited (ASX:MYS) (appointed December 2016)
- Non-Executive Director of Vector Limited (NZX:VCT) (appointed May 2018)

Former Listed Company Directorships in the Last Three Years

n/a

Special Responsibilities

- Chair of the Board
- Member, Audit and Risk Committee
- Member, People and Culture Committee

Directors' report

For the year ended 30 June 2018

Craig Dower

FAICD FAIM MACS
CEO and Managing
Director
(from 9 August 2017)

Experience

Craig was appointed CEO and Managing Director in August 2017.

Craig's professional services career has spanned over 30 years and his recent positions include leadership roles as CEO of Salmat (ASX:SLM), and President, Asia Pacific and China for Avanade Inc. His experience includes leading and driving organisational change, building high performance teams, technology-based innovation and integrating and managing acquisitions. He also has more than 15 years' experience working across all of Asia Pacific, including five years based in Singapore.

Craig has served on a number of boards both as an executive and non-executive director.

Other Current Listed Company Directorships

n/a

Former Listed Company Directorships in the Last Three Years

n/a

Special Responsibilities

n/a

Susan Forrester

*BA, LLB (Hons),
EMBA, FAICD*
Non-Executive
Director

Experience

Susan was appointed as an independent Non-Executive Director in October 2015.

Susan is an experienced company director with significant experience as a non-executive director across a range of listed and unlisted company boards, spanning legal services, professional services, healthcare and childcare sectors. Susan's expertise at the board table encompasses strategy, governance within fast growing companies and oversight of large complex transactions.

In her earlier career, Susan garnered a wide range of executive experience, having held various roles for Allens Linklaters, Queensland Treasury Corporation, Arkhefield Architects, The CEO Institute and Chandler McLeod.

Other Current Listed Company Directorships

- Chair and Non-Executive Director of National Veterinary Care Limited (ASX:NVL) (appointed February 2015)
- Non-Executive Director of G8 Education Limited (ASX:GEM) (appointed November 2011)
- Non-Executive Director of Over the Wire Limited (ASX:OTW) (appointed November 2015)

Former Listed Company Directorships in the Last Three Years

n/a

Special Responsibilities

- Chair, People and Culture Committee
- Member, Audit and Risk Committee (resigned 18 December 2017)

Directors' report

For the year ended 30 June 2018

Andrew Harrison

*BEC, MBA, CA,
MAICD*

Non-Executive
Director

Experience

Andrew was appointed as an independent Non-Executive Director in October 2015.

Andrew is an experienced company director, ASX100 CFO, and corporate adviser. He has held executive and non-executive directorships in public and private companies and has been CFO for a number of companies including Seven Group Holdings (ASX: SVW), Alesco Limited, Hanson Australia Limited in Australia, and Landis+Gyr in Europe and the US. Having advised on and completed numerous mergers, trade sales and capital raisings, Andrew has particular expertise in structuring debt and equity transactions, corporate consolidations and repositioning strategies, and multi-jurisdictional governance, reporting and compliance.

In the earlier stages of his career Andrew was an investment banker at Gresham Partners (Sydney) and Chase Manhattan Bank (New York) and originally trained as a Chartered Accountant at Ernst & Young (Sydney and London).

Other Current Listed Company Directorships

- Non-Executive Director of Bapcor Limited (ASX:BAP); Director (appointed March 2014); Chair (appointed April 2018)
- Non-Executive Director of Estia Health Limited (ASX:EHE) (appointed November 2014)
- Non-Executive Director of IVE Group Limited (ASX:IGL) (appointed November 2015)
- Non-Executive Director of WiseTech Global Limited (ASX:WTC); Director (appointed July 2015); Chair (appointed August 2018)

Former Listed Company Directorships in the Last Three Years

n/a

Special Responsibilities

- Chair, Audit and Risk Committee

Kathryn Spargo

*BA, LLB (Hons),
FAICD*

Non-Executive Director

Experience

Kate was appointed as an independent Non-Executive Director in April 2017.

Kate has worked as a non-executive director for over 20 years in a range of company structures. She is a lawyer by profession and has worked in both public and private practice, as well as professional services practice management. She has extensive experience in directing Australian companies engaged in business internationally.

Other Current Listed Company Directorships

- Non-Executive Director of Sonic Healthcare Limited (ASX:SHL) (appointed July 2010)
- Non-Executive Director of Adairs Limited (ASX:ADH) (appointed May 2015)
- Non-Executive Director of Sigma Healthcare Limited (ASX:SIG) (appointed December 2015)
- Non-Executive Director of CIMIC Group Limited (ASX:CIM) (appointed Sep 2017)

Former Listed Company Directorships in the Last Three Years

- Non-Executive Director of Fletcher Building Limited (ASX:FBU) (2012-2017)
- Non-Executive Director of UGL Limited (ASX:UGL) (2010-2016)

Special Responsibilities

- Member, People and Culture Committee
- Member, Audit and Risk Committee (appointed 18 December 2017)

Directors' report

For the year ended 30 June 2018

Stuart Smith

*BE (Mech), PEng,
FIPTA, MAICD*

Managing Director
(to 9 August 2017)
Executive Director
(from 9 August 2017)

Experience

Stuart was appointed to the Xenith Board in August 2015.

Stuart is an Executive Director and currently holds the position of Chief Corporate Development Officer within the Company's group executive management team. He led the company through a corporate restructure and IPO in 2015 and served as Managing Director until August 2017, during which time the strategic acquisitions of Watermark and Griffith Hack were successfully completed and Glasshouse Advisory was launched.

Stuart has worked within the business since 1988 and has 30 years' experience as a patent attorney specialising in mechanical engineering technologies. Prior to the restructure, Stuart was a partner of Shelston IP for more than 20 years, and a member of the executive management team for more than 15 years. For 10 years Stuart held the position of Executive Chairman of Shelston IP, with responsibility for leading the firm, developing business strategy and co-ordinating the activities of the senior management team.

Other Current Listed Company Directorships

n/a

Former Listed Company Directorships in the Last Three Years

n/a

Special Responsibilities

n/a

Company Secretary

Lesley Kennedy

*BAcc (Hons), CA,
GAICD*

CFO and Company
Secretary

Experience

Lesley joined the Company as Chief Financial Officer and Company Secretary on 18 May 2016. Lesley has over 20 years' experience in corporate finance and professional services, including approximately 12 years as CFO and Company Secretary in ASX listed companies. Lesley's experience includes the role of CFO and Company Secretary for Prime Media Group Limited (ASX:PRT) and, prior to that, the then listed Independent Practitioner Network Limited, now wholly owned by Sonic Healthcare Limited (ASX:SHL). Prior to this Lesley spent eight years advising multinational organisations as a Senior Manager with Ernst & Young's Audit & Assurance Services.

Other Current Listed Company Directorships

n/a

Former Listed Company Directorships in the Last Three Years

n/a

Special Responsibilities

n/a

Directors' report

For the year ended 30 June 2018

Meetings of Directors

The following table sets out the number of meetings of the Board of Directors and each of the established Board Committees held during the reporting period, as well as attendance at those meetings of each of the Directors.

| Director | Full Board | | People and Culture | | Audit and Risk | |
|-----------------|------------|-------|--------------------|-------|----------------|-------|
| | Attended | Held* | Attended | Held* | Attended | Held* |
| Sibylle Krieger | 14 | 14 | 6 | 6 | 3 | 4 |
| Craig Dower | 12 | 12 | | | | |
| Andrew Harrison | 12 | 14 | | | 4 | 4 |
| Susan Forrester | 14 | 14 | 6 | 6 | 2 | 2 |
| Kathryn Spargo | 14 | 14 | 4 | 6 | 2 | 2 |
| Stuart Smith | 14 | 14 | | | | |

* Held during the period the Director was in office.

Principal activities

The Group's core business is to provide a comprehensive range of intellectual property ("IP") services including identification, registration, management, commercialisation and enforcement of IP rights for a broad spectrum of clients in Australia, New Zealand and the rest of the world, with the aim of contributing to their success.

Significant changes in the state of affairs

There was no significant change in the state of affairs during the year.

Review of operations and financial results

Operations Overview

The Group, with more than 155 IP professionals and a network of offices across Australia and New Zealand, offer a suite of complementary services that enable clients to identify and leverage commercial potential from their technologies, brands and intangible assets.

From the Company's inception in October 2015, the strategy has been to create the pre-eminent specialist IP services provider in Asia Pacific. This ambition will be achieved through organic growth and the targeted aggregation of the region's best IP services companies and professionals.

The Group services more than 11,000 active clients globally, including Fortune Global 500 companies, foreign and domestic corporations, research institutes, educational institutions, SMEs, domestic professional service firms, innovative start-up companies, entrepreneurs, foreign associates including offshore IP and other law firms.

The largest client within the Group represents less than 2% of revenue and 29 of the top 50 clients have been with the Group for more than 10 years. The client base is also highly diversified by geography, service line and industry. This client profile creates a stable foundation and a very different risk profile relative to many other service-based companies.

Each Group company maintains its own brand and works with clients to address their individual needs, but also gives clients access to the full range of professional skills available across the Group. The Group comprises the following brands:

- Shelston IP;
- Watermark (acquired in November 2016);
- Griffith Hack (acquired in February 2017); and
- Glasshouse Advisory (launched in May 2017)

Bringing together complementary businesses also presents opportunities to improve efficiency, with productivity savings identified across human resources, finance, technology, operations and corporate services.

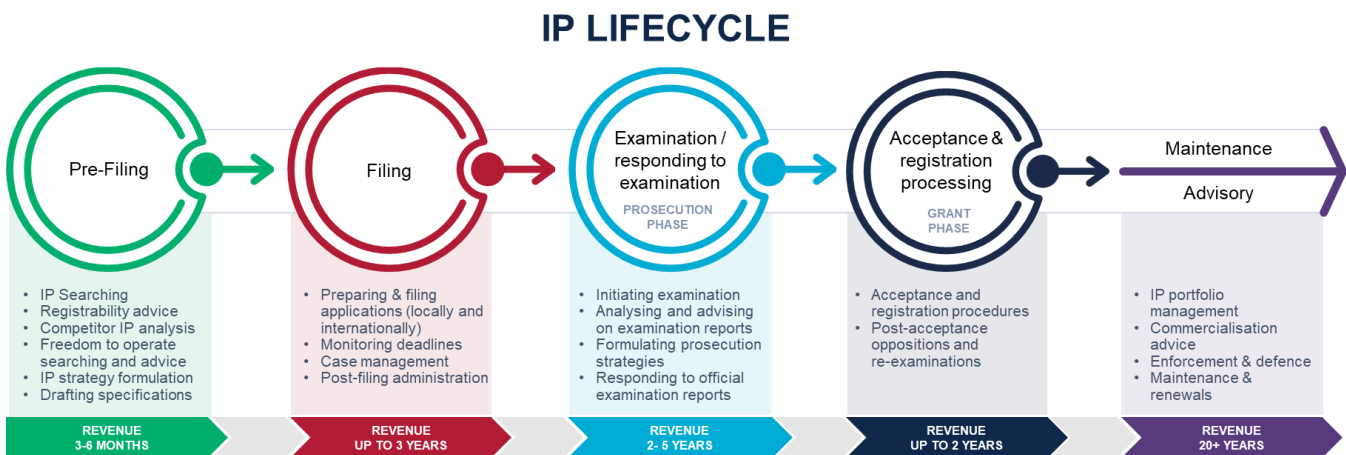
As well as providing the foundation for strong growth in Australia and New Zealand, executing the strategy also presents significant opportunities in Asia. The regional 'hub and spoke' model provides comprehensive IP services across the region to existing and potential new clients. The Group's current services, technology and expertise can be scaled to take advantage of strong demand in Asian economies for intellectual asset protection, management and enforcement.

As the global economy increasingly transitions from growth based on physical assets to growth based on knowledge and technological innovation, the Group is at the forefront of identifying, capturing, protecting and commercialising clients' intellectual property and intangible assets, to drive their commercial success.

Operating Business Model

The processes of applying for, obtaining and subsequently maintaining protection for registrable IP rights, particularly patents, trademarks and registered designs, can be viewed as a series of long-term process pipelines. These pipelines can extend for up to 10 years in the case of registered designs, up to 20 years in the case of patents, and indefinitely in the case of trade marks.

Xenith generates revenue by assisting clients at each stage of each process pipeline, typically through a combination of time-based charges and schedule fees relating to specific process steps, as outlined in the diagram below. The post-grant or post-registration phase is typically characterised by the payment of periodic maintenance or renewal fees, in order to keep the respective IP rights in force. However, there are also significant advisory services provided throughout this phase, ranging from IP portfolio management and commercialisation advice, through to defence and enforcement of IP rights including by way of litigation through the courts.



These life cycles unfold in parallel, country-by-country, according to where each applicant chooses to pursue the various forms of IP protection, based on the industries in which they operate and on their overarching commercial objectives. While broadly similar in overview, the processes and procedures differ from country to country in points of detail according to specific aspects of national law and practice, translation requirements and other factors. Again, Xenith assists clients to navigate these processes and procedures in order to secure, commercialise and enforce their IP rights under the relevant national and international regimes, where appropriate through engagement of specialist IP agents in foreign jurisdictions.

While IP filing statistics are meaningful as a lead indicator of future revenue streams, it should be appreciated that the filing process itself represents only one discrete stage in the extended IP life-cycle, with the large majority of revenue generated in downstream stages of the process pipelines and through related advisory services. It should also be appreciated that IP filing statistics in any particular jurisdiction, such as Australia, do not reflect IP filings coordinated in other jurisdictions on behalf of local or foreign clients.

Directors' report

For the year ended 30 June 2018

Operating Performance (Statutory)

The Group reported a consolidated statutory net loss after tax of \$14,684,000 for the year ended 30 June 2018 (2017: \$3,957,000 net profit after tax)

The Group reported revenue of \$126,343,000 for the year (2017: \$85,036,000) an increase of \$41,307,000 or 49% on the prior year. This increase is the net result of the following:

- An increase in revenue in the current year (on a constant currency basis) from the acquired businesses of \$43,757,000 due to a full year of ownership. The Watermark and Griffith Hack businesses were acquired on 2 November 2016 and 2 February 2017 respectively;
- A reduction in service fee revenue in Shelston IP of \$709,000 or 2.5% (on a constant currency basis). The shortfall can be attributed to a reduction in patent prosecution revenue year on year as discussed further below;
- A reduction in service fee revenue across the Group of \$461,000 due to unfavorable foreign currency rates in the current year relative to the prior year; and
- A reduction in disbursement revenue in Shelston IP of \$1,280,000 which is offset by an equal reduction in disbursement expense.

Statutory Net Loss After Tax ("NPAT") for the year of \$14,684,000 is \$18,641,000 or 471% down on prior year. The acquisition related activity in the prior year and other significant one-off items in both the current and prior year make a comparison of the statutory results year on year complex. Consequently, the movement in underlying NPAT (after removing the impact of impairment losses and acquisition, integration and restructure activity) has been analysed under "Operating Performance (Underlying)" and a reconciliation of Statutory NPAT to Underlying NPAT provided below.

| | 2018 EBITDA ¹ \$'000 | 2018 NPAT \$'000 | 2017 EBITDA \$'000 | 2017 NPAT \$'000 |
|--|---------------------------------------|------------------------|--------------------------|------------------------|
| Reconciliation of statutory to underlying² | | | | |
| Statutory | (4,300) | (14,684) | 10,139 | 3,957 |
| Add back non-recurring items | | | | |
| Impairment losses | 20,727 | 20,671 | - | - |
| Restructure expense | 579 | 405 | 382 | 268 |
| Integration related expense | 453 | 343 | 549 | 384 |
| Acquisition related expense | 139 | 97 | 2,437 | 1,706 |
| Unwinding of interest on contingent consideration | - | 108 | - | 307 |
| IPO related retention rights | 521 | 441 | 765 | 535 |
| Fair value adjustment to contingent consideration | - | - | 1,394 | 1,394 |
| Acquisition related income | - | - | (186) | (186) |
| Underlying | 18,119 | 7,381 | 15,480 | 8,365 |

¹ EBITDA represents Earnings Before Interest, Tax, Depreciation and Amortisation

² Underlying NPAT and EBITDA are non-IFRS measure that are presented to provide an understanding of the underlying performance of Xenith IP Group Limited, excluding the impact of impairment losses and significant acquisition, integration, restructure and IPO related expenses.

Directors' report

For the year ended 30 June 2018

In calculating underlying NPAT the current year earnings of the Group have been adjusted for the following non-recurring amounts:

- \$20,727,000 (\$20,671,000 net of tax) non-cash impairment charge to the carrying value of the Griffith Hack (impairment charge of \$20,300,000) and Glasshouse Advisory (impairment charge of \$427,000) businesses.

During 2H FY 2018, a comprehensive and detailed analysis of IP industry data was conducted which resulted in a downward revision to the forecast cash flows used in the valuation of the Griffith Hack Cash Generating Unit ("CGU"). It has emerged from the analysis that the impact of legislative changes occurring in prior years was more prolonged than initially anticipated. In particular, IP Laws Amendment (Raising the Bar) Act 2012 took effect in Australia in April 2013 and had the effect of creating a significant spike in the number of patent examination requests in 2H FY 2013 and to a lesser extent, a spike in the number of patent filings in the same period. These spikes created a significant back log in processing of examination requests at IP Australia. The analysis of industry data suggests that the processing of this backlog took longer than initially expected with the prolonged effect through the various stages of examination favourably impacting prior years. Whilst the Group now believe the transient impact of these legislative changes have largely washed through the Australian patent process, the current industry volumes support a rebasing of the Griffith Hack earnings, which emerged as part of the FY 2019 budgeting process. Additionally, the Group has applied more modest longer-term revenue growth assumptions used in the valuation of the CGU;

- \$579,000 (\$405,000 net of tax) of redundancy costs associated with the restructure of businesses (2017: \$268,000 net of tax);
- Following the acquisition of Griffith Hack and Watermark, the Group embarked on a comprehensive transformation plan. During the year ended 30 June 2018 the planning process for the technological transformation project was completed with costs of \$453,000 (\$343,000 net of tax) being incurred (2017: \$384,000 net of tax);
- \$139,000 (\$97,000 net of tax) of acquisition related expenses in relation to the finalisation of the Griffith Hack acquisition and costs relating to the Asian growth strategy (2017: \$1,706,000 net of tax);
- Interest expense of \$108,000 (net of tax) arising on the unwinding of the discount on the Watermark contingent consideration liability, paid in September 2017 (2017: \$307,000); and
- \$521,000 (\$441,000 net of tax) of share based payments expense relating to the one-off issue of equity instruments at the date of the IPO (2017: \$535,000 net of tax).

In addition to the above noted adjustments, in calculating underlying NPAT the prior year earnings of the Group have been adjusted for the following non-recurring items:

- \$1,394,000 (\$1,394,000 net of tax) relating to the fair value adjustment to the Watermark contingent consideration as a result of improved performance of the business in the post-acquisition earn out period; and
- Income of \$186,000 (\$186,000 net of tax) associated with the acquisition of Watermark.

Operating Performance (Underlying)

On an underlying basis the Group reported NPAT for the year of \$7,381,000, a decrease of \$984,000 or 12% on the prior year. The key movements during the year include:

- A reduction in service fee revenue across the Group of \$461,000 due to unfavorable foreign currency rates in the current year relative to the prior year;
- EBITDA contribution from the acquired businesses of \$14,439,000 (on a constant currency basis) in the current year (2017: \$8,109,000), an increase of \$6,331,000. The increase arises from a full year of ownership of the Watermark and Griffith Hack businesses which were acquired on 2 November 2016 and 2 February 2017 respectively;
- EBITDA contribution in Shelston IP of \$8,899,000 (on a constant currency basis) in the current year (2017: \$10,274,000), a reduction of \$1,375,000 or 13%. In addition to the reduction in service fee revenue of \$709,000 explained previously under "Operating Performance (Statutory)", the business incurred an increase in costs of \$666,000 largely due to annual salary increases. No salary increases are being awarded in FY 2019;

Directors' report

For the year ended 30 June 2018

- An increase in corporate costs of \$1,882,000 including the full year impact of the establishment, in the prior year, of an appropriately skilled corporate management team for the larger and more complex group and, in particular, the addition of key executive positions to assist with the transformation project and the company's proposed expansion into Asia;
- A reduction in foreign exchange losses of \$26,000 in the current year;
- Depreciation and amortisation expense of \$6,412,000 (2017: \$3,099,000), an increase of \$3,313,000 due largely to the full year impact of the acquired businesses including \$4,371,000 (2017: \$1,965,000) of amortisation expense on acquired intangible assets;
- Underlying net interest expense of \$1,110,000 (2017: \$371,000), an increase of \$739,000 reflecting the increased debt levels post funding of the Griffith Hack acquisition; and
- Underlying tax expense of \$3,216,000 (2017: \$3,645,000), a decrease of \$429,000 being the tax effect of the above points.

On an underlying basis earnings per share ("EPS") in FY 2018 is 8.3 cents (2017: 13.5 cents). The decrease in EPS of 5.2 cents or 38% is a result of the following:

- Reduction in underlying NPAT in the current year of \$984,000, as explained previously under "Operating Performance (Underlying)"; and
- The weighted average number of shares on issue in the current year of 89,127,394 (2017: 62,670,067), an increase of 26,457,327 or 42% largely due to the issue of 28,336,504 shares in December 2016 to partially fund the acquisition of Griffith Hack which completed in February 2017.

EPS in the current year has been negatively impacted by the under performance of the Griffith Hack acquisition (including the Glasshouse Advisory business) which resulted in an impairment charge in the current year of \$20,727,000 against the carrying value of the businesses.

Financial Position

Net assets at 30 June 2018 of \$125,530,000 decreased by \$17,308,000 during the current year. The main components of the decrease are:

- \$2,525,000 from the issue of ordinary shares in Xenith to fund the Watermark acquisition earn out payment and from the exercise of employee retention rights;
- \$20,355,000 increase in accumulated losses (operating loss after tax less dividends), including a \$20,727,000 non-cash impairment charge against the carrying value of the Griffith Hack and Glasshouse Advisory businesses; and
- \$522,000 share based payments expense relating to equity instruments.

Net of cash, interest bearing debt of \$13,025,000 is \$1,770,000 above the prior year net debt balance of \$11,255,000. The increase in net debt reflects the significantly increased tax payments in the current year of \$5,639,000 (2017: \$1,312,000) as a result of the commencement of monthly tax instalments in the current financial year, and the final instalment of the FY 2017 tax liability. In addition, a \$2,740,000 earnout payment was made in relation to the Watermark acquisition, offset by cash generated during the year.

The Group has in place a \$50 million bank loan facility with Australia and New Zealand Banking Group Limited ("ANZ") which expires on 2 February 2020. At 30 June 2018, there exists \$30,041,000 of undrawn facility (2017: \$30,623,000). Under the terms of the facility agreement with ANZ, the Company is required to comply with certain financial covenants as disclosed in the table below:

| | Required | 30 Jun 2018 | 31 Dec 2017 | 30 Jun 2017 |
|----------------|----------|-------------|-------------|-------------|
| Leverage Ratio | < 2.00 | 1.01 | 1.20 | 0.76 |
| Interest cover | > 3.00 | 11.00 | 12.2 | 34.40 |

Leverage Ratio = Net Debt / EBITDA.

Interest Cover = EBIT / Interest expense

Directors' report

For the year ended 30 June 2018

Business Strategy and Outlook

With innovation a fundamental driver of global growth and development, IP has emerged as a valuable currency in the knowledge economy. Xenith's vision is to be the pre-eminent IP group in Asia Pacific, providing industry-leading expertise in traditional IP services in conjunction with a uniquely comprehensive suite of complementary advisory services across the innovation ecosystem. The Group intends to pursue this vision through a combination of business integration, organic growth, diversification, and carefully targeted acquisitions and strategic partnerships.

The acquisitions of Watermark and Griffith Hack and the subsequent launch of Glasshouse Advisory in FY 2017 have been transformational, establishing a significantly larger platform to support the next stages of growth and development. Through Glasshouse Advisory, the Group has also established a unique combination of highly complementary services, built on the foundations of deep technical expertise in IP but extending well beyond traditional IP services, enabling clients' businesses to more effectively maximise and leverage the potential of their intellectual assets.

Over the past 12 months, Xenith has developed a detailed business transformation plan, which will be implemented over the next two to three years. This includes:

- a transition of all current technology platforms to industry-leading, cloud-based platforms;
- an investment in the training and development of our people;
- a focus on deepening our client service capabilities;
- embracing artificial intelligence and digital platforms to streamline and enhance the overall client experience;
- driving productivity improvements across all aspects of the business; and
- increasing our returns to shareholders.

In addition to the transformation program, key areas of strategic focus in the next phase will include:

- expanding our physical presence into targeted geographies in Asia, to position ourselves strategically within those high-growth markets;
- continuing to develop and leverage complementary service lines within Glasshouse Advisory across the Group's expanded client base to build a differentiated market position and continue to grow diversified revenue streams;
- continuing to focus on successful business development initiatives and growth momentum in China, Japan and Korea; and
- creating an inspiring, innovative and differentiated culture that reflects the value of Xenith's people, attracting and retaining top talent, rewarding strong performance and delivering results for all of our stakeholders.

Business Risks

The material business risks that are likely to have an effect on the financial prospects of the Group together with indications as to how the Company intends to manage these risks are set out below:

- **Integration risk:** The Company made significant acquisitions during the previous financial year. Acquisitions that do not achieve the desired business objectives or do not achieve the anticipated revenue or synergy outcomes may have an adverse impact on the Group's financial performance or growth prospects. To address these risks, the Company has recruited Directors and Management with appropriate experience, including a Chief Transformation Officer ("CTO") and the new CEO who bring demonstrated success in business integration and transformation.
- **Loss of key personnel:** Many of the Group's key personnel are highly qualified and highly experienced with in-depth industry and client knowledge. Loss of key personnel may have an adverse impact on the Group's client service capabilities and/or financial performance. The acquisitions during the previous financial year and the resulting restructure of the acquired businesses into the listed environment, including changes to remuneration models and governance structures, may adversely affect the ability of the Group to retain key staff and/or attract new staff with appropriate qualifications and experience at comparable cost. To mitigate

Directors' report

For the year ended 30 June 2018

this risk, the vendor principals of the acquired businesses have entered into 3-year minimum term employment agreements and the Company has further developed its incentive based remuneration framework for the 2019 financial year. A number of strategic people and culture initiatives have also been commenced with the aim of establishing a world-class employer brand and employee value proposition to attract and retain top talent.

- **Foreign exchange risk:** Approximately 38% of the company's service fee revenue is invoiced in USD, while the company's cost base is predominately in AUD. Consequently, any appreciation in the AUD:USD currency exchange rate will have an unfavourable impact on the Group's reported revenue, such that a 1 cent movement in the AUD:USD exchange rate results in approximately \$420,000 impact on revenue and EBITDA. The business acquisitions in the prior financial year have increased foreign currency diversification and reduced the proportional exposure to AUD:USD exchange rate fluctuations. Additionally, the company hedges up to 100% of the foreign currency denominated working capital balances through the use of forward exchange contracts.
- **New market risk:** A key element of the Group's growth strategy is expansion into Asia, preferably through one or more acquisitions as a basis for further development of the regional "hub and spoke" network. There are inherent risks associated with entering any new geographical market with its own particular regulatory frameworks and cultural dynamics. The Company manages this risk through the use of long-standing established relationships, rigorous due diligence processes and a combination of senior management and independent advisors with appropriate geographical experience.
- **Regulatory change:** The Group's core business operations are governed by various statutory and regulatory regimes, international treaties and established processes and procedures that are potentially subject to change, including as a result of judicial determinations, regulatory reforms and procedural changes affecting interactions between relevant national and international IP bodies and agencies. The Group mitigates these risks by a range of measures including proactive participation in regulatory reviews, technological innovation and service diversification. One example of potential change includes a proposal currently under consideration to extend the ePCT system for filing international patent applications to facilitate the subsequent "national phase" entry stage through the respective national and regional IP offices. It is currently not known when or if the ePCT system will be extended in this way, or if IP Australia would participate in any such extension. However, if implemented, this proposal may have a significant adverse impact on the Group's revenue currently derived from the national phase entry process step. To mitigate this risk, key strategies of the Group include continual system and process improvements to drive EBITDA margin performance and continuing development of adjacent and complementary service lines to provide a more comprehensive service offering to clients while diversifying revenue streams.
- **Technological disruption:** The life-cycle for registrable IP rights including patents, trademarks and registered designs involves a significant number of discrete stages and processes including aspects that are, to varying degrees, procedural or administrative in nature. This gives rise to a risk of technology-driven market disruption as a result of process streamlining or automation, particularly in relation to the procedurally oriented aspects of the IP process pipelines. To mitigate this risk, the Group's digital strategy involves substantial investment in technological innovation, including a staged transition to cloud-based digital platforms and the use of artificial intelligence ("AI"), to streamline workflows and drive automation across the IP process pipelines. At the same time, the Company is expanding its service lines, diversifying its revenue streams, and executing its strategy of providing a more comprehensive spectrum of high-value IP legal and complementary advisory services, holistically integrated across the innovation ecosystem.
- **Market risk:** a large proportion of the company's revenue is derived from services relating to the protection, commercialisation and enforcement of intellectual property rights in Australia. With the strong economic growth and larger populations evident in emerging markets, there is a risk that Australia may be progressively de-prioritised as a destination market for IP services in a regional or global context. To mitigate this risk, the Group has initiated a strategy to extend its service lines and diversify its revenue streams through Glasshouse Advisory. As part of a comprehensive digital strategy, the Group has also commenced development of digital client collaboration platforms, including 'Amplia', in order to penetrate additional markets and market segments, locally and internationally. Furthermore, it is a central element of the Group's strategy, supported by dedicated management resources, to extend its presence and reach into Asia, and thereby to capitalise on the opportunities in larger regional markets with higher growth potential outside Australia.

Directors' report

For the year ended 30 June 2018

- **Professional duties and conflicts:** The Group provides IP legal services and its employed solicitors have professional and ethical duties and obligations to the courts and to their clients. Similarly, patent and trade mark attorneys are required to abide by a code of conduct that requires them to act in accordance with the law, in the best interests of their clients, in the public interest and in the interests of the profession as a whole. In certain circumstances, these duties and obligations may compete with and prevail over the Company's duties and obligations to shareholders. The Code of Conduct for Patent and Trademark Attorneys was revised this financial year and the revised code has validated the Group's operating model as an 'ownership group', subject to compliance with specified obligations and operational guidelines. The Company has obtained independent legal advice to ensure the optimal structuring of its operations, and appropriate policies and procedures have been implemented to avoid conflicts of interest within and between entities in the Group. The relevant professional practice rules and codes of conduct are nevertheless subject to change and the Company actively participates in these regulatory review processes to ensure that its interests are appropriately represented.

Dividends

In respect of the current year, a fully franked interim dividend of \$2,662,000 (3.0 cents per share) was paid on 29 March 2018.

In addition to the interim dividend and since the end of the financial year, a fully franked final dividend of 4.5 cents per share was declared on 29 August 2018 to be paid on 28 September 2018. The expected value of the dividend is \$3,994,000.

Events after the end of the reporting period

Apart from the final dividend declared, there are no other matters or circumstances that have arisen since the end of the year that have significantly affected or may significantly affect either:

- The entity's operations in future financial years;
- The results of those operations in future financial years; or
- The entity's state of affairs in future financial years

Environmental Regulations

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

Retention Rights and Performance Rights

During the year, performance rights over 309,655 shares were issued to the Chief Executive Officer and the Chief Financial Officer. Full details are included in the Remuneration Report.

Details of unissued shares of Xenith IP Group Limited or interests under performance rights and retention rights at the date of this report are:

| Issued | Type | Class | Exercise Price | Vesting | No. of Shares |
|-------------|--------------------|----------|----------------|-------------|---------------|
| 21 Dec 2017 | Performance Rights | Ordinary | Nil | 31 Aug 2020 | 309,655 |
| 5 Feb 2016 | Retention Rights | Ordinary | Nil | 20 Nov 2018 | 360,287 |

During the year 216,908 ordinary shares in the Company were issued on vesting of Retention Rights (2017: 150,735) and 45,680 performance rights lapsed as a consequence of not meeting the performance conditions.

Directors' report

For the year ended 30 June 2018

Indemnification of officers and auditors

The Group maintains a Directors' and Officers' liability insurance policy that, subject to the policy terms and conditions and to the extent permitted by law, indemnifies the Company's current, past and future directors and officers (including directors and officers of the Company's controlled entities). Details of the nature of the liabilities covered or the amount of the total premium paid in respect of the insurance are not disclosed as such disclosure is prohibited under the terms of the contract.

The Company has not provided an indemnity in favour of its external auditor.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 33 and forms part of this report.

Rounding

In accordance with *ASIC Legislative Instrument 2016/191* (Rounding in Financial/Directors' Reports) amounts in the financial report are rounded off to the nearest thousand dollars unless otherwise indicated.

Directors' report

For the year ended 30 June 2018

Remuneration report (audited)

Contents

| Section | Title | Description |
|---------|---|---|
| 1 | Introduction | A letter from the People and Culture Committee Chair outlining progress made during FY 2018. |
| 2 | Who is covered | Key Management Personnel ("KMP") consists of Non-Executive Directors, Executive Directors and Other Executive KMP. |
| 3 | Remuneration governance | Describes the role of the Board and the People and Culture Committee ("PCC"), and the use of remuneration consultants when making remuneration decisions. |
| 4 | Executive remuneration | Outlines our Strategy, Vision and Values and link to Executive KMP reward. |
| 5 | Actual remuneration details for 2018 | Outlines the principles and strategy applied to executive remuneration decisions and the framework used to deliver rewards including the performance and remuneration linkages. |
| 6 | KMP equity interests | Provides details of KMP shareholdings in Xenith. |
| 7 | Employment agreements | Provides details regarding the contractual arrangements between Xenith and the Executive KMP whose remuneration details are disclosed. |
| 8 | Non-Executive remuneration | Provides details regarding the fees paid to Non-Executive Directors. |

Directors' report

For the year ended 30 June 2018

1 INTRODUCTION FROM THE PEOPLE AND CULTURE COMMITTEE CHAIR

Dear Shareholders

FY 2018 saw the ongoing implementation and refinement of the Strategic Remuneration Framework and Policies that were introduced in FY 2016 following our listing on the ASX.

Our review of the Strategic Plan in April 2018 brought with it a greater recognition of our values and introduced the following areas of focus across the Group:

- People;
- Growth;
- Clients; and
- Performance.

Xenith has a firm belief that increasing the focus on our people will provide a sustainable advantage over the long term. Our remuneration approach is designed to reward and motivate all our people to deliver ongoing business growth and meet the expectations of shareholders. This is in line with our strategy to provide both a market-leading client and employment offer to drive performance and profitability of the Group, which in turn provides sustainable growth for shareholders.

In 2018, we laid the foundations to deliver shareholder value by accelerating progress around our people programs and commencing transformation of the group. Three key pillars were introduced to ensure that our organisation is truly innovative, with exciting opportunities for our people to grow and be rewarded. Those three pillars are:

- Toolset: providing modern, efficient and easy to use tools, systems and processes;
- Skillset: providing world class learning and development opportunities; and
- Mindset: driving cultural change, identifying shared values across the group, with agreed behaviours, including a growth mindset.

We are striving to create best in class tools, supported by innovative development opportunities and a framework of values that connect all of our people. Our long-term commitment to excellence extends to talent management, comprehensive succession planning and ensuring that our remuneration strategy is fit for purpose for all parts of our Group.

The following key initiatives were implemented in FY 2018:

- Craig Dower was appointed to the position of CEO and Managing Director on 9 August 2017;
- Development of an appropriate remuneration mix and KPIs for our new CEO including a Short-Term Incentive ("STI") and a Long-Term Incentive ("LTI") which includes a claw back mechanism and STI deferral;
- Bedding down the new Group Executive reporting to Mr Dower including the creation of two new critical roles, the Chief Transformation Officer and Chief Corporate Development Officer to assist with the transformation project and our expansion into Asia;
- A remuneration benchmarking exercise was completed for certain Group Executive roles;
- A review of our executive remuneration was carried out during the financial year and will be implemented in FY 2019. Key elements of the review included approval of a revised Group Executive remuneration framework incorporating a fixed remuneration component and a variable component ("at risk") comprising an STI with a deferral component and an LTI for eligible KMP;
- Underpinning the STI plan was the introduction of a new Key Performance Indicator ("KPI") framework to be applied to KMP, Group Executive, Principals (non-vendor) and certain other fee earners combined with a performance and values gateway whereby no STI is payable unless Board approved financial metrics and agreed behaviours are met; and
- A comprehensive review of our board skills matrix.

Directors' report

For the year ended 30 June 2018

The Board and the People and Culture Committee believe the annual incentive outcomes for each of our disclosed executives reflects our performance in FY 2018. The minimum financial performance requirements of the STI plan were not met as the Group fell short of the FY 2018 NPAT gateway.

The Board and the People and Culture Committee also made the difficult decision to defer annual pay increases across all levels of staff, including executive KMP. Annual pay increases, which would ordinarily be awarded with effect from 1 July 2018, were instead deferred and may be payable as a one-off bonus calculated at 2.75% of Total Fixed Remuneration ("TFR") for each staff member, on achievement of brand or group financial targets.

At this stage in the Group's evolution, the Board believe some attention is warranted to strategically review our approach to remuneration. It is our view that structural changes to our Strategic Remuneration Framework will ensure greater alignment with the interests of our shareholders. This strategic review will be led by our People and Culture Committee and focus on our longer-term remuneration strategy with attention being given to our Principals and fee earners.

In FY 2019, we will continue to monitor the effectiveness of our remuneration approach and we will refine and improve over the coming year. The Board and the People and Culture Committee hope you find this report informative.

Susan Forrester
People and Culture Committee Chair
29 August 2018

Directors' report

For the year ended 30 June 2018

2 WHO IS COVERED BY THIS REPORT

This Remuneration Report sets out, in accordance with the relevant *Corporations Act 2001* ("Corporations Act") and accounting standard requirements, the remuneration arrangements in place for KMP of the Group during FY 2018.

KMP have authority and responsibility for planning, directing and controlling the activities of Xenith and comprise the Non-Executive Directors, and Executive KMP (being the Executive Directors and Other Executive KMP named in this report).

Details of the KMP during or since the end of the financial year are set out in the table below:

| | Title at year end / Committees | Change during or since end of FY 2018 |
|--------------------------------|--|--|
| Non-Executive Directors | | |
| Sibylle Krieger | Non-Executive Chair Member, Audit and Risk Committee Member, People and Culture Committee | No change. Full year. |
| Andrew Harrison | Non-Executive Director Chair, Audit and Risk Committee | No change. Full year. |
| Susan Forrester | Non-Executive Director Chair, People and Culture Committee | Resigned as member, Audit and Risk Committee on 18 December 2017. |
| Kathryn Spargo | Non-Executive Director Member, People and Culture Committee Member, Audit and Risk Committee | Appointed as member, Audit and Risk Committee on 18 December 2017. |
| Executive Directors | | |
| Stuart Smith | Chief Corporate Development Officer | Resigned as Managing Director on 9 August 2017 and appointed in the role of Chief Corporate Development Officer. |
| Craig Dower | Chief Executive Officer and Managing Director | Appointed Managing Director and Chief Executive Officer on 9 August 2017. |
| Other Executive KMP | | |
| Lesley Kennedy | Chief Financial Officer and Company Secretary | No change. Full year |

3 REMUNERATION GOVERNANCE

This section of the Remuneration Report describes the role of the Board and the People and Culture Committee, and the use of remuneration consultants when making remuneration decisions affecting KMP.

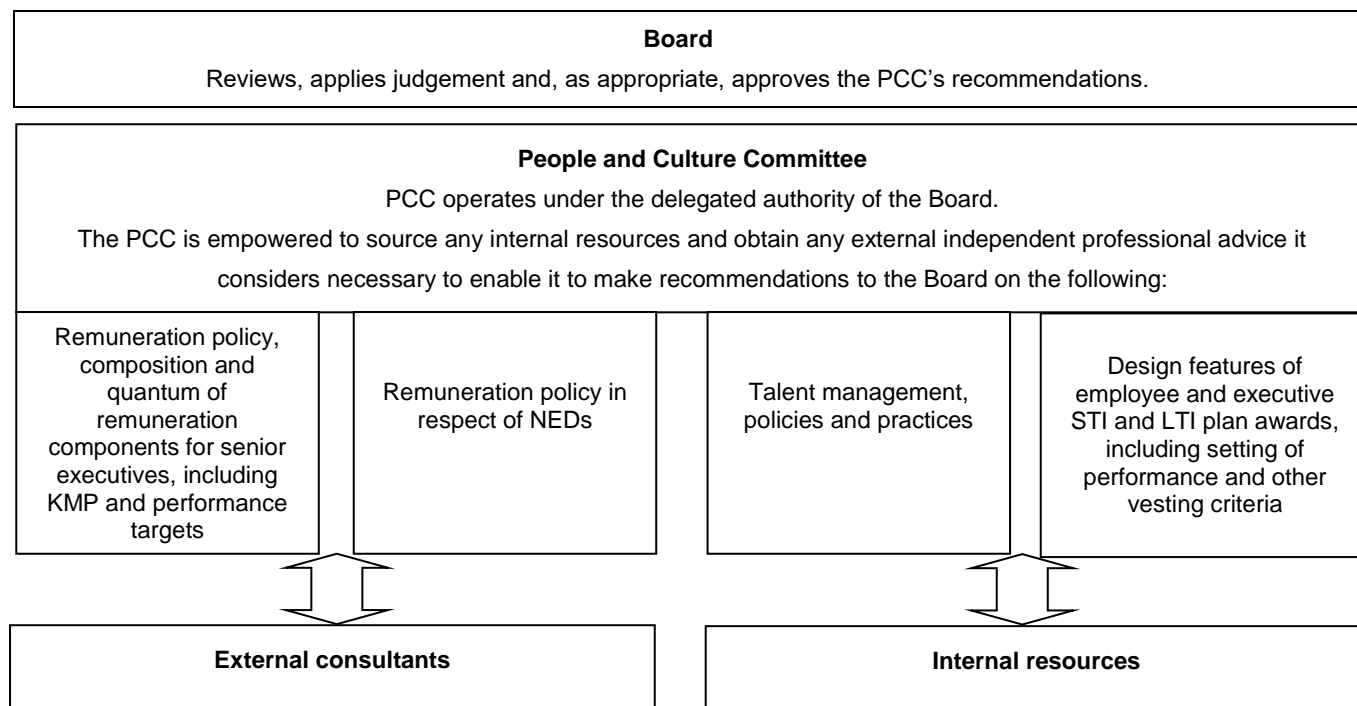
Role of the Board and the People and Culture Committee (“PCC”)

The Board is responsible for Xenith’s remuneration strategy and policies. Consistent with this responsibility, the Board has established the PCC.

The role of the PCC is set out in its Charter. The primary objective of the PCC is to assist the Board in fulfilling its responsibility to stakeholders in:

- Overseeing the development and implementation of the people and culture strategy with reference to ensuring appropriate resources, policies and procedures are in place or being developed to support the achievement of the Group’s strategy;
- Promoting a safe working culture;
- Driving high performance in executives, management and fee-earning employees by providing effective remuneration policies and programs that have regard to the creation of value for shareholders;
- Monitoring appropriate performance management, development planning and succession management programs to enable talented, motivated and engaged people to achieve the Group’s strategic objectives;
- Promoting and supporting a diverse workplace and a culture that embraces gender equality at all stages of the employment cycle;
- Complying with the relevant listing rules, legal and regulatory body requirements, and good governance practices; and
- Reporting to shareholders in line with required legislation and standards.

The PCC’s role and interaction with Board, and internal and external advisors, is illustrated below:



The PCC charter can also be viewed in the “Governance documents” section of the Xenith website, under Investor Relations.

Directors' report

For the year ended 30 June 2018

Use of remuneration consultants

All proposed remuneration consultancy contracts (within the meaning of section 206K of the Corporations Act) are subject to prior approval by the Board or the PCC in accordance with the Corporations Act. During FY 2018, Xenith used the following independent remuneration consultant:

Crichton + Associates Pty Limited
Level 26, 44 Market Street, Sydney, NSW 2000

Under the terms of the engagement, Crichton + Associates provided remuneration recommendations as defined in section 9B of the Corporations Act and was paid \$19,166 for these services. \$16,100 of the fees related to KMP specifically or broader matters that would impact KMP.

The services provided included:

- Salary benchmarking for certain group executive roles (non KMP);
- Advice on updates to the KMP STI plan;
- Advice on the issue of LTI to KMP; and
- Other advice.

Crichton + Associates has confirmed that the recommendations have been made free from undue influence by members of Group's KMP. Crichton + Associates was engaged by, and reported directly to, Susan Forrester, Non-Executive Director and Chair of the PCC. The Board is satisfied that the remuneration recommendations made are free from undue influence as the terms of the Non-Executive Director and Chair of the PCC's contract do not provide for participation in any STI or LTI plans of the company.

Voting and comments made at the Company's last Annual General Meeting

Xenith IP Group Limited received 94.8% of 'yes' votes on its Remuneration Report for the financial year ending 30 June 2017. The Company received no specific feedback on its Remuneration Report at the Annual General Meeting.

Directors' report

For the year ended 30 June 2018

4 EXECUTIVE REMUNERATION

Remuneration Framework

The Group's executive remuneration framework covers the Group Executive which currently comprises the CEO and his direct reports. Xenith's executive remuneration policies are designed to attract, motivate and retain a qualified and experienced group of executives with complementary skills. Fixed remuneration components are determined having regard to the specific skills and competencies of the executive with reference to both internal and external relativities, particularly local market and industry conditions. The 'at risk' components of remuneration are strategically directed to encourage our people to strive for superior (risk balanced) performance by rewarding the achievement of targets that are challenging, clearly defined, understood and communicated within the ambit of accountability of the relevant executive.

The Group Executive remuneration objectives are exemplified through three categories of remuneration, as illustrated below:

| CEO and Group Executive Remuneration Objectives | | | |
|--|---|--|--|
| Attract, motivate and retain executive talent across diverse geographies | The creation of reward differentiation to drive performance values and behaviours | An appropriate balance of 'fixed' and 'at risk' components | Shareholder value creation through equity components |

| TOTAL TARGET REMUNERATION ("TTR") | | |
|---|--|--|
| Fixed | At risk | |
| Total fixed remuneration ("TFR") | Short-term incentives ("STI") | Long-term incentives ("LTI") |
| TFR is set based on relevant market relativities, reflecting responsibilities, performance, qualifications, experience and geographic location. | STI performance criteria are set by reference to Group and Business Unit earnings and individual performance targets relevant to the specific Executive. | LTI targets are linked to the Group's EPS growth. (Note – only applicable to CEO and eligible Executive KMP in FY 2018) |

Remuneration will be delivered as:

| | | |
|---|---|---|
| Base salary plus any fixed elements including superannuation. | Part cash and part equity (service rights). The equity component will be subject to service and deferred for one - two years. | Equity in performance rights. All equity is held subject to service and performance for three years from grant date. The equity is at risk until vesting. Performance is tested once at the vesting date. |
|---|---|---|

Strategic intent and market positioning

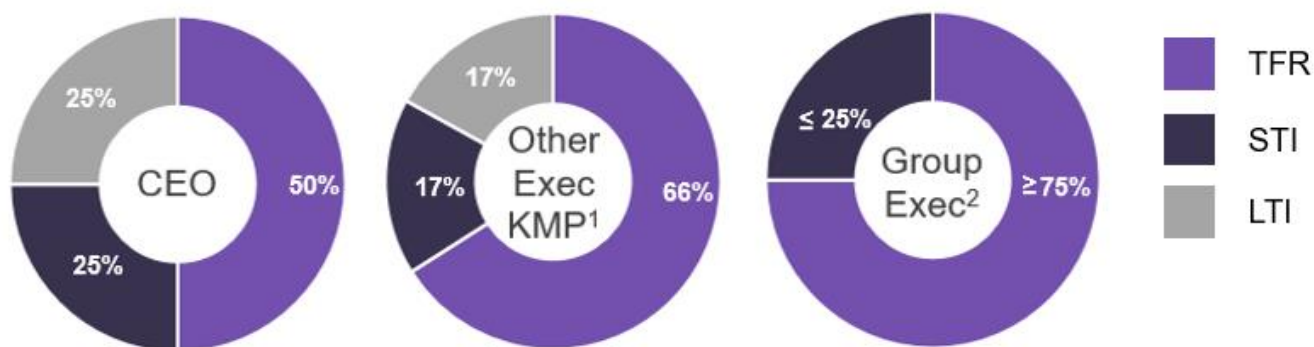
| | | |
|--|--|---|
| TFR will generally be positioned at the median compared to relevant market-based data considering expertise and performance in the role. | STI is directed to achieving Board approved targets, reflective of market circumstances. | LTI is intended to reward eligible Executive KMP for sustainable long-term growth aligned to shareholders' interests. |
|--|--|---|

Directors' report

For the year ended 30 June 2018

Remuneration Composition

The Group endeavours to provide an appropriate and competitive mix of remuneration components balanced between 'fixed' and 'at risk' and paid in both cash and equity. The 'on target' remuneration composition for CEO, Other Executive KMP and Group Executive in FY 2018 is illustrated as follows:



1. Other Executive KMP – excludes Stuart Smith, a former vendor principal and not entitled to participate in the STI Plan until November 2018 when his minimum three-year fixed remuneration term ends. His remuneration for FY 2018 was therefore 100% TFR.
2. Group Executive – remuneration excludes CEO and Other Executive KMP.

This remuneration composition will continue in FY 2019.

Total Fixed Remuneration Explained

TFR includes all remuneration and benefits calculated on a total employment cost basis. In addition to base salary, superannuation and other allowances are included.

Group Executive TFR is tested regularly for market competitiveness by reference to appropriate independent and externally sourced comparable benchmark information, including for comparable ASX listed companies, and based on a range of size criteria including market capitalisation, taking into account an executive's responsibilities, performance, qualifications and experience. TFR adjustments, if any, are made with reference to individual performance, an increase in job role or responsibility, changing market circumstances as reflected through independent benchmark assessments or through promotion. Any adjustments to Executive KMP remuneration are approved by the Board, based on Remuneration Consultant and CEO recommendations.

Total Variable Remuneration Explained

As set out above, variable remuneration is intended to form a significant portion of the CEO, other Executive KMP and Group Executive remuneration opportunity. Apart from being market competitive, the purpose of variable remuneration is to direct executives' behaviours towards maximising Xenith's short and long-term performance.

The key aspects of variable remuneration are summarised below:

Short Term Incentive

| | |
|-----------------------------------|--|
| <p>Purpose</p> | <p>The Group's STI arrangements are designed to reward the CEO, other Executive KMP and the Group Executive for the achievement of annual performance targets set by the Board at the beginning of the performance period. The STI plan is reviewed annually by the PCC and approved by the Board.</p> <p>All STI awards to the CEO, Other Executive KMP and the Group Executive are recommended by the PCC to the Board for approval.</p> |
| <p>Performance targets</p> | <p>The key performance objectives of the Group are currently directed at achieving Board approved earnings targets, and achievement of individual KPIs. As a listed company, the Directors are mindful of shareholder expectations for overall performance.</p> <p>In FY 2018, an NPAT gateway or minimum earnings threshold was required to be achieved before individual STI amounts could be awarded. Details of performance targets in FY 2018 are included below:</p> <ul style="list-style-type: none"> ➤ Financial: Group NPAT and business unit Earnings Before Interest and Tax ("EBIT"); and ➤ Non-financial: strategic goals set by each individual business unit based on job description. <p>In FY 2018, no STIs were paid as the NPAT Gateway was not achieved.</p> <p>Amendments to STI FY 2019</p> <p>The Board approved STI plan will measure and reward performance against EBITDA targets subject to meeting a values and minimum NPAT gateway. The CEO, Other Executive KMP and the Group Executive will have an STI opportunity based on the following:</p> <ul style="list-style-type: none"> ➤ 30% - 50% of STI opportunity payable on achievement of Group EBITDA targets; ➤ 0% - 45% of STI opportunity payable on achievement of Brand EBITDA targets; and ➤ 25% - 50% of STI opportunity payable on achievement of non-financial KPIs. |
| <p>Deferral of STI</p> | <p>In FY 2018 a deferral of a portion of STI was introduced to reinforce alignment with shareholder interests. The deferral component for FY 2018 was set at 50% of the STI amount with a deferral period of two years. Where the Board determines a portion will be deferred, grants will be determined at the end of each year and then held for the deferral period until vesting. This achieves additional retention and alignment of Executives with shareholder interests.</p> <p>In FY 2018, no STIs were awarded so the deferral of STI was not applicable.</p> <p>The deferred STI component for FY 2019 will be calculated at 50% of the STI amount. The equity component will be independently determined based on the gross contract value using the Company's five-day volume weighted average price (VWAP) following the announcement of year end results in August 2019. The deferred component will be granted as service rights. Once the STI awarded as service rights has been granted, there are no further performance measures attached to the rights other than continued tenure for the vesting period (one to two years).</p> |

Long Term Incentive

A KMP LTI plan was designed, developed and implemented in FY 2018. The LTI plan provides an annual opportunity for eligible KMP (based on their ability to influence and execute strategy) to receive an equity award deferred for three years that is intended to align a significant portion of Executive KMP overall remuneration to shareholder value over the longer term.

The key elements of the LTI are set out below:

| Purpose | To align Executive KMP remuneration opportunity with shareholder value and provide retention stimulus. The plan was approved by the Board of Directors following the IPO and was established to incentivise and retain key executives. | | | | | | | | |
|---|---|-------------|---------------------------------|-----------------|----|-------------------|----------------------|----------------|------|
| Types of equity awarded | LTI is provided under the Xenith IP Group Limited Performance Rights Plan. Under the Xenith Plan, eligible Executive KMP will be offered performance rights (being a nil exercise price right to fully paid ordinary shares of Xenith), subject to satisfying the relevant performance conditions. | | | | | | | | |
| Time of grant | All equity grants will be made after the AGM each year but based on values determined in August after release of the Group's annual results. | | | | | | | | |
| Time restrictions | Equity grants awarded to the CEO and other eligible KMP are tested against the performance hurdles set, at the end of three years. If the performance hurdles are not met at the vesting date, performance rights lapse. | | | | | | | | |
| Performance hurdles and vesting schedule | <p>Grants under this plan are approved by the Board. Equity grants to the CEO and eligible Executive KMP will be subject to hurdles established based on underlying EPS¹ Compound Annual Growth Rate ("CAGR") over a three-year period as set out in the table below.</p> <p>EPS CAGR Hurdle (100%)</p> <p>In relation to the grant in FY 2018, the Performance Rights will vest if the Group achieves an EPS CAGR (underlying) of at least 5.5% above the FY 2017 base EPS of 13.5 cents per share over the period from 1 July 2017 to 30 June 2020 as per the following table:</p> <table border="1" data-bbox="459 1205 1246 1368"> <thead> <tr> <th>CAGR in EPS</th> <th>% of Performance Rights vesting</th> </tr> </thead> <tbody> <tr> <td><5.5% per annum</td> <td>0%</td> </tr> <tr> <td>5.5%-9% per annum</td> <td>50% to 100% pro rata</td> </tr> <tr> <td>≥ 9% per annum</td> <td>100%</td> </tr> </tbody> </table> <p>Performance rights vest if the time restrictions and relevant performance hurdles are met. The performance rights convert to ordinary shares on vesting with nil consideration payable by the recipients. The number of rights vesting is dependent upon achievement of the performance conditions during the period to 30 June 2020. The Board must approve any special provisions, in accordance with Group policies, in the event of termination of employment or a change of control.</p> | CAGR in EPS | % of Performance Rights vesting | <5.5% per annum | 0% | 5.5%-9% per annum | 50% to 100% pro rata | ≥ 9% per annum | 100% |
| CAGR in EPS | % of Performance Rights vesting | | | | | | | | |
| <5.5% per annum | 0% | | | | | | | | |
| 5.5%-9% per annum | 50% to 100% pro rata | | | | | | | | |
| ≥ 9% per annum | 100% | | | | | | | | |
| Service Condition | Continuous employment within the Group from the date the performance rights are granted until the vesting date. | | | | | | | | |
| Dividends | No dividends are attached to performance rights. | | | | | | | | |
| Voting rights | There are no voting rights attached to performance rights. | | | | | | | | |
| Retesting | There will be no retesting of performance hurdles. | | | | | | | | |
| LTI allocation | The size of individual LTI grants for the CEO and eligible Executive KMP will be determined in accordance with the Board approved remuneration strategy mix. The allocation methodology for performance rights is to determine the target LTI dollar value for each Group Executive and divide it by the gross contract value based on a Black-Scholes pricing model without discounting for service or performance hurdles. | | | | | | | | |

¹ Underlying EPS is defined as the earnings per share calculated using Underlying NPAT rather than statutory NPAT.

Directors' report

For the year ended 30 June 2018

Other Remuneration elements and disclosures relevant to Executive KMP

Clawback

The Clawback Policy aims to align the remuneration outcomes of our people with the experiences of the shareholders of the Company and to provide the Board with the ability to claw back incentives earned as a result of a material misstatement in Group Financial Statements or significant breach of the code of conduct.

The Group's Clawback Policy is available on the Company's website under "About Us", Corporate Governance.

Hedging and margin lending prohibition

Under the Company's Share Trading Policy and in accordance with the Corporations Act, equity granted under the Company's equity incentive plans must remain 'at risk' until vested. It is a specific condition of grant that no arrangements are entered into by an individual or their associates that specifically protect the unvested value of performance rights allocated.

The Company also prohibits all employees from providing the Company's securities in connection with any margin loan or similar financing arrangement unless that person has received a specific notice of no objection in compliance with the policy from the Board.

The Company, in line with good corporate governance, has a formal policy detailing how and when employees may deal in Company's securities.

The Company's Share Trading Policy is available on the Company's website under "Investor Relations / Governance Documents".

Directors' report

For the year ended 30 June 2018

5 ACTUAL REMUNERATION DETAILS FOR 2018

FY 2018 STI plan outcomes

The profit targets in the FY 2018 STI plan were aligned to our shareholder value proposition delivering agreed profit targets for shareholders. The minimum financial performance requirements of the STI plan were not met as the Group fell short of the NPAT gateway. Accordingly, no STI was awarded to any Executive KMP or Group Executive.

FY 2018 LTI plan outcomes

Details of performance rights over ordinary shares in the Company granted as remuneration to KMP during the year are set out in the following table:

| | Grant date | Vesting date | Expiry date | Grant date fair value | Rights issued | Exercised / (forfeited) | Balance at year end |
|----------------------------|------------|--------------|-------------|-----------------------|---------------|-------------------------|---------------------|
| Executive Directors | | | | | | | |
| Craig Dower | 21 Dec 17 | 31 Aug 20 | 31 Oct 20 | \$1.018 | 237,435 | - | 237,435 |
| Other Executive KMP | | | | | | | |
| Lesley Kennedy | 21 Dec 17 | 31 Aug 20 | 31 Oct 20 | \$1.018 | 72,220 | - | 72,220 |

Relationship between company performance and Executive KMP remuneration

Performance of the Group and remuneration paid to Executive KMP over the last 3 years is summarised in the table below. Information prior to FY 2016 is not available as Xenith IP Group Limited incorporated on 26 August 2015.

| | FY 2018 | FY 2017 | FY 2016 |
|---|-------------|-----------|------------------------|
| Performance indices: | | | |
| Dividend per share (cents) | 7.5 | 5.0 | 7.0 |
| Share price (\$) | 1.13 | 1.90 | 3.36 |
| Underlying EPS (cents) | 8.3 | 13.5 | 18.2 |
| Underlying NPAT (\$'000) | 7,381 | 8,365 | 5,984 |
| Underlying EBITDA (\$'000) ¹ | 18,119 | 15,480 | 9,182 |
| Remuneration: | | | |
| Executive KMP remuneration | \$1,226,811 | \$946,068 | \$864,467 ² |

¹ The FY 2016 underlying EBITDA amount is presented on a pro forma basis as if the IPO and restructure of the business occurred on 1 July 2015.

² KMP remuneration from 1 October 2015, being the date of corporate restructure and IPO.

The table above demonstrates the relationship between the performance of the Group and the remuneration of its KMP. Remuneration has increased over the three-year period in line with the increase in scale and complexity of the company as reflected in the growth in underlying EBITDA of the business post the acquisition of Watermark and Griffith Hack in FY 2017. KMP remuneration has increased ahead of realisation of the benefits of the transformation project which is expected to improve shareholder returns in future periods.

Directors' report

For the year ended 30 June 2018

Executive remuneration table – audited statutory disclosure (accounting costs to the Group)

| | Year | Short-term | | Post-employment Super-annuation | Long-term benefits Long serv. leave | Share based Deferred rights | Total | Perf. based | Variable / at risk |
|-------------------------------|-------------|------------------|------------|---------------------------------|-------------------------------------|-----------------------------|------------------|-------------|--------------------|
| | | Salary | Cash bonus | | | | | | |
| Executive Director KMP | | | | | | | | | |
| Craig Dower ¹ | FY18 | 543,693 | - | 17,906 | 415 | 33,216 | 595,230 | 6% | 6% |
| | FY17 | - | - | - | - | - | - | n/a | n/a |
| Russell Davies ² | FY18 | - | - | - | - | - | - | n/a | n/a |
| | FY17 | 198,348 | - | 15,466 | (17,364) | - | 196,450 | 0% | 0% |
| Stuart Smith | FY18 | 237,393 | - | 19,663 | 1,672 | - | 258,728 | 0% | 0% |
| | FY17 | 233,918 | 50,000 | 19,616 | 3,886 | - | 307,420 | 0% | 16% |
| Other Executive KMP | | | | | | | | | |
| Lesley Kennedy | FY18 | 340,948 | - | 19,663 | 2,139 | 10,103 | 372,853 | 3% | 3% |
| | FY17 | 324,211 | 97,500 | 19,616 | 871 | - | 442,198 | 0% | 22% |
| Total Executive KMP | FY18 | 1,122,034 | - | 57,232 | 4,226 | 43,319 | 1,226,811 | | |
| | FY17 | 756,477 | 147,500 | 54,698 | (12,607) | - | 946,068 | | |

¹ Craig Dower commenced as CEO and Managing Director on 9 August 2017.

² Russell Davies' remuneration is included up to 20 April 2017 at which point Russell resigned from the board and ceased to be a KMP. Russell continued in the role of Executive General Manager at Shelston IP.

Directors' report

For the year ended 30 June 2018

6 KMP EQUITY INTERESTS

The table below sets out the equity interests held by Non-Executive Directors ("NEDs") and Executive KMP.

| | Balance as at 1 July 2017 No. | Granted as compensation No. | Received on exercise of options No. | Net other change No. | Balance as at 30 June 2018 No. |
|----------------------------|-------------------------------------|-----------------------------------|--|----------------------------|--------------------------------------|
| NEDs | | | | | |
| Sibylle Krieger | 40,078 | - | - | - | 40,078 |
| Susan Forrester | 127,046 | - | - | - | 127,046 |
| Andrew Harrison | 64,470 | - | - | 20,000 | 84,470 |
| Kathryn Spargo | 10,000 | - | - | 20,000 | 30,000 |
| Total NEDs | 241,594 | - | - | 40,000 | 281,594 |
| Executive Directors | | | | | |
| Stuart Smith | 1,542,137 | - | - | - | 1,542,137 |
| Craig Dower | - | - | - | - | - |
| Other Executive KMP | | | | | |
| Lesley Kennedy | - | - | - | - | - |
| Total Executive KMP | 1,542,137 | - | - | - | 1,542,137 |
| Total KMP | 1,783,731 | - | - | 40,000 | 1,823,731 |

Note: the shareholdings listed above, includes both direct and indirect shareholdings.

Employee Exempt Share Plan ("EESP")

The Company established an EESP at the time of IPO and invited certain staff to apply for shares at nil acquisition cost at the time of IPO. This was to encourage share ownership in the Company in the new listed environment.

Under the EESP eligible employees were invited to apply for up to \$1,000 worth of fully paid ordinary shares in the capital of the Company. Shares acquired under the EESP are exempt from taxation upon acquisition, subject to the employee's adjusted taxable income being \$180,000 or less. In order to benefit from this tax benefit there is a three-year restrictive period on selling, transferring or otherwise dealing with the shares.

Directors' report

For the year ended 30 June 2018

7 EMPLOYMENT AGREEMENTS

The Executive KMP (includes Executive Directors and Other Executive KMP) operate under employment agreements. The following sets out details of the employment agreements relating to Executive KMP. The terms for each Executive KMP are similar but do, on occasion, vary to suit different needs.

| | |
|--|---|
| Length of contract | <p>Executive KMP are on permanent contracts, which is an ongoing employment contract until notice is given by either party.</p> <p>Stuart Smith holds the role of Chief Corporate Development Officer and is a vendor Principal who is contracted under a minimum three-year employment agreement. The three-year minimum term expires on 19 November 2018.</p> |
| Notice periods | <p>The employee or the Company may terminate the employment arrangement by providing the following written notice:</p> <ul style="list-style-type: none">➤ CEO and Executive Director¹ six months; and➤ Other Executive KMP three months. <p>¹Provision of notice by Executive Director (Stuart Smith) is subject to completion of initial three-year term. The company can terminate with six months' notice at any time.</p> |
| Resignation | <p>On resignation, unless the Board determines otherwise, all unvested STI or LTI benefits are forfeited.</p> |
| Death or total and permanent disability | <p>On death or total and permanent disability, the Board has discretion to allow all unvested STI and LTI benefits to vest.</p> |
| Termination for serious misconduct | <p>The Group may immediately terminate employment at any time in the case of serious misconduct, and the CEO and Other Executive KMP will only be entitled to payment of TFR up to the date of termination. On termination without notice by the Group in the event of serious misconduct:</p> <ul style="list-style-type: none">➤ all unvested STI or LTI benefits will be forfeited; and➤ any equity instruments provided to the employee on vesting of STI or LTI awards that are held in trust, will be forfeited. |
| Statutory entitlements | <p>Payment of statutory entitlements of long service leave and annual leave applies in all events of separation.</p> |
| Post-employment restraints | <p>The CEO is subject to post-employment restraints of up to 12 months. All Other Executive KMP are subject to post-employment restraints for up to 6-12 months.</p> |

Directors' report

For the year ended 30 June 2018

8 NON-EXECUTIVE DIRECTOR REMUNERATION

NED remuneration

| Principle | Comment |
|--|---|
| Fees are set by reference to key considerations | Fees for NEDs are based on the nature of the NEDs' work and their responsibilities. The remuneration rates reflect the complexity of the Group's business and the extent of the number of geographical locations in which the Group operates. In determining the level of fees, survey data on comparable companies is considered. NEDs' fees are recommended by the PCC and determined by the Board. Shareholders approve the aggregate amount available for the remuneration of NEDs. |
| Remuneration is structured to preserve independence whilst creating alignment | <p>To preserve independence and impartiality, NEDs are not entitled to any form of incentive payments including equity instruments and the level of their fees are not set with reference to any measure of the Group's performance.</p> <p>However, to create alignment between Directors and shareholders, the NEDs voluntarily hold shares in the Company. The Company does not offer loans to NEDs to fund share ownership.</p> |
| Aggregate Board fees are approved by shareholders | The total amount of fees paid to NEDs in FY 2018 is within the aggregate amount approved by shareholders at the time of IPO. No increase in the total fee pool is proposed in FY 2019. |

NED fees and other benefits explained

| | Details |
|--|---|
| Board/ committee fees per annum – FY 2018 | Board Chair fee \$153,750 |
| | Board NED fee \$92,250 |
| | No additional committee fees are paid. |
| Post-employment benefits | |
| Superannuation | NED fees are inclusive of superannuation. Superannuation contributions have been made at a rate of 9.5% (but only up to the Australian Government's prescribed maximum contributions limit) which satisfies the Company's statutory superannuation contribution obligations. The contribution rate will increase in future years in line with mandated legislative increases. |
| Retirement schemes | There are no retirement schemes in place for NEDs other than superannuation. |
| Other benefits | |
| Equity instruments | NEDs do not receive any performance related remuneration, options, performance rights or shares. |
| Other fees/benefits | <p>NEDs receive reimbursement for costs directly related to the Group's business.</p> <p>No payments were made to NEDs during FY 2018 for travel allowances, extra services or special exertions.</p> |

Directors' report

For the year ended 30 June 2018

NED total remuneration paid

| | Year | Fees | Superannuation | Total |
|-----------------|----------------|----------------|----------------|----------------|
| Sibylle Krieger | FY 2018 | 140,411 | 13,339 | 153,750 |
| | FY 2017 | 136,987 | 13,013 | 150,000 |
| Susan Forrester | FY 2018 | 84,247 | 8,003 | 92,250 |
| | FY 2017 | 82,192 | 7,808 | 90,000 |
| Andrew Harrison | FY 2018 | 84,247 | 8,003 | 92,250 |
| | FY 2017 | 82,192 | 7,808 | 90,000 |
| Kathryn Spargo | FY 2018 | 84,247 | 8,003 | 92,250 |
| | FY 2017 | 14,858 | 1,411 | 16,269 |
| Total | FY 2018 | 393,152 | 37,348 | 430,500 |
| | FY 2017 | 316,229 | 30,040 | 346,269 |

End of audited Remuneration Report

This report is made in accordance with a resolution of Directors.

On behalf of the Directors



Craig Dower
CEO and Managing Director

29 August 2018
Sydney

Auditor's Independence Declaration

To the Directors of Xenith IP Group Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Xenith IP Group Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



Grant Thornton Audit Pty Ltd
Chartered Accountants



C F Farley
Partner – Audit & Assurance

Sydney, 29 August 2018

Grant Thornton Audit Pty Ltd ACN 130 913 594
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Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

| | Notes | 30 Jun 2018 \$'000 | 30 Jun 2017 \$'000 |
|---|-------|-----------------------|-----------------------|
| Revenue | 5 | 126,343 | 85,036 |
| Other income | 6 | 128 | 413 |
| Employee benefits expense | | (53,582) | (35,085) |
| Disbursement expense | | (37,612) | (24,430) |
| Occupancy expense | | (7,557) | (4,653) |
| Depreciation and amortisation expense | 7 | (6,448) | (3,099) |
| IT and communication expense | | (2,380) | (1,304) |
| Travel expense | | (1,490) | (924) |
| Consultancy fees | | (1,267) | (764) |
| Advertising and marketing expense | | (471) | (461) |
| Other expenses | | (5,637) | (3,618) |
| Impairment losses | 15 | (20,727) | - |
| Acquisition related expenses | 7 | - | (2,437) |
| Fair value adjustment to contingent consideration | | - | (1,394) |
| Net foreign exchange loss | 7 | (29) | (55) |
| Finance costs | 7 | (1,236) | (863) |
| (Loss) / profit before tax | | (11,965) | 6,362 |
| Income tax expense | 8 | (2,719) | (2,405) |
| (Loss) / profit for the year attributable to the owners of the Group | | (14,684) | 3,957 |
| Other comprehensive income, net of tax | | - | - |
| Total comprehensive (loss) / income for the year attributable to the owners of the Group | | (14,684) | 3,957 |
| | | Cents | Cents |
| Earnings per share attributable to the equity holders of Xenith IP Group Limited | | | |
| Basic earnings per share | 24 | (16.6) | 6.4 |
| Diluted earnings per share | 24 | (16.6) | 6.3 |

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements.

Consolidated statement of financial position
As at 30 June 2018

| | Notes | 30 Jun 2018 \$'000 | 30 Jun 2017 \$'000 |
|--|-------|-----------------------|-----------------------|
| Current assets | | | |
| Cash and cash equivalents | 9 | 2,760 | 3,646 |
| Trade and other receivables | 10 | 28,671 | 29,036 |
| Work in progress | 11 | 4,139 | 2,198 |
| Derivative financial assets | 23 | - | 66 |
| Income tax receivable | | 258 | - |
| Other current assets | 12 | 1,950 | 1,561 |
| Total current assets | | 37,778 | 36,507 |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 5,991 | 6,635 |
| Intangible assets | 14 | 137,368 | 162,665 |
| Other non-current assets | | 175 | 228 |
| Total non-current assets | | 143,534 | 169,528 |
| Total assets | | 181,312 | 206,035 |
| Current liabilities | | | |
| Trade and other payables | 16 | 7,863 | 6,882 |
| Contingent consideration liability | | - | 5,168 |
| Provisions | 17 | 8,205 | 7,800 |
| Income tax payable | | - | 2,599 |
| Derivative financial liability | 23 | 390 | - |
| Other current liabilities | 19 | 2,993 | 2,996 |
| Total current liabilities | | 19,451 | 25,445 |
| Non-current liabilities | | | |
| Borrowings | 18 | 15,785 | 14,901 |
| Deferred tax liability | 8 | 14,768 | 15,435 |
| Provisions | 17 | 1,506 | 1,980 |
| Other non-current liabilities | 19 | 4,272 | 5,436 |
| Total non-current liabilities | | 36,331 | 37,752 |
| Total liabilities | | 55,782 | 63,197 |
| Net assets | | 125,530 | 142,838 |
| Equity | | | |
| Issued capital | 20 | 144,520 | 141,405 |
| Reserves | | 861 | 929 |
| (Accumulated losses) / retained earnings | | (19,851) | 504 |
| Total equity | | 125,530 | 142,838 |

The consolidated statement of financial position is to be read in conjunction with the notes to the financial statements.

Consolidated statement of changes in equity
For the year ended 30 June 2018

| | Issued capital \$'000 | Share based payment reserve \$'000 | Reorgan- isation reserve \$'000 | (Accumulated losses) / retained earnings \$'000 | Total equity \$'000 |
|--|--------------------------|---|--|---|---------------------------|
| Balance at 1 July 2016 | 3,883 | 531 | (3,027) | 3,098 | 4,485 |
| Items of comprehensive income: | | | | | |
| Net profit for the year | - | - | - | 3,957 | 3,957 |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | - | - | 3,957 | 3,957 |
| Transactions with owners in their capacity as owners: | | | | | |
| Shares issued | 137,114 | - | - | - | 137,114 |
| Exercise of share rights | 408 | (410) | - | - | (2) |
| Share based payment expense | - | 808 | - | - | 808 |
| Dividends paid | - | - | - | (3,524) | (3,524) |
| Transfer to retained earnings | - | - | 3,027 | (3,027) | - |
| Balance at 30 June 2017 | 141,405 | 929 | - | 504 | 142,838 |
| | | | | | |
| Balance at 1 July 2017 | 141,405 | 929 | - | 504 | 142,838 |
| Items of comprehensive income: | | | | | |
| Net loss for the year | - | - | - | (14,684) | (14,684) |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive loss | - | - | - | (14,684) | (14,684) |
| Transactions with owners in their capacity as owners: | | | | | |
| Shares issued, net of issue costs | 2,527 | - | - | - | 2,527 |
| Exercise of share rights | 588 | (590) | - | - | (2) |
| Share based payment expense | - | 522 | - | - | 522 |
| Dividends paid | - | - | - | (5,671) | (5,671) |
| Balance at 30 June 2018 | 144,520 | 861 | - | (19,851) | 125,530 |

The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements.

Consolidated statement of cash flows
For the year ended 30 June 2018

| | Notes | 30 Jun 2018 \$'000 | 30 Jun 2017 \$'000 |
|---|-------|-----------------------|-----------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 129,956 | 85,660 |
| Payments to suppliers and employees | | <u>(114,614)</u> | <u>(74,184)</u> |
| | | 15,342 | 11,476 |
| Interest received | | 19 | 185 |
| Income tax paid | | <u>(5,639)</u> | <u>(1,312)</u> |
| Net cash provided by operating activities | 31 | <u>9,722</u> | <u>10,349</u> |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (1,459) | (1,770) |
| Payments for intangible assets | | (478) | (78) |
| Payments for the acquisition of controlled entities, net of cash acquired and transaction costs | | <u>(2,740)</u> | <u>(88,319)</u> |
| Net cash used in investing activities | | <u>(4,677)</u> | <u>(90,167)</u> |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | - | 76,163 |
| Payment of share issue costs | | (16) | (3,867) |
| Proceeds from borrowings | | 15,750 | 29,500 |
| Repayment of borrowings | | (15,000) | (18,680) |
| Dividends paid | | (5,671) | (3,524) |
| Finance costs paid | | <u>(994)</u> | <u>(905)</u> |
| Net cash (used in) / provided by financing activities | | <u>(5,931)</u> | <u>78,687</u> |
| Net decrease in cash and cash equivalents | | (886) | (1,131) |
| Cash and cash equivalents at the beginning of the year | | 3,646 | 4,911 |
| Effects of exchange rate changes on cash and cash equivalents | | <u>-</u> | <u>(134)</u> |
| Cash and cash equivalents at the end of the year | 9 | <u>2,760</u> | <u>3,646</u> |

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements.

Notes to the consolidated financial statements

For the year ended 30 June 2018

1. General information

Xenith IP Group Limited (referred to hereafter as the 'Company' or 'parent entity') is a for-profit listed public company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange ("ASX"). The consolidated financial report of the Company for the year ended 30 June 2018 ("the financial report") comprises the Company and its controlled entities ("the Group"). Xenith IP Group Limited is the ultimate parent entity in the Group.

The Group's core business is to provide a comprehensive range of Intellectual Property ("IP") services including identification, registration, management, commercialisation and enforcement of IP rights for a broad spectrum of clients in Australia, New Zealand and the rest of the world, with the aim of contributing to their success.

The financial statements were authorised for issue in accordance with a resolution of Directors, on 29 August 2018.

2. Basis of preparation

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

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss ("FVTPL") and derivative financial instruments.

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in Note 29.

3. Significant accounting judgements, estimates and assumptions

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

- Provision for impairment of receivables – refer Note 10
- Provision for impairment of work in progress – refer Note 11
- Estimation of useful lives of acquired intangible assets – refer Note 14
- Review for impairment of Goodwill and other Non-current assets – refer Note 15
- Employee benefits provision - refer Note 17
- Provision for make good obligation – refer Note 17
- Business combinations – refer Note 27

Notes to the consolidated financial statements

For the year ended 30 June 2018

4. Segment information

The information reported to the Board of Directors (being the Chief Operating Decision Maker for the purposes of resource allocation and assessment of segment performance, is separate financial information on each operating segment, being Glasshouse Advisory, Griffith Hack, Shelston IP and Watermark. In accordance with AASB 8, for financial statement presentation purposes, Griffith Hack, Shelston IP and Watermark segments have been aggregated into a single reportable segment considering the following factors:

- These operating segments have similar economic characteristics;
- The nature of the services is similar;
- The type of customer for these services is similar;
- The long term gross profit margins are similar; and
- The regulatory environment is similar.

Glasshouse Advisory represents less than ten per cent of all significant matrices, and as such, it too is not considered a separable reporting segment.

The Directors have therefore concluded that there is one reportable segment, being the provision of services related to the protection, management, commercialisation and enforcement of intellectual property rights.

5. Revenue

| | 30 Jun 2018 | 30 Jun 2017 |
|---------------------------|----------------|---------------|
| | \$'000 | \$'000 |
| Service fee | 88,544 | 60,358 |
| Recoverable disbursements | 37,799 | 24,678 |
| | 126,343 | 85,036 |

Significant accounting policy

Revenue recognition

Service fee revenue is recognised at the fair value of consideration receivable, based on stage of completion unless the outcome cannot be estimated reliably, in which case revenue is only recognised to the extent that expenditure incurred can be recovered. Stage of completion is determined based on either actual hours delivered for time based billings or stages completed for milestone based billings.

Recoverable disbursements revenue is recognised at the fair value of consideration receivable on a principle basis where the Group considers that it has assumed risks and rewards associated with disbursement payments made.

6. Other income

| | 30 Jun 2018 | 30 Jun 2017 |
|-----------------|-------------|-------------|
| | \$'000 | \$'000 |
| Interest income | 19 | 185 |
| Other income | 109 | 228 |
| | 128 | 413 |

Notes to the consolidated financial statements

For the year ended 30 June 2018

7. Expenses

(Loss) / profit before income tax is presented after deducting the following expenses:

| | 30 Jun 2018 | 30 Jun 2017 |
|---|--------------|--------------|
| | \$'000 | \$'000 |
| Depreciation and amortisation | | |
| Depreciation of property, plant and equipment | 1,812 | 1,017 |
| Amortisation of intangibles arising on business combination | 4,371 | 1,965 |
| Amortisation of other intangibles | 265 | 117 |
| | 6,448 | 3,099 |
| Acquisition related expenses | | |
| Share based payment to vendor's employees | - | 120 |
| Consulting and legal due diligence costs | - | 2,083 |
| Accounting fees | - | 109 |
| Other costs | - | 125 |
| | - | 2,437 |
| Net foreign exchange losses | | |
| Included in this expense category are: | | |
| Fair value loss / (gain) on derivative financial instruments | 455 | (142) |
| Foreign exchange (gain) / loss on other financial instruments | (426) | 197 |
| | 29 | 55 |
| Operating lease expenses | | |
| Property rental expenses | 6,841 | 4,353 |
| Other operating leases | 152 | 51 |
| | 6,993 | 4,404 |
| Employee benefits expense | | |
| Included within Employee benefits expenses are: | | |
| Superannuation contributions | 4,023 | 2,481 |
| Equity settled share based payments | 522 | 808 |
| | 4,545 | 3,289 |
| Finance costs | | |
| Interest on borrowings | 494 | 257 |
| Facility line fees | 500 | 203 |
| Unwinding of discount on contingent consideration liability | 108 | 307 |
| Loan establishment fees expensed | 134 | 96 |
| | 1,236 | 863 |

Notes to the consolidated financial statements
For the year ended 30 June 2018

8. Income tax and tax balances

| | 30 Jun 2018 | 30 Jun 2017 |
|--|--------------------|--------------------|
| | \$'000 | \$'000 |
| Income tax expense | | |
| Current tax expense | 2,786 | 2,542 |
| Deferred tax income | | |
| - Origination and reversal of temporary differences | (67) | (137) |
| Income tax expense for the year | 2,719 | 2,405 |
| Reconciliation of the actual tax expense to the expected tax expense at the statutory rate: | | |
| (Loss) / profit before tax | (11,965) | 6,362 |
| Tax thereon at the applicable statutory rate of 30% (2017: 30%) | (3,589) | 1,909 |
| Add / (less) tax effect of: | | |
| Impairment of goodwill | 6,162 | - |
| Non-taxable income | - | (56) |
| Unwinding of discount on contingent consideration | 32 | 92 |
| Fair value adjustment to contingent consideration | - | 418 |
| Non-deductible portion of share based payments | 81 | - |
| Other non-tax-deductible items | 33 | 42 |
| Income tax expense for the year | 2,719 | 2,405 |

The movement and analysis of the recorded deferred tax liability balance is as follows:

| | 1 Jul 2017 | Recognised on business combination | Recognised in profit or loss | Recognised in equity | 30 Jun 2018 |
|--------------------------------|-------------------|---|-------------------------------------|-----------------------------|--------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Current assets | | | | | |
| Trade and other receivables | 752 | - | (473) | - | 279 |
| Work in progress | (660) | - | (581) | - | (1,241) |
| Cash (unrealised FX) | (134) | - | 134 | - | - |
| Non-current assets | | | | | |
| Intangible assets | (20,627) | - | 1,121 | - | (19,506) |
| Property, plant and equipment | (168) | - | 55 | - | (113) |
| Current liabilities | | | | | |
| Trade and other payables | 257 | - | 216 | - | 473 |
| Provisions | 2,341 | - | (31) | - | 2,310 |
| Derivative financial assets | (20) | - | 137 | - | 117 |
| Non-current liabilities | | | | | |
| Other liabilities | 636 | 600 | (133) | - | 1,103 |
| Provisions | 593 | - | (424) | - | 169 |
| Equity | | | | | |
| Transaction costs | 1,273 | - | 65 | 5 | 1,343 |
| Unutilised losses | 44 | - | (4) | - | 40 |
| Share based payment reserve | 278 | - | (20) | - | 258 |
| | (15,435) | 600 | 62 | 5 | (14,768) |

Notes to the consolidated financial statements
For the year ended 30 June 2018

8. Income tax and tax balances (continued)

| | 1 Jul 2016 \$'000 | Recognised on business combination \$'000 | Recognised in profit or loss \$'000 | Recognised in equity \$'000 | 30 Jun 2017 \$'000 |
|--------------------------------|----------------------|--|--|-----------------------------------|-----------------------|
| Current assets | | | | | |
| Trade and other receivables | 48 | 567 | 137 | - | 752 |
| Work in progress | (87) | - | (573) | - | (660) |
| Derivative financial assets | - | - | (20) | - | (20) |
| Cash (unrealised FX) | (189) | - | 55 | - | (134) |
| Non-current assets | | | | | |
| Intangible assets | - | (21,134) | 507 | - | (20,627) |
| Property, plant and equipment | (56) | (150) | 38 | - | (168) |
| Current liabilities | | | | | |
| Trade and other payables | 178 | (51) | 130 | - | 257 |
| Provisions | 676 | 627 | 1,038 | - | 2,341 |
| Non-current liabilities | | | | | |
| Other liabilities | 186 | 598 | (148) | - | 636 |
| Provisions | 108 | 1,299 | (814) | - | 593 |
| Equity | | | | | |
| Transaction costs | - | 385 | (273) | 1,161 | 1,273 |
| Unutilised losses | - | 103 | (59) | - | 44 |
| Share based payment reserve | 159 | - | 119 | - | 278 |
| | 1,023 | (17,756) | 137 | 1,161 | (15,435) |

Franking credits

As at 30 June 2018, the Group had a franking credit surplus of \$3,243,000 (2017: \$35,000).

Significant accounting policy

Income tax

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

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

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

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

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset 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.

Notes to the consolidated financial statements

For the year ended 30 June 2018

8. Income tax and tax balances (continued)

Significant accounting policy

Income tax (continued)

Xenith IP Group Limited (the 'head entity') and its wholly-owned Australian subsidiaries are an income tax consolidated group under the tax consolidation regime. All companies in the tax consolidated group are party to standard tax funding and tax sharing agreements, which entails current and deferred tax expenses will be allocated to each company, which is in turn joint and severally liable for any tax liabilities of the Group. Tax expenses are allocated on the "group allocation" method as defined in UIG1052.

9. Cash and cash equivalents

| | 30 Jun 2018 | 30 Jun 2017 |
|--------------------------|-------------|-------------|
| | \$'000 | \$'000 |
| Cash at bank and on hand | 2,760 | 3,646 |

Significant accounting policy

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

10. Trade and other receivables

| | 30 Jun 2018 | 30 Jun 2017 |
|---|-------------|-------------|
| | \$'000 | \$'000 |
| Trade receivables, gross | 29,532 | 30,836 |
| Provision for impairment of receivables | (1,125) | (2,195) |
| | 28,407 | 28,641 |
| Commissions receivable | 185 | 189 |
| Other receivables | 79 | 206 |
| | 28,671 | 29,036 |

Impairment of trade receivables

The analysis of trade receivables ageing by due date and respective provision recognised is as follows:

| | 30 Jun 2018 | | 30 Jun 2017 | |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|
| | Gross receivables | Of which provided | Gross receivables | Of which provided |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Not yet due | 14,154 | (12) | 14,433 | (2) |
| Less than 45 days past due | 5,371 | (25) | 6,321 | - |
| 46 to 60 days past due | 3,181 | (18) | 3,007 | (1) |
| 61 to 90 days past due | 348 | (38) | 404 | (26) |
| 91 to 120 days past due | 697 | (77) | 807 | (53) |
| 121 to 150 days past due | 1,045 | (114) | 1,211 | (79) |
| 151 to 180 days past due | 1,393 | (153) | 1,614 | (106) |
| More than 180 days past due | 3,343 | (688) | 3,039 | (1,928) |
| | 29,532 | (1,125) | 30,836 | (2,195) |

Notes to the consolidated financial statements

For the year ended 30 June 2018

10. Trade and other receivables (continued)

The ageing above is presented based on customers being invoiced on standard payment terms of 15-30 days, and associates (other IP firms outside of Australia) having standard terms of up to 45 days. However, as is normal in the industry, most customer invoices are settled between 30 and 60 days of the invoice date, and associate invoices are settled at around 90 days.

Having regard to the above and having performed detailed analysis of recent historic actual collection trends, the levels of provisioning against overdue balances reflects management's best estimate of the fair value and recoverable amount of the trade receivable balances.

Movement on provision for impairment of receivables

The analysis below presents the movement in the provision during the year, including amounts:

| | 30 Jun 2018 | 30 Jun 2017 |
|--|--------------|--------------|
| | \$'000 | \$'000 |
| Provision at the start of the year | 2,195 | 160 |
| Acquired as part of the business acquisition | - | 1,770 |
| Transferred to Trade and other payables - Payable to vendors (Note 27) | (190) | (195) |
| Movements through profit or loss | (880) | 460 |
| Closing provision as at the year end | 1,125 | 2,195 |

Significant accounting judgements, estimates and assumptions

Provision for impairment of receivables

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 ageing of receivables, historical collection rates and specific knowledge of the individual debtors' financial position.

Significant accounting policy

Trade receivables

Trade receivables are initially recognised at their fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Recoverability of trade receivables is reviewed on an ongoing basis. Trade receivable balances which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised by applying a provision rate based on historic collection rates for overdue balances, which are reassessed each year, and adjusted specific debtors where management is aware of specific conditions which affect the likely recovery of outstanding balances.

The provision for impairment of receivables 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, if the impact of discounting is considered material.

Notes to the consolidated financial statements

For the year ended 30 June 2018

11. Work in progress

| | 30 Jun 2018 | 30 Jun 2017 |
|--|--------------|--------------|
| | \$'000 | \$'000 |
| Work in progress | 4,781 | 2,569 |
| Less: provision for impairment of work in progress | (642) | (371) |
| | 4,139 | 2,198 |

Significant accounting judgements, estimates and assumptions

Provision for impairment of work in progress

The provision for impairment of work in progress assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the ageing of work in progress, historical billing and collection rates and specific knowledge of the individual customer's financial position.

Significant accounting policy

Work in progress

Unbilled work in progress is initially recognised based on the actual time worked at the applicable charge out rates, plus disbursements expenditure incurred. It is subsequently adjusted to its recoverable amount. The recoverable amount is determined after applying the average recovery rate for the preceding 12 months to the balance on hand for client matters that are incomplete and unbilled at the reporting date after providing for any specific amounts which are not considered to be recoverable.

12. Other current assets

| | 30 Jun 2018 | 30 Jun 2017 |
|----------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Prepaid expenses | 1,950 | 1,552 |
| Other current assets | - | 9 |
| | 1,950 | 1,561 |

Notes to the consolidated financial statements

For the year ended 30 June 2018

13. Property, plant and equipment

| | Leasehold improvements \$'000 | Furniture & fittings \$'000 | Computer equipment \$'000 | Office equipment \$'000 | Total \$'000 |
|---|-------------------------------------|-----------------------------------|---------------------------------|-------------------------------|-----------------|
| Written down value | | | | | |
| At 1 July 2016 | 609 | 184 | 113 | 5 | 911 |
| Acquisition of controlled entities | 4,928 | 404 | 910 | 81 | 6,323 |
| Additions at cost | - | 6 | 405 | 7 | 418 |
| Depreciation charge for the year | (614) | (82) | (304) | (17) | (1,017) |
| At 30 June 2017 | 4,923 | 512 | 1,124 | 76 | 6,635 |
| Additions at cost | 860 | 53 | 416 | 30 | 1,359 |
| Disposals at written down value | - | - | (3) | - | (3) |
| Impairment losses (Note 15) | (188) | - | - | - | (188) |
| Depreciation charge for the year | (1,115) | (130) | (537) | (30) | (1,812) |
| As at 30 June 2018 | 4,480 | 435 | 1,000 | 76 | 5,991 |
| Cost | | | | | |
| Cost | 12,293 | 1,956 | 5,884 | 698 | 20,831 |
| Accumulated depreciation | (7,370) | (1,444) | (4,760) | (622) | (14,196) |
| As at 30 June 2017 | 4,923 | 512 | 1,124 | 76 | 6,635 |
| Cost | | | | | |
| Cost | 12,750 | 1,616 | 5,705 | 700 | 20,771 |
| Accumulated depreciation and impairment | (8,270) | (1,181) | (4,705) | (624) | (14,780) |
| As at 30 June 2018 | 4,480 | 435 | 1,000 | 76 | 5,991 |

Significant accounting policy

Property, plant and equipment

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

Depreciation

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

| | |
|------------------------|------------|
| Leasehold improvements | Lease term |
| Furniture and fittings | 5% to 15% |
| Computer equipment | 20% to 33% |
| Office equipment | 10% to 30% |

Low value assets are aggregated in a low value pool and depreciated on a reducing balance method at an annual rate of 37.5%

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

The accounting policy for the assessment for impairment is included in Note 15.

Notes to the consolidated financial statements

For the year ended 30 June 2018

14. Intangible assets

| | Goodwill \$'000 | Brand names \$'000 | Customer relationships \$'000 | Computer software \$'000 | Total \$'000 |
|--|--------------------|--------------------------|-------------------------------------|--------------------------------|-----------------|
| Written down value ("WDV") | | | | | |
| At 1 July 2016 | 8 | - | - | - | 8 |
| Acquisition of controlled entities | 81,198 | 9,121 | 70,447 | 3,895 | 164,661 |
| Additions at cost | - | - | - | 78 | 78 |
| Amortisation expense for the year | - | - | (1,690) | (392) | (2,082) |
| At 30 June 2017 | 81,206 | 9,121 | 68,757 | 3,581 | 162,665 |
| Acquisition of controlled entities (Note 27) | (600) | - | - | - | (600) |
| Additions in the year | - | - | - | 478 | 478 |
| Impairment losses (Note 15) | (20,539) | - | - | - | (20,539) |
| Amortisation expense for the year | - | - | (3,737) | (899) | (4,636) |
| At 30 June 2018 | 60,067 | 9,121 | 65,020 | 3,160 | 137,368 |
| Cost | 81,206 | 9,121 | 70,447 | 3,973 | 164,747 |
| Accumulated amortisation | - | - | (1,690) | (392) | (2,082) |
| WDV at 30 June 2017 | 81,206 | 9,121 | 68,757 | 3,581 | 162,665 |
| Cost | 80,606 | 9,121 | 70,447 | 4,071 | 164,245 |
| Accumulated amortisation and impairment | (20,539) | - | (5,427) | (911) | (26,877) |
| WDV at 30 June 2018 | 60,067 | 9,121 | 65,020 | 3,160 | 137,368 |

Significant accounting judgements, estimates and assumptions

The intangible assets recognised on the business combinations are material, and the determination of the useful lives applicable to those intangible assets is an area of key estimation. While the useful lives have been determined based on advice from experts and by reference to the best observable or benchmark data available, the eventual useful lives may differ from estimates for various reasons including technical innovations, political and economic factors, or other events. The amortisation charge will increase where the useful lives are less than previously estimated. The determined useful lives are as set out below.

Significant accounting policy

Intangible assets

Intangible assets acquired separately are recognised at cost. Intangible assets acquired as part of a business combination, other than goodwill, are measured at their fair value at the date of acquisition.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired controlled entity at the date of acquisition.

Brand names

Brand names are the assessed value at acquisition date of the acquired entities' brand names, including trademarks, using the royalty relief method.

Customer relationships

Customer relationships are the assessed value of the acquired entities' customer relationships. In valuing the customer relationships consideration is given to the existing customer revenue stream, growth rates, profitability, and attrition rates of customers.

Software

The assessed value of identified software assets controlled by the acquired businesses is recognised on acquisition at its assessed fair value determined by its replacement cost at the acquisition date. Internally generated software is recognised at cost, from the point that asset recognition criteria are satisfied.

Derecognition

An item of intangible asset is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses are recognised as the difference between the carrying amount and the disposal proceeds and are recognised in the statement of profit or loss.

Notes to the consolidated financial statements

For the year ended 30 June 2018

14. Intangible assets (continued)

Amortisation

Amortisation is calculated on a straight-line basis to write-off the value of each item of intangible asset over their expected useful lives using the amortisation rates as follows:

| | |
|--------------------------|--|
| Goodwill and Brand names | Not applicable - indefinite life (refer note 15) |
| Customer relationships | 5% to 8% |
| Software | 20% to 40% |

The amortisation expense is recognised in the Depreciation and amortisation expense line in the profit or loss.

15. Impairment assessment

The Group performs an impairment assessment annually, or more frequently if an impairment indicator exists. The table below summarises the carrying values of indefinite useful life assets, including the finalisation of the goodwill arising from the Griffith Hack acquisition and the allocation to Cash-Generating Units ("CGU").

| | Shelston IP \$'000 | Watermark \$'000 | Griffith Hack \$'000 | Glasshouse \$'000 | Total \$'000 |
|--|-----------------------|---------------------|-------------------------|----------------------|-----------------|
| Goodwill | | | | | |
| At 1 July 2017 | 2,511 | 5,188 | 73,268 | 239 | 81,206 |
| Finalisation of Griffith Hack acquisition | 7,419 | 5,620 | (13,639) | - | (600) |
| Impairments losses | - | - | (20,300) | (239) | (20,539) |
| At 30 June 2018 | 9,930 | 10,808 | 39,329 | - | 60,067 |
| Brand names | | | | | |
| At 1 July 2017 | - | 1,480 | 7,641 | - | 9,121 |
| At 30 June 2018 | - | 1,480 | 7,641 | - | 9,121 |
| Total indefinite useful life assets | | | | | |
| At 1 July 2017 | 2,511 | 6,668 | 80,909 | 239 | 90,327 |
| At 30 June 2018 | 9,930 | 12,288 | 46,970 | - | 69,188 |

The recoverable amount of each CGU was determined based on a value-in-use calculation covering a detailed five-year forecast, followed by an extrapolation of expected cash flows for the CGUs' remaining useful lives, incorporating the following key assumptions:

| Description | Assumption |
|--|------------|
| Pre-tax discount rate | 14.5% |
| Revenue growth rate during the five-year forecast period | 3.0% |
| Long-term AUD:USD currency exchange rate | 0.77 |
| Cost increases | 2.5% |
| Terminal growth rate | 2.0% |

- The pre-tax discount rate reflects appropriate adjustments relating to market risk and specific risk factors of each cash generating unit;
- Revenue growth rate during the five-year forecast period based on historical experience;
- The long-term AUD:USD currency exchange rate is based on market information;
- Cost increases during the five-year forecast period are based on CPI; and
- Terminal growth conservatively reflects the long-term average growth rate for the industry.

Synergies were only included in the forecast future cash flows to the extent they had been realised.

No reasonable change in key sensitivities would result in an impairment being recognised for the Shelston IP and Watermark CGUs.

Notes to the consolidated financial statements
For the year ended 30 June 2018

15. Impairment assessment (continued)

The following table summarises the impairment losses recognised in the financial year ended 30 June 2018:

| CGU | Goodwill \$'000 | Leasehold improvements \$'000 | Total Impairment loss \$'000 |
|---------------------|----------------------------|--|---|
| Griffith Hack | 20,300 | - | 20,300 |
| Glasshouse Advisory | 239 | 188 | 427 |
| | 20,539 | 188 | 20,727 |

Griffith Hack impairment

During 2H FY 2018, a comprehensive and detailed analysis of IP industry data was conducted which resulted in a downward revision to the forecast cash flows used in the valuation of the Griffith Hack Cash Generating Unit ("CGU"). It has emerged from the analysis that the impact of legislative changes occurring in prior years was more prolonged than initially anticipated. In particular, IP Laws Amendment (Raising the Bar) Act 2012 took effect in Australia in April 2013 and had the effect of creating a significant spike in the number of patent examination requests in 2H FY 2013 and to a lesser extent, a spike in the number of patent filings in the same period. These spikes created a significant back log in processing of examination requests at IP Australia. The analysis of industry data suggests that the processing of this backlog took longer than initially expected with the prolonged effect through the various stages of examination favourably impacting prior years. Whilst the Group now believe the transient impacts of these legislative changes have largely washed through the Australian patent process, the current industry volumes support a rebasing of the Griffith Hack earnings, which emerged as part of the FY 2019 budgeting process. Additionally, the Group has applied more modest longer-term revenue growth assumptions used in the valuation of the CGU.

Impairment testing, taking into account these developments, resulted in a goodwill impairment adjustment of \$20,300,000 for the year ended 30 June 2018.

Apart from the considerations described above, in determining the value-in-use of the Griffith Hack CGU, the Group is not currently aware of any other probable changes in its key estimates.

However, the estimated recoverable amount for Griffith Hack is particularly sensitive to a number of assumptions. The table below summarises potential increases in the impairment of goodwill if the key assumptions change.

| Description | Changed Key Assumption | Further impairment of Goodwill \$'000 |
|---|-----------------------------------|--|
| Pre-tax discount rate | 15.5% | (7,990) |
| Revenue growth rate during the 5-year forecast period | 2.5% | (5,300) |
| Long-term AUD:USD currency exchange rate | 0.80 | (5,100) |
| Cost increases during the 5-year forecast period | 3.0% | (920) |
| Terminal growth rate | 2.0% | (3,860) |

15. Impairment assessment (continued)

Glasshouse Advisory impairment

The forecast cash flows for Glasshouse Advisory were adjusted down in the second half of the financial year ended 30 June 2018 due to lower than expected performance after the launch in May 2017. As a result, the Group expects lower growth in the next few years than previously expected.

Impairment testing, taking into account these developments, resulted in

- a goodwill impairment adjustment of \$239,000 for the year ended 30 June 2018; and
- an impairment of leasehold improvements of \$188,000 for the year ended 30 June 2018.

Apart from the considerations described above, in determining the value-in-use of the Glasshouse Advisory CGU, the Group is not currently aware of any other probable changes in its key estimates.

As Glasshouse Advisory assets are fully impaired, no changes in the key assumptions will result in a further impairment of the 30 June 2018 non-current assets.

Significant accounting judgements, estimates and assumptions

The review for impairment of Goodwill and other Non-current assets is an area where both significant judgement and estimation uncertainty apply.

Determination of CGUs

Determination of the CGUs for purpose of impairment reviews is a key judgement made by the Group. A formal assessment of what constitutes the CGUs, by reference to the level of information routinely distributed to the Chief Operating Decision Makers, has been undertaken. The Group deemed there to be four CGUs as presented above. An alternative judgement on these CGUs may result in different conclusions regarding the existence and quantum of impairment, either in the current period, or future periods.

Allocation of Goodwill to CGUs

The Group has taken a systematic approach to the allocation of goodwill to the CGUs expected to benefit from the synergies arising from the acquisitions. This allocation is an area of estimation uncertainty. Actual synergies realised in a CGU may differ from those initially expected at the time the allocation of goodwill to CGU's was performed. Such differences may impact the outcome of future impairment assessments.

Recoverable amount

The recoverable amount is determined based on the value-in-use calculation which relies on a number of estimation inputs including the estimated cash flows over the five-year forecast period, forecast AUD:USD exchange rate, the discount rate used, and the long-term growth rate applicable.

Significant accounting policy

Impairment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows. As a result, some assets are tested individually for impairment and some are tested at a CGU level. Goodwill is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which goodwill monitored.

CGUs to which goodwill has been allocated are tested for impairment at least annually. All individual assets and CGUs are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell, and value-in-use.

If an asset is identified as being impaired, the asset's carrying value is reduced to the recoverable amount.

If impairment losses are recognised at the CGU level, these are booked first against the goodwill of the CGU, and thereafter against other assets on a pro rata basis.

Notes to the consolidated financial statements

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16. Trade and other payables

| | 30 Jun 2018 | 30 Jun 2017 |
|--|--------------|--------------|
| | \$'000 | \$'000 |
| Trade payables | 4,800 | 3,305 |
| Accrued expenses | 2,467 | 2,973 |
| Payable to Griffith Hack vendors (Refer note 27) | 385 | 195 |
| Goods and services tax payable | 211 | 409 |
| Total trade and other payables | 7,863 | 6,882 |

Significant accounting policy

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group 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 average credit period on purchases of goods and services is 30 days for local vendors and 60 days for foreign vendors. The Group endeavours to settle all payables within the agreed creditor terms.

17. Provisions

| | 30 Jun 2018 | 30 Jun 2017 |
|--|--------------|--------------|
| | \$'000 | \$'000 |
| Current | | |
| Annual Leave | 3,767 | 3,488 |
| Long Service Leave | 3,934 | 4,188 |
| Make-good on leased properties | 504 | 124 |
| Total current provisions | 8,205 | 7,800 |
| Non-current | | |
| Long Service Leave | 562 | 538 |
| Make good on leased properties | 944 | 1,442 |
| Total non-current provisions | 1,506 | 1,980 |
| Total provisions | 9,711 | 9,780 |
| Movement on Make-good provision: | | |
| Balance at the start of the year | 1,566 | 361 |
| Acquired as part of business combination | - | 1,205 |
| Additions | 215 | - |
| Utilised on settlement | (333) | - |
| Balance at end of the year | 1,448 | 1,566 |

Notes to the consolidated financial statements

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17. Provisions

Significant accounting judgements, estimates and assumptions

Long service leave and annual leave provisions

The long service leave and annual leave provisions obligations are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of these provisions, estimates of retention rates and salary increases are adjusted for.

Provision for make good obligation

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as expected tenancy terms and remediation cost estimates. The provision recognised for each site is periodically reviewed and updated based on data available at the time. The actual cost incurred to meet the obligation upon exiting a lease is likely to differ from the estimated provision.

Significant accounting policy

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. The timing or amount of the outflow may still be uncertain. Provisions are classified as current when the lease is expected to be settled within 12 months of the reporting date. A brief description of provisions recognised is provided below:

Property make-good

The provision represents the present value of the estimated costs to satisfy the make good obligations present in the Group's property lease contracts.

Long service leave and annual leave provisions

The provisions represent the Group's obligations as an employer in relation to annual leave and long-service leave accrued by employees.

18. Borrowings

| | 30 Jun 2018 | 30 Jun 2017 |
|-------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Non-current | | |
| Bank loans | 16,000 | 15,250 |
| Less: Transaction costs | (215) | (349) |
| | 15,785 | 14,901 |

The Group has \$50,000,000 available facilities with ANZ due to expire February 2020. The facilities are secured by a fixed and floating charge over the assets of the Group.

The Group has complied with the specific financial covenants contained in the Agreement.

Interest is paid at a variable interest rate. The effective rate at 30 June 2018 was 5.70% (2017: 5.86%). The effective interest rate is inclusive of a 1% per annum line fee payable on the facility limit of \$50,000,000.

Notes to the consolidated financial statements

For the year ended 30 June 2018

18. Borrowings (continued)

Analysis of the available facilities is as follows:

| | Facility amounts \$'000 | Used at year end* \$'000 | Unused at year end \$'000 |
|--------------------------|-------------------------------|--------------------------------|---------------------------------|
| At 30 June 2018 | | | |
| Cash advance facility | 30,000 | (16,000) | 14,000 |
| Interchangeable facility | 20,000 | (3,959) | 16,041 |
| | 50,000 | (19,959) | 30,041 |
| At 30 June 2017 | | | |
| Cash advance facility | 30,000 | (15,250) | 14,750 |
| Interchangeable facility | 20,000 | (4,127) | 15,873 |
| | 50,000 | (19,377) | 30,623 |

* The amounts used in relation to the Interchangeable facility represent bank guarantees.

Significant accounting policy

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. Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

19. Other liabilities

| | 30 Jun 2018 \$'000 | 30 Jun 2017 \$'000 |
|---|-----------------------|-----------------------|
| Customer payments on account | 1,934 | 2,274 |
| Deferred lease incentive liability | 5,331 | 6,158 |
| | 7,265 | 8,432 |
| Expected to realise within next 12 months – current | 2,993 | 2,996 |
| Expected to realise after 12 months – non-current | 4,272 | 5,436 |
| | 7,265 | 8,432 |

Significant accounting policy

Deferred lease incentive liability

Incentives provided under lease agreement are initially recognised as a liability and subsequently recognised as an expense on a straight-line basis over the lease term.

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For the year ended 30 June 2018

20. Issued capital

| | 30 Jun 2018 | 30 Jun 2017 | 30 Jun 2018 | 30 Jun 2017 |
|---|-------------------|-------------------|----------------|----------------|
| | Shares | Shares | \$'000 | \$'000 |
| Opening balance – fully paid ordinary shares | 87,718,231 | 32,816,368 | 141,405 | 3,883 |
| Share Placement | - | 2,064,634 | - | 6,746 |
| Share Purchase Plan | - | 369,855 | - | 1,201 |
| Shares issued to the Vendors of Watermark | 782,792 | 2,285,459 | 2,527 | 7,389 |
| Vesting of share rights | - | 150,735 | - | 408 |
| Institutional Offer – ANREO* | - | 21,982,834 | - | 51,080 |
| Retail Offer – ANREO* | - | 6,353,670 | - | 14,498 |
| Shares issued to the Vendors of Griffith Hack | - | 21,638,744 | - | 56,092 |
| Shares issued to Griffith Hack employees | - | 55,932 | - | 108 |
| Vesting of share rights | 216,908 | - | 588 | - |
| Closing balance – fully paid ordinary shares | 88,717,931 | 87,718,231 | 144,520 | 141,405 |

* ANREO – Accelerated Non-Renounceable Entitlement Offer to fund the Griffith Hack Acquisition.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital. Upon a poll each share shall have one vote.

Capital risk management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern so that it can provide returns for shareholders and benefits for other stakeholders, and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

The value is as presented below:

| | 30 Jun 2018 | 30 Jun 2017 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| Total equity | 125,530 | 142,838 |
| Cash and cash equivalents | (2,760) | (3,646) |
| Debt | 15,785 | 14,901 |
| Total capital for capital risk management | 138,555 | 154,093 |

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment.

The Group is subject to certain covenants under its financing agreements and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing agreements during the financial year.

Significant accounting policy

Issued capital

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

Notes to the consolidated financial statements

For the year ended 30 June 2018

21. Reserves, Retained Earnings and Dividends

The nature of these reserve balances is as follows:

Share based payment reserve

The reserve is used to recognise the value of equity benefits provided to employees as part of their remuneration. Specifically, the reserve relates to performance rights and retention rights issued by the Company to its employees. The performance rights vest over a three-year service period, subject to the achievement of performance conditions. The share rights (issued at the time of the IPO), vest over a service period of between one and three years.

The opening and closing reserve balances, as well as the movements on the reserves and retained earnings balance are presented in the Statement of Changes in Equity.

Dividends to shareholders

Dividends declared and paid to shareholders are as follows:

| | Cents per share | 30 Jun 2018 \$'000 | 30 Jun 2017 \$'000 |
|--|--------------------|-----------------------|-----------------------|
| Dividends paid to Shareholders of Xenith IP Group Limited | | | |
| Final dividend - Paid 30 September 2016 | 7.0 | - | 2,468 |
| Interim dividend - Paid 31 March 2017 | 1.6 | - | 1,056 |
| Final dividend - Paid 29 September 2017 | 3.4 | 3,009 | - |
| Interim dividend - Paid 29 March 2018 | 3.0 | 2,662 | - |
| Total dividends paid during the year | | 5,671 | 3,524 |

Final dividend declared after the year end

A fully franked final dividend of 4.5 cents per share was declared on 29 August 2018 to be paid on 28 September 2018. The expected value of the dividend is \$3,994,000.

Significant accounting policy

Dividends

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

Notes to the consolidated financial statements

For the year ended 30 June 2018

22. Financial assets and liabilities and fair value measurement

| | 30 Jun 2018 | 30 Jun 2017 |
|-----------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Financial assets | | |
| Cash and cash equivalents | 2,760 | 3,646 |
| Trade and other receivables | 28,671 | 29,036 |
| Work in progress | 4,139 | 2,198 |
| Derivative financial asset | - | 66 |
| | 35,570 | 34,946 |

Cash and cash equivalents, trade and other receivables, and work in progress (contracted but unbilled client work) are categorised as *financial assets at amortised costs*. The carrying value of trade and other receivables and work in progress are deemed to be materially consistent with their fair values given their short-term nature.

| | 30 Jun 2018 | 30 Jun 2017 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Financial liabilities | | |
| Borrowings | 15,785 | 14,901 |
| Trade and other payables (excluding statutory obligations) | 7,129 | 5,898 |
| Derivative financial liability | 390 | - |
| Contingent consideration liability | - | 5,168 |
| | 23,304 | 25,967 |

The carrying value of trade and other payables are recognised at amortised cost which is deemed to be materially consistent with their fair values given their short-term nature.

The fair value of the borrowings is determined by discounting the balances at the market discount rate comparable instruments.

Derivative financial instruments and the contingent consideration liability are categorised as fair value through profit or loss financial instruments and are remeasured at each balance sheet date. Derivatives are Level 2 fair value measurement items, while the contingent consideration liability was classified as a level 3 as analysed below:

Fair value measurement hierarchy and values subject to each are as follows:

| | 30 Jun 2018 | 30 Jun 2017 |
|--|-------------|-------------|
| | \$'000 | \$'000 |
| Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date | - | - |
| Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or (liability), either directly or indirectly | (390) | 66 |
| Level 3: Unobservable inputs for the asset or (liability) | - | (5,168) |

There were no transfers between levels during the financial year.

Valuation techniques for fair value measurements categorised within level 2 and level 3

Derivative financial instruments are valued using quoted market rates.

The fair value of the contingent consideration liability was determined by discounting the estimated consideration payable under the contract based on the observable performance of the acquired business over the earnout period.

22. Financial assets and liabilities and fair value measurement (continued)

Significant accounting policy

Fair value measurement

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

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

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

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

These fair value measurement principles apply to all financial instruments measured at fair value as well as other assets and or liabilities where fair value measurement is applicable, including the valuation of intangibles arising on business combinations.

Derivative financial instruments

No derivatives have been designated as hedging instruments. As such derivative financial instruments are accounted for at *fair value through profit or loss* (FVTPL).

23. Financial instrument risk

Risk management objectives and policy

The Group is exposed to various risks in relation to financial instruments. The Group's financial assets and liabilities by category are summarised in Note 22. The main types of risks associated with the financial assets and liabilities are market risk, credit risk and liquidity risk.

The key overarching objective of the Group's risk management policies is to secure short- and medium-term cash flows by reducing exposure to financial market risk and generate sustainable returns for stakeholders.

Risk management is undertaken by senior finance executives ("Finance") under policies approved by the Board of Directors. These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and manages financial risks within the Group's operating units. Finance reports to the Board each month.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

The most significant financial risks to which the Group is exposed, its policies in relation to these, and sensitivity analysis performed on these financial risks are described in this note.

Notes to the consolidated financial statements

For the year ended 30 June 2018

23. Financial instrument risk (continued)

Market risk

The primary market risks the Group is exposed to are foreign currency risk and interest rate risk, through its use of financial instruments.

Foreign currency risk

The Group's functional and reporting currency is the Australian Dollar ("AUD"). Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting. The focus is on minimising exposure to fluctuations in the rate of the United States Dollar ("USD") and the European Union's Euro ("EUR") which represent most of the Group's foreign currency exposure.

The Group's policy is to seek to reduce the its working capital exposure using forward exchange contracts and currency collar derivative instruments covering up to 100% of the forecast USD and EUR working capital exposure over the maturity profile of the working capital. Instruments in place at year end are summarised in the table below:

| | Contract currency amount '000 | Average secured rates of FECs (FY 2017: Collars) | Fair value of instrument (\$'000) |
|--------------------------------------|--|--|---|
| As at 30 June 2018 | | | |
| USD FECs maturing within 3 months | USD 4,800 | 0.78 | (332) |
| USD FECs maturing between 3-6 months | USD 3,200 | 0.75 | (61) |
| EUR FECs maturing within 3 months | EUR 1,000 | 0.63 | (3) |
| EUR FECs maturing between 3-6 months | EUR 325 | 0.62 | 6 |
| Total liability | | | (390) |
| As at 30 June 2017 | | | |
| Collars maturing within 3 months | USD 3,800 | 0.73 – 0.78 | 20 |
| Collars maturing between 3-6 months | USD 1,200 | 0.72 – 0.76 | 46 |
| Total | | | 66 |

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities (all short-term) at the reporting date presented in Australian Dollars were as follows:

| | Financial assets | | Financial liabilities | |
|-----------------------------|------------------|---------------|-----------------------|----------------|
| | 30 Jun 2018 | 30 Jun 2017 | 30 Jun 2018 | 30 Jun 2017 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| United States Dollars (USD) | 15,410 | 13,180 | (2,862) | (1,852) |
| European Euros (EUR) | 2,936 | 3,236 | (346) | (226) |
| Great British Pound (GBP) | 214 | 274 | (205) | (122) |
| Japanese Yen (JPY) | 6 | - | (132) | (144) |
| Other currencies | 48 | 16 | (179) | (197) |
| Total | 18,614 | 16,706 | (3,724) | (2,541) |

Notes to the consolidated financial statements

For the year ended 30 June 2018

23. Financial instrument risk (continued)

The following table illustrates the sensitivity of profit and equity to changes in the exchange rate used to convert the Group's USD denominated financial assets and liabilities, assuming all other factors remain consistent.

A USD 5 cent movement in the year end exchange rate has been used in presenting the sensitivities below. The USD 5 cent level is considered appropriate, as this largely reflects the actual range of exchange rate movements in recent years.

| | USD 5 cents weaker | | USD 5 cents stronger | |
|-----------------------------------|--------------------|-------------|----------------------|-------------|
| | 30 Jun 2018 | 30 Jun 2017 | 30 Jun 2018 | 30 Jun 2017 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Favourable / (adverse) impact on: | | | | |
| Net assets / Equity | 125 | 760 | (109) | (373) |
| Profit before tax | 125 | 760 | (109) | (373) |

Interest rate risk

The Group's primary interest rate risk arises from the long-term borrowings it holds which are subject to a variable interest rate. Given the relative stability of interest rates over the last 5 years, and the only minimal rate changes in current market forecasts, the Group has not sought to reduce the exposure to reasonable interest rate rises that may be expected to occur, as these are not currently considered likely to have a material impact.

| | 30 Jun 2018 | | 30 Jun 2017 | |
|--|--------------------------------|---------|--------------------------------|---------|
| | Weighted Average Interest rate | Balance | Weighted Average Interest rate | Balance |
| | % | \$'000 | % | \$'000 |
| Bank Loans | 5.70% | 16,000 | 5.86% | 15,250 |
| Net exposure to cash flow interest rate risk | | 16,000 | | 15,250 |

Price risk

The Group does not have any significant exposures to reasonably possible price fluctuations.

Liquidity risk

Liquidity risk is the risk that the Group might be unable to meet its obligations.

The Group's objective is to ensure it has adequate cash and cash equivalents in place to meet all its obligations as and when they fall due as well as having available funds to meet working capital requirements arising from growth. Ideally the Group also aims to have reasonable levels of additional funding contracted to enable potential strategic investments to be executed quickly, if required.

Given the available facilities that are presented in Note 18, which are available until February 2020, and the Group's historic and forecast ability to generate positive free cash flows, the Group considers there to be minimal risk that it will not be able to meet its short to medium term liquidity requirements.

Notes to the consolidated financial statements

For the year ended 30 June 2018

23. Financial instrument risk (continued)

The maturity profile of the Group's non-derivate financial liabilities, including any interest payments applicable, is as follows:

Maturity profile as at 30 June 2018

| | Within 6 months | 6 – 12 months | 1 - 2 years | 2+ years |
|--------------------------|--------------------|------------------|----------------|-------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Trade and other payables | 7,129 | - | - | - |
| Borrowings ¹ | 456 | 456 | 16,531 | - |
| Total | 7,585 | 456 | 16,531 | - |

¹ The repayment of borrowings assumes the weighted average interest rates applicable in the current year of 5.70% inclusive of the 1% line fee on the full \$50m facility.

Maturity profile as at 30 June 2017

| | Within 6 months | 6 – 12 months | 1 - 2 years | 2+ years |
|---|--------------------|------------------|----------------|---------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Contingent consideration liability ² | 2,743 | - | - | - |
| Trade and other payables | 3,305 | - | - | - |
| Borrowings ³ | 434 | 434 | 868 | 15,901 |
| Total | 6,482 | 434 | 868 | 15,901 |

² The cash portion of the contingent consideration liability payable was discounted at a rate of 13.5% to determine its fair value

³ The weighted average interest rate applied was 5.86% inclusive of the 1% line fee on the full \$50m facility.

Credit risk

Credit risk refers to the risk that counterparties will default on their contractual obligations resulting in financial loss to the Group. It arises from cash and cash equivalents, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and unbilled client work.

The Group seeks to manage its credit risk at the inception stage by performing an assessment of the credit worthiness of all customers, banks, and other counterparties with which it intends to transact. Additionally, the Group may obtain payment in advance or restrict the services offered where appropriate to mitigate credit risk.

The maximum exposure to credit risk at the reporting date is the carrying amount of financial assets, net of any provisions for impairment of those assets, as disclosed in the consolidated statement of financial position and the notes to the financial statements. The Group does not have any material credit risk exposure to any single debtor or group of debtors and does not hold collateral in relation to any debtor balances.

Notes to the consolidated financial statements

For the year ended 30 June 2018

24. Earnings per share

| | 30 Jun 2018 \$'000 | 30 Jun 2017 \$'000 |
|---|-----------------------|-----------------------|
| (Loss) / profit for the year attributable to the owners of the Group | (14,684) | 3,957 |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 88,457,452 | 62,028,810 |
| Adjustments for calculation of diluted earnings per share | | |
| - Performance rights | 309,655 | 45,680 |
| - Share rights | 360,287 | 595,577 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 89,127,394 | 62,670,067 |
| | Cents | Cents |
| Basic earnings per share | (16.6) | 6.4 |
| Diluted earnings per share ¹ | (16.6) | 6.3 |

¹ The additional potential shares are anti-dilutive to the loss recorded in the year.

Significant accounting policy

Earnings per share

Basic earnings per share is calculated by dividing the statutory (loss) / profit attributable to the owners of Xenith IP Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, retrospectively adjusted for bonus element of the Accelerated Non-Renounceable Entitlement Offer.

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

25. Contingent liabilities

The group has bank guarantees outstanding as at 30 June 2018 of \$3,959,000 (2017: \$4,127,000).

26. Lease and other commitments

| | 30 Jun 2018 \$'000 | 30 Jun 2017 \$'000 |
|---|-----------------------|-----------------------|
| Operating lease commitments | | |
| Committed at reporting date but not recognised as liabilities | | |
| Within one year | 6,014 | 6,942 |
| One to five years | 22,440 | 18,202 |
| Greater than five years | 8,394 | 2,173 |
| | 36,848 | 27,317 |

The Group had \$nil committed capital commitments as at 30 June 2018. (2017: \$283,000).

Notes to the consolidated financial statements
For the year ended 30 June 2018

27. Business combinations

Griffith Hack acquisition

The Griffith Hack acquisition completed on 2 February 2017, with 100 per cent of the issued share capital of the following entities transferring to the Group on that date:

- GH PTM Pty Limited;
- GH Law Pty Limited;
- Intellectual Property Management Pty Limited; and
- Griffith Hack Consulting Pty Limited (since renamed Glasshouse Advisory Pty Limited).

The acquisition accounting was presented as provisional in the 30 June 2017 financial statements.

The acquisition accounting and the allocation of the goodwill to the CGUs expected to benefit from synergies arising from the acquisition were finalised at 31 December 2017 and are presented in the following tables.

| | Provisional as at 30 Jun 2017 \$'000 | Adjustments to finalise \$'000 | Final as at 30 Jun 2018 \$'000 |
|--|--|--------------------------------------|--------------------------------------|
| Consideration | | | |
| Cash consideration paid | 83,284 | - | 83,284 |
| Consideration shares issued | 56,131 | - | 56,131 |
| Fair value of consideration | 139,415 | - | 139,415 |
| Identified net assets | | | |
| Cash and cash equivalents | 2,424 | - | 2,424 |
| Trade and other receivables | 14,492 | - | 14,492 |
| Work in progress | 2,370 | - | 2,370 |
| Other current assets | 833 | - | 833 |
| Property, plant and equipment | 4,497 | - | 4,497 |
| Intangible assets (excluding goodwill) | 73,653 | - | 73,653 |
| Deferred tax asset | 2,769 | 600 | 3,369 |
| Trade and other payables | (3,788) | - | (3,788) |
| Income tax payable | (57) | - | (57) |
| Other liabilities | (6,844) | - | (6,844) |
| Provisions | (4,332) | - | (4,332) |
| Deferred tax liability | (18,938) | - | (18,938) |
| Fair value of identified net assets | 67,079 | 600 | 67,679 |
| Goodwill on acquisition | 72,336 | (600) | 71,736 |
| Allocation to Cash Generating Units | | | |
| Shelston IP | - | 7,419 | 7,419 |
| Watermark | - | 5,620 | 5,620 |
| Griffith Hack | 72,336 | (13,639) | 58,697 |

At the time of the acquisition the Company did not pay for Griffith Hack's trade debtor balances over 365 days. Instead the Group committed to following its credit control collection practices for a period of 18 months after the acquisition and pay all related cash collected on these balances, net of reasonable costs incurred, to the Griffith Hack vendors.

The Group has paid \$385,000 to the Griffith Hack vendors in August 2018 to settle this liability. At the time of the acquisition, the Group assumed none of this would be collected and these balances were fully provided for as an additional provision for doubtful debts.

Notes to the consolidated financial statements

For the year ended 30 June 2018

27. Business combinations (continued)

Significant accounting judgements, estimates and assumptions

The Group uses valuation techniques in determining the fair values of the various elements of a business combination.

Determining the fair value of acquired intangibles involves developing estimates and assumptions consistent with how market participants would price the identified asset. Where possible, assumptions are based on observable or benchmark data. The intangible assets are presented in Note 14.

Significant accounting policy

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of fair value of consideration transferred, the recognised amount of any non-controlling interest in the acquiree, and acquisition date fair value of any existing equity interest in the acquiree, over the acquisition date fair values of identifiable net assets.

28. Controlled entities

The consolidated financial statements incorporate assets, liabilities and results of the following controlled entities, all of which are Australian incorporated companies. All companies are part of the tax consolidated group and are party to a Deed of Cross Guarantee with the parent entity.

| | Acquired / Incorporated | Ownership interest | |
|---|----------------------------|--------------------|-------------|
| | | 30 Jun 2018 | 30 Jun 2017 |
| Shelston IP Pty Limited | 1 Oct 2015 | 100% | 100% |
| Shelston IP Lawyers Pty Limited | 1 Oct 2015 | 100% | 100% |
| Xenith IP Services Pty Limited | 1 Oct 2015 | 100% | 100% |
| Watermark Holdings Pty Limited | 16 Aug 2016 | 100% | 100% |
| Watermark Intellectual Property Pty Limited | 2 Nov 2016 | 100% | 100% |
| Watermark Intellectual Property Lawyers Pty Limited | 2 Nov 2016 | 100% | 100% |
| Watermark Advisory Services Pty Limited | 2 Nov 2016 | 100% | 100% |
| Watermark Australasia Pty Limited | 2 Nov 2016 | 100% | 100% |
| Griffith Hack Holdings Pty Limited | 11 Nov 2016 | 100% | 100% |
| Glasshouse Advisory Pty Limited | 2 Feb 2017 | 100% | 100% |
| GH PTM Pty Limited | 2 Feb 2017 | 100% | 100% |
| GH Law Pty Limited | 2 Feb 2017 | 100% | 100% |
| Intellectual Property Management Pty Limited | 2 Feb 2017 | 100% | 100% |

Notes to the consolidated financial statements

For the year ended 30 June 2018

29. Parent Entity information

| | 30 Jun 2018 | 30 Jun 2017 |
|---|-----------------|----------------|
| | \$'000 | \$'000 |
| Statement of profit or loss and other comprehensive income | | |
| Loss after income tax | (43,911) | (7,948) |
| Other comprehensive income for the year, net of tax | - | - |
| Total Comprehensive Loss | (43,911) | (7,948) |
| Statement of financial position | | |
| Current assets | 6,529 | 967 |
| Non-current assets | 128,958 | 169,511 |
| Current liabilities | (28,363) | (20,260) |
| Non-current liabilities | (15,785) | (14,901) |
| Net Assets | 91,339 | 135,317 |
| Issued capital | 144,520 | 141,405 |
| Share based payment reserve | 861 | 929 |
| Accumulated losses | (54,042) | (7,017) |
| Total Equity | 91,339 | 135,317 |

Guarantees, contingent liabilities, capital commitments

As described in Note 28, Xenith IP Group Limited and all its controlled entities are party to a Deed of Cross Guarantee. Furthermore, Xenith IP Group Limited is head of the Tax Consolidated Group and has tax sharing and tax funding agreements with each entity in the Group.

There are no significant capital commitments in place at the year-end.

Significant accounting policy

Parent entity

The accounting policies of the parent entity are consistent with those of the Group, with the following additional applicable policies:

- Investments in controlled entities are accounted for at cost, less any impairment.
- Dividends receivable from controlled entities are recognised as other income.

30. Key management personnel and other related party transactions

| | 30 Jun 2018 | 30 Jun 2017 |
|--|------------------|------------------|
| | \$ | \$ |
| Key Management Personnel remuneration | | |
| Short-term employee benefits | 1,515,186 | 1,220,205 |
| Post-employment benefits | 94,580 | 84,739 |
| Long-term benefits | 4,226 | (12,607) |
| Share based payments | 43,319 | - |
| | 1,657,311 | 1,292,337 |

Other related party transactions

There are no other related party transactions.

Notes to the consolidated financial statements

For the year ended 30 June 2018

31. Cash flows from operating activities

The reconciliation of the (loss) / profit after tax for the year to the cash flow from operating activities as presented in the statement of cash flows is as follows:

| Notes | 30 Jun 2018 \$'000 | 30 Jun 2017 \$'000 |
|---|-----------------------|-----------------------|
| (Loss) / profit for the year after income tax expense | (14,684) | 3,957 |
| Adjusted for non-cash income and expenses: | | |
| Impairment losses | 20,727 | - |
| Depreciation and amortisation | 6,448 | 3,099 |
| Fair value movement on derivative financial instruments | 455 | (142) |
| Fair value movement on contingent consideration liability | - | 1,394 |
| Unwinding of discount on contingent consideration liability | 108 | 307 |
| Net unrealised exchange (gains) / losses | (613) | 687 |
| Share based payment expense | 522 | 927 |
| Unwinding of transaction costs on borrowings | 134 | 56 |
| Non-operating income and expenses: | | |
| Finance costs | 994 | 500 |
| Working capital movements: | | |
| Trade and other receivables | 1,229 | (868) |
| Other current assets | (334) | (570) |
| Work in progress | (1,899) | 994 |
| Income and deferred tax balances | (2,920) | 1,093 |
| Trade and other payables | 689 | (826) |
| Other liabilities | (1,169) | (698) |
| Provisions | 35 | 439 |
| Net cash flow from operating activities | 9,722 | 10,349 |

Reconciliation of Cash and cash equivalents to Net debt:

| | | | |
|---------------------------|----|-----------------|-----------------|
| Cash and cash equivalents | 9 | 2,760 | 3,646 |
| Borrowings – non-current | 18 | (15,785) | (14,901) |
| Net debt | | (13,025) | (11,178) |

Movements on liabilities whose cashflows reported in financing activities:

| | | |
|---|---------------|---------------|
| Borrowings at the start of the year | 14,901 | 4,000 |
| Net proceeds from borrowings | 750 | 10,820 |
| Borrowings acquired as part of business combination | - | 430 |
| Financing transaction costs paid | - | (405) |
| Other non-cash movements – unwinding of transaction costs | 134 | 56 |
| Borrowings at the end of the year | 15,785 | 14,901 |

Notes to the consolidated financial statements
For the year ended 30 June 2018

32. Share based payments

As at 30 June 2018, the Group maintained three share based payment schemes for employee remuneration. All are equity settled plans. Details of the plans are as follows:

Performance rights (Key Management Personnel plan)

The performance rights plan was approved by the Board of Directors in December 2017 and was established to incentivise and retain key management personnel. Grants under this plan are approved by the Board.

The performance rights convert to ordinary shares on vesting with nil consideration payable by the recipients. The number of rights vesting is dependent on achievement of the performance conditions during the period from 1 July 2017 to 30 June 2020, as well as ongoing service to the vesting date.

50% of the Performance rights vest in the event of EPS Compound Annual Growth Rate ("CAGR") exceeding 5.5%, increasing proportionally up to maximum 100% vesting for EPS CAGR of 9% or higher.

The hurdles are measured with reference to the Underlying EPS for the year ended 30 June 2017 of 13.5 cents.

Set out below are details of the performance rights granted under the plan during the current financial year:

| Grant date | Vesting date | Expiry Date | Grant date fair value | Rights issued | Exercised | Forfeited | Balance at end of year |
|------------|--------------|-------------|-----------------------|---------------|-----------|-----------|------------------------|
| 21 Dec 17 | 31 Aug 20 | 31 Oct 20 | \$1.018 | 309,655 | - | - | 309,655 |

The Black-Scholes-Merton pricing model was used to determine the value of the above rights issued, using a grant date share price of \$1.15, 12 months volatility of 50%, dividend yield of 4.3% and a risk-free rate of 2.1%.

Performance rights (IPO issue)

The performance rights plan was approved by the Board of Directors in the financial year ended 30 June 2016 and was established to motivate and retain key staff whilst the former Shelston partnership transitioned to a listed corporate structure. Grants under this plan were approved by the Board. There were no grants of performance rights under this plan during the current financial year.

The performance rights would convert to ordinary shares on vesting with nil consideration payable by the recipients. The number of rights vesting was dependent on achievement of the performance conditions during the period to 30 June 2018, as well as ongoing service to the vesting date.

50% of the Performance rights would vest in the event of EPS CAGR exceeding 10%, increasing proportionally up to maximum 100% vesting for EPS CAGR of 15% or higher.

Set out below are details of the performance rights granted under the plan:

| Period | Grant date | Vesting date | Expiry Date | Grant date value | Balance at start of year | Exercised / (Forfeited) | Balance at end of year |
|--------------|------------|--------------|-------------|------------------|--------------------------|-------------------------|------------------------|
| Current year | 4 Dec 15 | 30 Jun 18 | 30 Jun 20 | \$2.72 | 45,680 | (45,680) | - |
| Prior year | 4 Dec 15 | 30 Jun 18 | 30 Jun 20 | \$2.72 | 45,680 | - | 45,680 |

Notes to the consolidated financial statements

For the year ended 30 June 2018

32. Share based payments (continued)

Retention rights (IPO issue)

At the date of IPO the Company made a one-off issue of share rights to assist with the retention of senior associates of Xenith IP Group Limited. The rights have an exercise price of \$nil and are capable of conversion into fully paid ordinary shares in the capital of the Company over a one to three-year vesting period. Vesting is not conditional on any performance conditions, only time and continued service.

Set out below are details of the share rights granted under the plan:

| Grant date | Vesting date | Grant date fair value | Balance at 30 Jun 2017 | Exercised | Forfeited | Balance at 30 Jun 2018 |
|------------|--------------|-----------------------|------------------------|-----------|-----------|------------------------|
| 5 Feb 2016 | 20 Nov 2017 | \$2.72 | 216,908 | (216,908) | - | - |
| 5 Feb 2016 | 20 Nov 2018 | \$2.72 | 378,669 | - | (18,382) | 360,287 |
| | | | 595,577 | (216,908) | (18,382) | 360,287 |

The weighted average remaining contractual life of the rights outstanding at the end of the financial year was 0.4 year (2017: 1.0 years). Of the 805,136 rights originally issued 5 February 2016, 77,206 were forfeited and 367,643 exercised before 30 June 2018. There were no grants of retention share rights during the current financial year.

Employee Exempt Share Plan

The Company established the Employee Exempt Share Plan ("EESP") at the time of the IPO and invited certain staff to apply for shares at nil acquisition cost. This was to encourage share ownership in the Company in the new listed environment.

Under the EESP eligible employees were invited to apply for up to \$1,000 worth of fully paid ordinary shares in the capital of the Company. Shares acquired under the EESP are exempt from taxation upon acquisition, subject to the employee's adjusted taxable income being \$180,000 or less. In order to benefit from this tax benefit there is a three-year restrictive period on selling, transferring or otherwise dealing with the shares.

No shares were granted under the plan in the current year. (2017: 55,932 shares granted).

Significant accounting policy

Share based payments

The Group operates equity settled share based remuneration plans for its employees. None of the Group's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share based payment are measured at their fair values. Where employees are rewarded using share based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are allocated to share capital.

Notes to the consolidated financial statements

For the year ended 30 June 2018

33. Auditor remuneration

Amounts paid or payable to Grant Thornton Audit Pty Limited and related companies is as follows:

| | 30 Jun 2018 | 30 Jun 2017 |
|--|----------------|----------------|
| | \$ | \$ |
| Statutory audit and review of the Group financial statements | 254,000 | 255,000 |
| Trust audits | 10,150 | 10,000 |
| Other non-audit services | | |
| Tax compliance | 33,640 | 58,355 |
| Advisory | 23,500 | - |
| | 321,290 | 323,355 |

34. Events after the end of the reporting period

Dividends declared

Refer to Note 21 for the dividends declared after the end of the reporting period.

35. Accounting policies

New Accounting Standards and Interpretations not yet mandatory or early adopted

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

AASB 9 Financial Instruments (December 2014) (Effective from 1 January 2018)

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting.

The main change that will potentially impact the Group is the new impairment model based on future credit losses for financial instruments.

Other changes related to the application of hedge accounting, classification of debt instruments based on objectives and characteristics, the introduction of "fair value through other comprehensive income" approach to certain simple debt instruments, and accounting for equity investments are not expected to be relevant to the Group.

When this standard is first adopted for the half year ended 31 December 2018 and year ended 30 June 2019, there is expected to be no material impact on the transactions and balances recognised in the financial statements.

A credit loss matrix will be adopted for the calculation of life-time expected credit losses on receivable balances. Initial calculations performed do not indicate a material change to the provision for impairment for trade receivables will arise.

35. Accounting policies (continued)

New Accounting Standards and Interpretations not yet mandatory or early adopted (Continued)

AASB 15 Revenue from Contracts with Customers (Effective from 1 January 2018)

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations. The new standard seeks to:

- establish a new revenue recognition model;
- change the basis for deciding whether revenue is to be recognised over time or at a point in time;
- provide new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return, warranties and licensing); and
- expand and improve disclosures about revenue.

When this standard is first adopted for the half year ended 31 December 2018 and year ended 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements.

AASB 16 Leases (Effective from 1 January 2019)

AASB 16 replaces AASB 117 Leases, and certain other lease related interpretations. The new standard:

- requires all leases to be accounted for “on-balance sheet” by lessees, other than short-term and low value asset leases;
- provides new guidance on the application of the definition of lease and on sale and lease back accounting; and
- requires new and different lease disclosures.

When this standard is first adopted for the half-year ended 31 December 2019 and year ended 30 June 2020, there will be a number of material impacts on the transactions and balances recognised in the financial statements. The estimated likely impact on the financial statements as at 30 June 2020, based on facts as at the date of the assessment are as follows:

- right of use assets of \$23.4 million and finance lease liabilities of \$30.7 million will be added to the balance sheet. This will be partly offset by the derecognition of deferred lease liability balances of \$5.5 million. This will decrease net assets of the Group by \$1.7 million;
- Earnings before Interest and Tax in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in property lease payments for former off-balance sheet property leases will be presented as part of finance costs rather than being included in operating expenses; and
- operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities.

Other standards and interpretations

AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15 (Effective from 1 January 2018) and AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) (Effective from 1 January 2018) provide only very minor adjustments to AASB 15 and AASB 9 discussed above.

Adoption of new and revised accounting standards during the year

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 July 2017. These largely relate to matters that are not applicable to the Group, and their adoption has not impacted these financial statements in any significant manner. Those that may potentially impact the financial reporting in future years include:

- AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations;
- AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation; and
- AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements.

Notes to the consolidated financial statements

For the year ended 30 June 2018

35. Accounting policies (continued)

Other accounting policies

In addition to the key accounting policies presented in the preceding notes to the financial statements, certain other pervasive accounting policies are applied in the preparation of these financial statements. These are summarised as follows:

Basis of consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries as of the balance sheet date. The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have the same reporting date as the Parent.

All transactions and balances between Group companies are eliminated on consolidation, including, if applicable, unrealised gains and losses on transactions between Group companies.

Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Foreign currency

The consolidated financial statements are presented in Australian Dollars, which is also the functional currency of the Parent Company.

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the date of the transaction), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Directors' Declaration

For the year ended 30 June 2018

In the opinion of the Directors of Xenith IP Group Limited ("the Company"), we state that:

- (a) The consolidated financial statements and notes of Xenith IP Group Limited are in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of its financial position as at 30 June 2018 and of its performance for the financial year ended on that date;
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) There are reasonable grounds to believe that Xenith IP Group Limited will be able to pay its debts as and when they become due and payable.
- (c) There are reasonable grounds to believe that the members of the extended closed group identified in Note 28 will be able to meet any obligations or liabilities which they are, or may become, subject to by the Deed of Cross Guarantee described in Note 28.

The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and the Chief Financial Officer for the financial year ended 30 June 2018.

Note 2 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

Signed in accordance with a Resolution of the Board of Directors.



Craig Dower
CEO and Managing Director

29 August 2018
Sydney

Independent Auditor's Report

To the Members of Xenith IP Group Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Xenith IP Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

- a giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

Key audit matters

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

| Key audit matter | How our audit addressed the key audit matter |
|--|---|
| <p>Recoverable amount of intangible assets (Note 14 and 15)</p> <p>As at 30 June 2018, the Group's intangible assets of \$137,368,000 consist of goodwill, computer software, customer relationships, and brand names. An impairment expense of \$20,539,000 has been recognised during the year.</p> <p>AASB 136: <i>Impairment of Assets</i> requires that, for the purposes of impairment testing, goodwill acquired in a business combination be allocated to each of the Group's cash-generating units (CGU's). Each CGU to which goodwill has been allocated must be tested for impairment annually.</p> <p>Management has assessed that the group has four CGUs, and has allocated the goodwill and other intangible assets to these CGUs.</p> <p>Management has tested the CGUs for impairment by comparing their carrying amounts with their recoverable amounts. The recoverable amounts were determined using a combination of fair value less costs of disposal and value-in-use.</p> <p>We have determined this is a key audit matter due to the judgements and estimates required in determining the appropriate CGUs and calculating the recoverable amount.</p> | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Enquiring with management to obtain and document an understanding of management's process and controls related to the assessment of impairment, including management's identification of CGUs and the calculation of the recoverable amount for the CGU; • Evaluating the value in use models against the requirements of AASB 136, including consultation with our valuations experts; • Reviewing management's value-in-use calculations to: <ul style="list-style-type: none"> - Test the mathematical accuracy of the calculations; - Evaluate management's ability to accurately estimate through review of historical estimates; - Assess the reasonableness of forecasted cash inflows and outflows to be derived by the CGUs assets; and - Assess the appropriateness and reasonableness of discount rates applied to forecast future cash flows; • Performing sensitivity analysis on the significant inputs and assumptions made by management in preparing its calculation; and • Assessing the adequacy of financial report disclosures. |
| <p>Trade receivables and work in progress (Notes 10 and 11)</p> <p>The Group had trade receivables of \$29,532,000 at 30 June 2018, against which a provision for impairment of \$1,125,000 has been recognised. The Group had work in progress of \$4,781,000 30 June 2018, against which a provision for impairment of \$642,000 has been recognised.</p> <p>This area is a key audit matter due to the fact that there is significant management judgment in estimating the appropriate level of any provision.</p> | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Challenging management's assumptions regarding the level of provisioning against the ageing of receivables and work in progress, along with consistency and appropriateness of provisioning, with reference to subsequent cash received in respect of debtors and subsequent invoicing in respect of work in progress; • Critically assessing the recoverability of overdue debts, including those which have been and have not been provided against; and • Assessing the adequacy of financial report disclosures. |

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, 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 we do not express any form of assurance conclusion thereon.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors' for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report


Opinion on the remuneration report

We have audited the Remuneration Report included on pages 16 to 32 of the Directors' report for the year ended 30 June 2018.

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

Responsibilities

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



C F Farley
Partner – Audit & Assurance

Sydney, 29 August 2018

Appendix 4E continued

For the year ended 30 June 2018

For the “**Results for Announcement to the Market**” refer page 2 of the Financial Report

NTA BACKING

| | 30 Jun 2018 | 30 Jun 2017 |
|---|--------------------|-------------|
| | Cents | Cents |
| Net tangible asset backing per ordinary security ¹ | 3.30 | (4.98) |

¹ The Net tangible assets has been calculated by deducting Intangible assets and deferred tax balances from the statutory net assets as presented in the Statement of Financial Position.

DIVIDEND REINVESTMENT PLAN

The Xenith IP Dividend Reinvestment Plan has been approved by the Directors but has not yet been activated.

DETAILS OF JOINT VENTURE AND ASSOCIATE ENTITIES

During the year ended 30 June 2018, Xenith IP Group Limited had no ownership interest in Joint Ventures or associate entities.

Corporate Directory

OFFICERS

Sibylle Krieger – Non-Executive Chair
Craig Dower – Chief Executive Officer and Managing Director
Stuart Smith – Chief Corporate Development Officer
Andrew Harrison - Non-Executive Director
Susan Forrester - Non-Executive Director
Kathryn Spargo - Non-Executive Director
Lesley Kennedy – Chief Financial Officer and Company Secretary

REGISTERED OFFICE

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60 Margaret Street
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Tel: +61 2 9777 1122

SHARE REGISTER

Computershare Investor Services Pty Limited
Level 4
60 Carrington Street
Sydney, NSW 2000
Tel: 1300 787 272

AUDITOR

Grant Thornton Audit Pty Limited
Level 17
383 Kent Street
Sydney, NSW 2000

SOLICITORS

HWL Ebsworth Lawyers
Level 14
Australia Square
264-278 George Street
Sydney, NSW 2000

STOCK EXCHANGE LISTING

Xenith IP Group Limited shares are listed on the Australian Securities Exchange (ASX code: XIP)

WEBSITE

www.xenithip.com

CORPORATE GOVERNANCE STATEMENT

The Corporate Governance Statement was approved by the Board of Directors on the 29 August 2018 and can be found on www.xenithip.com in the Investor Relations section.