

FirstWave

2021 ANNUAL REPORT

Financial Statements

For the Year Ended 30 June 2021

Firstwave Cloud Technology Limited

ABN 35 144 733 595

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Chairman's Letter

2021 was a year in which your Company continued to advance on many fronts, but also was presented with challenges that demanded time and resources.

Key aspects of the year:

- International sales continuing to be hampered by the ongoing impact of COVID19
- International Annualised Recurring Revenue (IARR) up 440% at the end of the financial year to \$3,008K from \$448K at the end of the prior year (as disclosed in the FY21 Q4 update released to the market on 27 July 2021)
- Domestic revenues through Telstra continuing their slow decline over the year under the pressure of continuing churn due to the lack of a web replacement product from Cisco and high costs of Telstra's inhouse cloud platform
- First signs of the opportunity for growth in revenues through Telstra following Telstra CEO Andy Penn's public statements on the growing impact of cybersecurity threats as Chair of the Industry Advisory Panel to the Federal Government on Australia's 2020 Cyber Security Strategy and appointment of a senior executive in Telstra as Head of Cyber Security
- Level 1 Partners up from 5 to 9 by year end including Vodafone Idea (Vi) in India and Mojo Access (part of the CSquared Group) in Africa. Also noteworthy was the signing of Dimension Data Systems Africa, part of the NTT Group (a FirstWave Level 1 Partner)
- Billing Partners up from 28 to 52 by year end
- New articulation of the Company's purpose as 'Democratising cybersecurity-as-a-service' for the world's SMBs in October
- Additions to the product portfolio of Advanced Detect and Respond (ADR) Essentials for Email in partnership with SHELТ Global; and WebProtect DNS under an exclusive reseller agreement with Simplifyd Systems UK

Transitioning of the Company's OEM reseller arrangements with Cisco Systems from one of optimism for significant revenue growth at the start of the year, to likely no additional revenue and cost out by the end of the year

Delivery of the Company's first ever presentation of its Product Roadmap to Investors and Partners in November

- Early success with WebProtectDNS delivering solid international recurring revenues in H2
- A share placement in April of \$6m leading to a strong cash on hand position at June 30 of \$9.96 million
- A reduction in operating expense compared with the prior year of circa \$2 million
- Appointment of Kevin Bloch, ex Cisco Systems Chief Technical Officer for Australia and New Zealand, in July, as Advisor to the Company on Technology and Markets
- Post financial year end:
 - Changes to leadership of the Company with me stepping in as Interim CEO after Neil Pollock's departure (in July 2021), and David Hwang joining the board following David Action's departure (in June 2021)
 - The Company received two unrelated notices from Level 1 Partners in Africa, CSquared on behalf of its operating company in Kenya, Mojo Access, and Telum Technologies (Nairobi), that they were seeking to pause billing under their contracts to resell WebProtectDNS and revise key terms of the contracts. The FirstWave Board acceptance of these requests was deemed material and led to the Company seeking a halt to trading in its securities on Monday 18 October. The two contracts represented AU\$1.95 million of the AU\$3.0 million IARR reported at FirstWave's Q4 FY21 update, and this revenue was excluded from FirstWave's calculation of IARR at the close of Q1 FY22

- Of greatest significance however, was the realization in Q3 that, aside from the inherently slow speed to market of our telco partners, our core cybersecurity-as-a-service software presented a level of ‘friction’ for partners and end users, to rapid scaling. The catalyst for this realization was the ‘opt-out’ adoption model for WebProtectDNS and the mobile presentation interface provided to end users of the service. Because of this, post year end we took difficult decisions to:
 - Not actively engage with new partners for sale of the CCSP platform and its security services until the software is enhanced
 - Direct development efforts as a priority to enhancing the product to remove the ‘friction’ – an estimated 9-month effort
 - Direct our sales efforts to discrete ‘point’ solutions with the potential for rapid return – WebProtectDNS, ADR Essentials for Email and MTPAN (Multi-tenant Palo Alto Networks), and
 - With the potential that these decisions would dampen the level of growth in revenue, lower operating costs further.

In Closing:

The next financial year will challenge shareholders once again as their continuing support rests on what we strongly believe will be the positive impact of the refreshed product – but this will not be available until late in Q3. The Board and management team is determined to apply the Company’s resources in a way we believe is in shareholders’ best interests and our sincere thanks go to them for their continued support for the Company – we understand your sometimes difficult journey. My sincere thanks also go to our full team who continue to deliver to their best ability under pressure – FirstWave is a very hard-working Company – and to my fellow directors for their patience and support.

Kind regards



John Grant
Executive Chairman

Directors' report

30 June 2021

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity' or 'FirstWave') consisting of Firstwave Cloud Technology Limited (referred to hereafter as the 'company', or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2021.

Directors

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

John Grant - Executive Director and Chairman
Paul MacRae - Non-Executive Director
Euh (David) Hwang - Non-Executive Director (appointed on 7 June 2021)
Scott Lidgett - Non-Executive Director (resigned on 4 February 2021)
David Acton - Non-Executive Director (resigned on 7 June 2021)

Principal activities

During the financial year, the principal continuing activities of the consolidated entity comprise of development and sale of internet security software.

Dividends

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

Review of operations

FirstWave Cloud Technology Limited, the Australian global cybersecurity technology company, provides a review of its operations for the Financial Year 2021 ('FY21').

FirstWave's mission is to democratise enterprise-grade cybersecurity-as-a-service to protect the world's small and medium sized businesses (SMBs) from cyber-threats at their perimeter, while delivering incremental revenue at scale to its service provider partners who serve SMBs around the world.

In support of its mission, FirstWave achieved the following outcomes during FY21:

- Welcomed four new Level 1 partners:
 - Tata Teleservices Limited - India (August 2020)
 - Vodafone Idea Limited - India (September 2020)
 - Moja Access (part of CSquared Group) - Africa (February 2021)
 - Dimension Data Systems - Africa (March 2021)
- Continued investment in international growth resulting in billing partners increasing from 40 to 52 during the year.
- Introduced two new services to its portfolio:
 - WebProtect DNS from Simplfyd Systems in the UK, achieving significant success in driving new recurring revenues at telcos attaching Web DNS security under an 'opt-out' model to their network customers.
 - Advanced Detection and Response ('ADR'), jointly developed with Middle East partner SHEL Global ('SHELT'). 4,413,430 shares were issued as payment for SHEL's contribution to the development of the first release of the new service, ADR for Email. Subsequent releases will deliver ADR for Web and End Point and are targeted to deliver incremental revenue.

In the quarterly updates provided to shareholders, it was noted that COVID-19 had a significant impact on the markets in which FirstWave operates and the expectation that market activity would have returned to normal by October 2020, which underpinned the May 2020 capital raise, did not eventuate. FirstWave continued to experience lower sales activity, particularly in the UK, Europe and India markets that have been impacted by COVID-19 to varying degrees over the year.

FirstWave also announced the withdrawal of a supplier loan facility from its major Australian customer Telstra, that, in the short term reduced FirstWave's access to working capital.

These two items led to the withdrawal of the FY21 guidance that had been provided to the market and were key contributors to the decision for FirstWave to raise additional capital in April 2021.

Financial review

Profit or loss performance

FirstWave's revenue for the year was \$7,975,182 (2020: \$8,252,880), which represents a reduction of 3.4% over the prior comparative period ('PCP'). This reduction was due to non-recurring revenues being \$425,936 lower than the PCP. Recurring revenue was \$7,595,067 (2020: \$7,446,829) representing an increase of 2.0% over PCP. As disclosed in note 3 of the financial statements, international revenue increased by \$860,185 to \$1,246,386 (2020: \$386,201) and represented 15.6% of total revenues from customers (2020: 4.7%). Non-recurring revenue was \$380,115, representing 4.8% (2020: 9.8%) of total revenue.

As indicated above, FY21 international revenue was significantly higher than FY20 but was below FirstWave's expectations due to the impact from COVID-19 which interrupted promising partnerships with Digital Wholesale Solutions Limited (DWS) and NTT Data UK Limited (NTT) in the UK and Europe. It also injected uncertainty in all international markets resulting in commercial decisions being delayed.

FirstWave's total comprehensive loss after income tax was \$10,807,928 (2020: loss \$13,779,300), representing a 21.6% improvement on the PCP. This result includes the full impact of the recognition of non-cash share-based payment expenses of \$3,078,902 (2020: \$3,964,044), resulting from share rights and options being granted to employees and officers. These are reported in divisional expense classifications, e.g., Sales and marketing – international, Product and development and hence align with where the recipient's employment costs have been recognised in the statement of profit or loss and other comprehensive income.

FirstWave continued its focus on disciplined cost management and 'cash-settled' expenses (those that the company pays for in cash and hence excludes share-based payments or depreciation or amortisation) which were \$2,886,812 lower than the previous year at \$12,213,739 (2020: \$15,100,551).

The Research and Development (R&D) tax incentive of \$2,061,928 relating to FY20 was recognised as income on its receipt in January 2021 (i.e., FY21). With the experience that FirstWave has developed in estimating R&D returns and the fact that an R&D rebate has been granted consistently over several years, FirstWave has recognised R&D income in FY21 on an accrual basis. Therefore, the financial result for FY21 includes both R&D income from the prior period of \$2,061,928 and FY21 accrued income estimated at \$1,275,017. Refer to note 5 of the financial statements for more details.

Statement of financial position

Cash and cash equivalents decreased by \$5,319,472 which was largely as a consequence of further investment of \$3,727,130 into FirstWave's

technology platform and a net cash outflow of \$8,046,673 to support operating activities. Net cash used in operating activities was lower than PCP by \$654,106 (7.5%). Cash receipts from customers were \$4,070,181 (down from FY20: \$8,334,102) mainly due to Telstra's withdrawal of its supplier financing platform. The prepayment this facility provided to FirstWave was, at its maximum, approximately \$4,600,000 per annum. The impact of this change is 'once-off' as explained further in the statement of financial position below.

Through a successful placement to institutional and sophisticated investors in April 2021, followed by a share purchase plan offered to all shareholders, the company raised \$6,441,238 by issuing 71,577,825 shares at \$0.09 per share. The cash flow impact of these activities was an injection of \$6,093,209 after recognising \$348,029 in capital raising fees.

14,711,627 sub-underwriter options from the May 2020 capital raise were exercised during the year, adding an additional \$735,581 to cash reserves.

FirstWave has significant intangible assets of \$9,503,305 on the statement of financial position, the majority of which relates to the development of the FirstWave platform. FirstWave continues to invest in the platform through the capitalisation of applicable projects.

In the prior year, as previously discussed, there was an upfront cash payment received through the Telstra supplier facility. This has now been discontinued and FirstWave has commenced invoicing Telstra monthly in arrears on 45-day payment terms as from March 2021. Initially the cash on hand reduced without further billing as the prepaid revenue previously received was transferred from deferred revenue to the profit and loss statement as revenue earned. From March 2021 to February 2022, the deferred revenue will reduce each month and monthly invoicing will represent a growing portion of monthly revenues. This will result in the debtor balance increasing to reflect monthly invoicing and 45-day payment terms, the impact of which can be seen in note 9 of the financial statements.

Significant changes in the state of affairs

Significant changes in the state of affairs of the consolidated entity are detailed in the 'review of operations' section above.

Matters subsequent to the end of the financial year

The consequences of the Coronavirus (COVID-19) pandemic are continuing to be felt around the world, and its impact on the consolidated entity, has been reflected in its published results to date. Whilst it would appear that control measures

and related government policies have started to mitigate the risks caused by COVID-19, it is not possible at this time to state that the pandemic will not subsequently impact the consolidated entity's operations going forward. The consolidated entity now has experience in the swift implementation of business continuation processes should future lockdowns of the population occur, and these processes continue to evolve to minimise any operational disruption. Management continues to monitor the situation both locally and internationally.

Neil Pollock, the Chief Executive Officer ('CEO') resigned on 8 July 2021 and John Grant, the Executive Chairman has assumed the role until a permanent CEO is appointed.

The remaining 15,288,373 sub-underwriter options from the May 2020 capital raise were exercised in July and August 2021, raising a further \$764,419 to cash reserves.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

The consolidated entity's priorities for FY22 are:

- Enhance the platform to remove friction for SMB end users and Service Providers in adoption of the platform at scale. The work to deliver this is expected to complete in third quarter of FY22;
- Ahead of releasing these software updates, focus sales efforts on 'point' services that can deliver the highest immediate return (e.g., WebProtect, ADR for Email, Multi-tenant Palo Alto Firewall and End Point) rather than engaging new Partners; and
- Further lower operating costs by an estimated \$2,000,000 per annum.

Environmental regulation

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

Information on current directors

Information on the directors of the company as at 30 June 2021 is set out below:

| | |
|--------------------------------------|--|
| Name: | John Grant |
| Title: | Executive Director and Chairman |
| Qualifications: | John has a degree in Engineering with Honours |
| Experience and expertise: | John has an extensive career spanning technology, engineering and construction and sports administration. He has held leadership positions including Managing Director and CEO of ASX listed technology company, Data#3 Limited, and inaugural Chair of the Australian Rugby League Commission. He is currently a Non-Executive Director of UniQuest Pty Ltd and Stadiums Queensland. He has also chaired or been a member of various industry and government advisory groups and industry associations. |
| Other current directorships: | None |
| Former directorships (last 3 years): | None |
| Special responsibilities: | Member of the Remuneration and Nomination Committee and member of the Audit, Risk and Compliance Committee |
| Interests in shares: | 3,995,400 ordinary shares |
| Interests in options: | 4,200,000 options over ordinary shares |
| Interests in rights: | 6,766,638 service rights |

| | |
|--------------------------------------|---|
| Name: | Paul MacRae |
| Title: | Non-Executive Director |
| Qualifications: | Paul is a Graduate of the Australian Institute of Company Directors and holds Business qualifications and a Bachelor of Science in Chemistry from The University of Glasgow. |
| Experience and expertise: | Paul has a successful history of setting up and running businesses in the IT industry in Australia and overseas. Paul's background includes having run divisions of TechnologyOne Limited. Paul has a strong background in IT security, application software, software development, outsourcing, cloud computing and transactional systems. His roles have included establishing MessageLabs in Australia & NZ (which was acquired by Symantec to establish their cloud business). He set up the Global reservation system Galileo in New Zealand. He was involved in selling his successful SAP Consultancy and has been instrumental in growing business at several leading software companies. |
| Other current directorships: | None |
| Former directorships (last 3 years): | None |
| Special responsibilities: | Chairman of the Audit, Risk and Compliance Committee and member of the Remuneration and Nomination Committee |
| Interests in shares: | 3,682,084 ordinary shares |
| Interests in options: | 1,200,000 options over ordinary shares |
| Interests in rights: | 2,040,740 restricted rights |

| | |
|--------------------------------------|---|
| Name: | Euh (David) Hwang |
| Title: | Non-Executive Director (appointed on 7 June 2021) |
| Qualifications: | Bachelor of Laws from UNSW |
| Experience and expertise: | David is an experienced corporate lawyer specialising in capital markets, corporate governance and compliance. He currently serves as Principal of Automic Legal (formerly Whittens & McKeough), an Australian specialist law and corporate governance firm. He also serves as Chief Compliance Officer of Automic Group. He has extensive expertise in legal, governance and compliance matters for ASX listed entities across a wide range of industry sectors, including technology, and currently serves as company secretary for a number of ASX listed companies, including LiveTiles Limited (ASX: LVT) and BikeExchange Limited (ASX: BEX). He is also a Notary Public. |
| Other current directorships: | None |
| Former directorships (last 3 years): | None |
| Special responsibilities: | Chairman of the Remuneration and Nomination Committee and member of the Audit, Risk and Compliance Committee |
| Interests in shares: | None |
| Interests in options: | None |
| Interests in rights: | None |

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

Iain Bartram studied both as an undergraduate and postgraduate at Cambridge University, United Kingdom and has a Master's degree in Computer and Management Science and a post graduate diploma in Design and Manufacturing. He went on to train as an accountant with PwC in London and holds an ACA and is a member of Institute of Chartered Accountants in England and Wales as well as being a member of the Institute of Chartered Accountants Australia. He was appointed as company secretary on 9 November 2020. Iain has over 20 years' experience as a strategic CFO with international experience in high growth, listed and unlisted technology businesses. Iain's previous experience includes CFO of Jaxsta Limited (ASX:JXT) and Group CFO of Fusion Payments.

The previous company secretary Gai Stephens resigned on 9 November 2020.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2021, and the number of meetings attended by each director were:

| | Full Board | | Remuneration and Nomination Committee | | Audit, Risk and Compliance Committee | |
|-------------------|------------|------|---------------------------------------|------|--------------------------------------|------|
| | Attended | Held | Attended | Held | Attended | Held |
| John Grant | 12 | 12 | 5 | 5 | 5 | 5 |
| Paul MacRae | 12 | 12 | 4 | 5 | 5 | 5 |
| Euh (David) Hwang | 1 | 1 | 1 | 1 | - | 1 |
| Scott Lidgett | 7 | 7 | 1 | 3 | - | 3 |
| David Acton | 11 | 11 | 4 | 4 | 2 | 4 |

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Remuneration report (audited)

The remuneration report details the key management personnel ('KMP') remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

A major contributor to the performance of the consolidated entity is the quality of its directors and executives, and the Board is responsible for determining and reviewing their remuneration arrangements.

The consolidated entity's remuneration framework aims to attract, motivate, reward and retain high performing and high quality personnel, and consists of a level of fixed remuneration that is market competitive and appropriate in recognition of the role and the candidate's experience, and a level of variable remuneration that aligns with sustained increase in shareholder value and rewards performance for results delivered.

The Board of Directors is also cognisant of remuneration being within reasonable shareholder expectations and to best practice levels of transparency.

Non-executive directors' remuneration

Fees and payments to non-executive directors ('NEDs') reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Board. The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' remuneration and payments are appropriate and in line with the market.

The maximum amount of fees that can be paid to NEDs is capped by a pool approved by shareholders. At a General Meeting, held on 15 April 2016, shareholders approved the current fee pool of \$400,000 per annum which is recorded on an accrual basis. The fee pool and the base directors' fees did not change in FY2021. Grants of options approved by shareholders do not count towards this limit.

Executive remuneration

The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives (STI);
- long term incentives (LTI) in the form of options and share rights; and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is reviewed annually by the Board based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remuneration.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

The short-term incentive program is designed to align the targets of the business units with the targets of those executives responsible for meeting those business unit targets. STI payments are granted to executives based on specific annual targets and key performance indicators (KPI's) being achieved. KPI's relate to qualitative and quantitative leadership performance and are subject to Board discretion.

The business did not achieve the consolidated entity targets that had been agreed with the KMP for FY21 and the KMP were therefore only rewarded for performance against their own personal targets. Neil Pollock was awarded \$41,141 which was paid in cash in June 2021 and represented 14% of his potential STI. Simon Ryan was awarded \$36,050 which represented 16% of his potential STI. Simon agreed to accept 522,461 restricted rights in lieu of cash and these rights were issued on 6 September 2021. Iain Bartram joined post the FY21 targets being agreed with the KMP and was tasked with a number of additional responsibilities that fell outside of the main consolidated entity targets and it was agreed in March 2021 to pay his full STI in restricted shares prorated down to the actual period of service for the year. This amounted to \$78,750 paid in restricted rights under the share rights plan at a 5-day VWAP of \$0.155 which resulted in the issuing of 508,065 restricted rights in March 2021.

The long-term incentives are in the form of options and share rights. The Board reviewed the long-term equity-linked performance incentives specifically for executives during the year ended 30 June 2021.

The chairman's remuneration is determined independently to the remuneration of the non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration.

Grant of share rights in lieu of reduced cash remuneration for executives

The consolidated entity has a share option plan and a share rights plan to incentivise certain employees and KMP. Shareholders approved the Rights Plan at an Extraordinary General Meeting held on 29 July 2020. During the year, the Board established a long-term incentive scheme ('LTI') under the company's Share Rights Plan. Pursuant to the LTI, the Board will have the discretion to invite certain key executives to apply for Share Appreciation Rights, which have been designed to deliver long term variable remuneration opportunities for key executives, which have service and vesting conditions, that assist in aligning the interests of the executives, with shareholders of the company. Refer to 'share-based compensation' section below for further details.

Consolidated entity performance and link to remuneration

STIs were linked directly to performance with any payment requiring measurable achievement against the consolidated entity and individual targets. Any STIs and LTIs granted are at the discretion of the Board. The current share option plan is subject to participants meeting service conditions at the vesting date. There were no performance conditions linked to the share options or share rights granted in prior years. In FY21, Iain Bartram's LTI's granted under the new scheme discussed above vest against service conditions and market performance against benchmarks.

Use of remuneration consultants

During the financial year ended 30 June 2020, the consolidated entity, through the Remuneration and Nomination Committee, engaged Godfrey Remuneration Group ('GRG'), remuneration consultants, to review its existing remuneration policies and provide recommendations on how to improve its remuneration structure. This resulted in the introduction of a share rights plan which was subsequently approved by shareholders at the Extraordinary General Meeting held on 29 July 2020. It was reported in the FY20 Annual Report that GRG was paid \$68,995 for these services. There were no additional fees incurred in the FY21 period relating to GRG's services.

An agreed set of protocols was put in place to ensure that the remuneration recommendations would be free from undue influence from KMP. These protocols include requiring that the consultant not communicate with affected key management personnel without a member of the Nomination and Remuneration Committee being present, and that the consultant not provide any information relating to the outcome of the engagement with the affected KMP. The Board is also required to make inquiries of the consultant's processes at the conclusion of the engagement to ensure that they are satisfied that any recommendations made have been free from undue influence. The Board is satisfied that these protocols were followed and as such there was no undue influence.

Voting and comments made at the company's 2020 Annual General Meeting ('AGM')

At the 2020 AGM, shareholders voted to approve the adoption of the remuneration report of the company for the year ended 30 June 2020. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

The KMP of the consolidated entity consisted of the directors of Firstwave Cloud Technology Limited and the following persons:

- Simon Ryan - Chief Technology Officer
- Neil Pollock - Chief Executive Officer (appointed on 31 July 2020) and Chief Operating Officer (until 31 July 2020)
- Iain Bartram - Chief Financial Officer (appointed on 17 August 2020)

Changes in KMP since the end of the reporting period:

Neil Pollock - Chief Executive Officer (resigned on 8 July 2021)

John Grant - Executive Director and Chairman was appointed as the Interim Chief Executive Officer with effect from 8 July 2021.

Details of the remuneration of KMP of the consolidated entity are set out in the following tables:

| | Short-term benefits | | Termination benefits | Post-employment benefits | Long-term benefits | Share-based payments | |
|--|----------------------|------------|----------------------|--------------------------|--------------------|--------------------------------|-----------|
| | Cash salary and fees | Cash bonus | | Superannuation | Long service leave | Equity-settled options/ rights | Total |
| 2021 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | | |
| Paul MacRae | - | - | - | 5,510 | - | 135,333 | 140,843 |
| Euh (David) Hwang* | - | - | - | - | - | - | - |
| Scott Lidgett** | - | - | - | 3,673 | - | 135,333 | 139,006 |
| David Acton** | 55,382 | - | - | 5,261 | - | - | 60,643 |
| <i>Executive Director:</i> | | | | | | | |
| John Grant (Executive Chairman) | 248,306 | - | - | 21,694 | - | 394,582 | 664,582 |
| <i>Other Key Management Personnel:</i> | | | | | | | |
| Simon Ryan | 283,556 | - | - | 21,694 | 15,169 | 339,126 | 659,545 |
| Neil Pollock | 356,061 | 41,141 | - | - | - | 218,564 | 615,766 |
| Iain Bartram*** | 262,692 | - | - | 19,851 | 292 | 306,958 | 589,793 |
| | 1,205,997 | 41,141 | - | 77,683 | 15,461 | 1,529,896 | 2,870,178 |

* Represents remuneration from the date of appointment as KMP for Euh (David) Hwang on 7 June 2021.

** Represents remuneration up to the date of resignation as KMP for Scott Lidgett on 4 February 2021 and David Acton on 7 June 2021.

*** Represents remuneration from the date of appointment as KMP for Iain Bartram on 17 August 2020.

| | Short-term benefits | | Termination benefits | Post-employment benefits | Long-term benefits | Share-based payments | |
|--|----------------------|------------|----------------------|--------------------------|--------------------|--------------------------------|-----------|
| | Cash salary and fees | Cash bonus | | Super-annuation | Long service leave | Equity-settled options/ rights | Total |
| 2020 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | | |
| John Grant | | | | | | | |
| (Chairman) | 184,499 | - | - | 21,003 | - | 571,469 | 776,971 |
| Scott Lidgett | 22,500 | - | - | 5,352 | - | 78,944 | 106,796 |
| Paul MacRae | 24,167 | - | - | - | - | 78,944 | 103,111 |
| David Acton* | - | - | - | - | - | 100,800 | 100,800 |
| Simon Moore** | 14,500 | - | - | 1,378 | - | - | 15,878 |
| Sam Saba** | 26,400 | - | - | - | - | 31,545 | 57,945 |
| <i>Other Key Management Personnel:</i> | | | | | | | |
| David Kirton*** | 217,030 | - | 38,840 | 20,260 | - | - | 276,130 |
| Simon Ryan | 288,833 | - | - | 21,003 | 9,251 | 134,216 | 453,303 |
| Neil Pollock | 386,035 | - | - | 31,548 | - | 156,300 | 573,883 |
| Jason Singh*** | 163,056 | - | 81,528 | 21,003 | - | - | 265,587 |
| | 1,327,020 | - | 120,368 | 121,547 | 9,251 | 1,152,218 | 2,730,404 |

* Represents remuneration from the date of appointment as KMP for John Grant on 1 July 2019 and David Acton on 15 June 2020.

** Represents remuneration up to the date of resignation as KMP for Simon Moore on 31 August 2019 and Sam Saba on 20 December 2019.

*** Represents remuneration up to the date of resignation as KMP for David Kirton and Jason Singh on 28 February 2020.

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

| Name | Fixed remuneration | | STI | | STI | |
|--|--------------------|------|------|------|------|------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| <i>Non-Executive Directors:</i> | | | | | | |
| Paul MacRae | 4% | 23% | - | - | 96% | 77% |
| Euh (David) Hwang | - | - | - | - | - | - |
| Scott Lidgett | 3% | 26% | - | - | 97% | 74% |
| David Acton | 100% | - | - | - | - | 100% |
| Simon Moore | - | 100% | - | - | - | - |
| Sam Saba | - | 46% | - | - | - | 54% |
| <i>Executive Director</i> | | | | | | |
| John Grant | 41% | 26% | - | - | 59% | 74% |
| <i>Other Key Management Personnel:</i> | | | | | | |
| Simon Ryan | 49% | 70% | - | - | 51% | 30% |
| Neil Pollock | 58% | 73% | 7% | - | 35% | 27% |
| Iain Bartram | 48% | - | - | - | 52% | - |
| David Kirton | - | 100% | - | - | - | - |
| Jason Singh | - | 100% | - | - | - | - |

Service agreements

The consolidated entity enters into employment agreements with each KMP. The employment agreements with the KMP are continuous (i.e., not of fixed duration) and includes a minimum of 4 weeks' notice on the part of the employee and the consolidated entity. The employment agreements contain substantially the same terms which include the usual statutory entitlements, typical confidentiality and intellectual property provisions intended to protect the consolidated entity's intellectual property rights and other proprietary information and non-compete clauses. KMP have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

During the year ended 30 June 2021, Neil Pollock exercised 1,464,074 service rights that resulted in 1,464,074 shares being issued. These shares indirectly related to Neil's compensation for the period as the service rights were awarded to Mr Pollock for salary sacrifice and had vested during the year against Mr Pollock's service.

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other KMP in this financial year or future reporting years are as follows:

| Name | Number of options granted | Grant date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value per share right at grant date |
|--------------|---------------------------|------------|-----------------------------------|-------------|----------------|--|
| John Grant | 1,400,000 | 20/11/2019 | 01/07/2020 | 30/06/2023 | \$0.304 | \$0.084 |
| John Grant | 1,400,000 | 20/11/2019 | 01/07/2021 | 30/06/2024 | \$0.425 | \$0.087 |
| John Grant | 1,400,000 | 20/11/2019 | 01/07/2022 | 30/06/2025 | \$0.547 | \$0.093 |
| Neil Pollock | 1,333,333 | 09/11/2018 | 01/07/2020 | 30/06/2025 | \$0.400 | \$0.094 |
| Neil Pollock | 1,333,334 | 09/11/2018 | 01/07/2021 | 30/06/2026 | \$0.520 | \$0.092 |

Options granted carry no dividend or voting rights. Vesting of the options are subject to service conditions (continuous employment) and there are no performance conditions.

The number of options over ordinary shares granted to and vested in directors and other KMP as part of compensation during the year ended 30 June 2021 is set out below:

| Name | Number of options granted during the year 2021 | Number of options granted during the year 2020 | Number of options vested during the year 2021 | Number of options vested during the year 2020 |
|--------------|--|--|---|---|
| John Grant | - | 4,200,000 | 1,400,000 | - |
| Neil Pollock | - | - | 1,333,334 | 1,333,333 |

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2021 are set out below:

| Name | Value of options granted during the year | Value of options exercised during the year | Value of options lapsed during the year | Remuneration consisting of options for the year |
|--------------|--|--|---|---|
| | \$ | \$ | \$ | % |
| John Grant | - | - | - | 15% |
| Neil Pollock | - | - | - | 8% |

Share rights

The terms and conditions of each grant of share rights over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

| Name | Number of rights granted | Grant date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value per right at grant date |
|--------------|--------------------------|------------|-----------------------------------|-------------|----------------|------------------------------------|
| John Grant | 1,349,994 | 01/06/2020 | 30/09/2020 | 30/06/2035 | \$0.000 | \$0.105 |
| John Grant | 666,666 | 01/06/2020 | 31/12/2020 | 30/06/2035 | \$0.000 | \$0.105 |
| John Grant | 666,666 | 01/06/2020 | 31/03/2021 | 30/06/2035 | \$0.000 | \$0.105 |
| John Grant | 666,667 | 01/06/2020 | 30/06/2021 | 30/06/2035 | \$0.000 | \$0.105 |
| Paul MacRae | 107,407 | 01/12/2019 | 01/12/2019 * | 30/06/2035 | \$0.000 | \$0.105 |
| Paul MacRae | 1,933,333 | 01/01/2020 | 01/01/2020 * | 30/06/2035 | \$0.000 | \$0.105 |
| Simon Ryan | 437,037 | 01/06/2020 | 30/09/2020 | 30/06/2035 | \$0.000 | \$0.105 |
| Simon Ryan | 327,778 | 01/06/2020 | 31/12/2020 | 30/06/2035 | \$0.000 | \$0.105 |
| Simon Ryan | 327,778 | 01/06/2020 | 31/03/2021 | 30/06/2035 | \$0.000 | \$0.105 |
| Simon Ryan | 327,778 | 01/06/2020 | 30/06/2021 | 30/06/2035 | \$0.000 | \$0.105 |
| Simon Ryan | 952,270 | 01/06/2020 | 30/06/2021 | 30/06/2035 | \$0.000 | \$0.105 |
| Simon Ryan | 952,270 | 01/06/2020 | 30/06/2022 | 30/06/2035 | \$0.000 | \$0.105 |
| Neil Pollock | 585,630 | 01/06/2020 | 30/09/2020 | 30/06/2035 | \$0.000 | \$0.105 |
| Neil Pollock | 439,222 | 01/06/2020 | 31/12/2020 | 30/06/2035 | \$0.000 | \$0.105 |
| Neil Pollock | 439,222 | 01/06/2020 | 31/03/2021 | 30/06/2035 | \$0.000 | \$0.105 |
| Neil Pollock | 439,222 | 01/06/2020 | 30/06/2021 | 30/06/2035 | \$0.000 | \$0.105 |
| Iain Bartram | 2,575,739 | 01/12/2020 | 30/06/2023 | 01/12/2027 | \$0.119 | \$0.096 |
| Iain Bartram | 508,065 | 11/03/2021 | 30/06/2021 | 30/06/2024 | \$0.000 | \$0.120 |

* Restricted rights to NEDs vest on grant date and are not forfeited on resignation. The exercise of the rights is restricted to the earlier of 30 June 2023 or date of resignation.

Share rights granted carry no dividend or voting rights.

Iain Bartram was awarded 2,575,739 Performance Share Appreciation Rights ('PSARs') with an exercise price of \$0.119 per right under the company's share rights plan. These rights were issued in December 2020 and have a 7-year term and vesting criteria relating to service and performance against market benchmark over three financial years, FY21, FY22 and FY23. Mr Bartram was also awarded 508,065 restricted rights in lieu of a cash STI as detailed in the earlier section on executive remuneration.

The number of share rights over ordinary shares granted to and vested in directors and other key management personnel as part of compensation during the year ended 30 June 2021 are set out below:

| Name | Number of rights granted during the year 2021 | Number of rights granted during the year 2020 | Number of rights vested during the year 2021 | Number of rights vested during the year 2020 |
|---------------|---|---|--|--|
| John Grant | - | 6,766,638 | 3,349,996 | 3,416,642 |
| Scott Lidgett | - | 2,040,740 | - | 2,040,740 |
| Paul MacRae | - | 2,040,740 | - | 2,040,740 |
| David Acton | - | 960,000 | - | 960,000 |
| Simon Ryan | - | 4,278,681 | 2,373,141 | 952,770 |
| Neil Pollock | - | 1,903,296 | 1,903,296 | - |
| Iain Bartram | 3,083,804 | - | 508,065 | - |

* Share rights granted in FY20 relates to remuneration for the years ended 30 June 2020 and 30 June 2021 and were issued during the Financial Year 2021.

Values of share rights over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2021 are set out below:

| Name | Value of rights granted during the year | Value of rights vested during the year | Value of rights lapsed during the year | Remuneration consisting of rights for the year |
|---------------|---|--|--|--|
| | \$ | \$ | \$ | % |
| John Grant | - | 351,750 | - | 44% |
| Scott Lidgett | - | - | - | 97% |
| Paul MacRae | - | - | - | 96% |
| Simon Ryan | - | 249,180 | - | 51% |
| Neil Pollock | - | 199,846 | - | 28% |
| Iain Bartram | 306,958 | 78,750 | - | 52% |

Additional information

During the year, the consolidated entity issued 2,575,739 Performance Share Appreciation Rights ('PSAR'). The rights are subject to service condition and performance conditions. The rights will vest on a pro-rata basis based on the company's relative Total Shareholder Return ('company TSR') compared to the ASX Small Ordinaries Index ('Benchmark TSR'). The performance testing period is over 3 years starting from 1 July 2020 to 30 June 2023.

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

| | 30 June 2021 | 1 July 2020 |
|--|--------------|-------------|
| Basic earnings per share (cents per share) | (1.61) | - |
| Total dividends declared (cents per share) | - | - |
| Share price at financial year end (\$) | 0.07 | 0.14 |
| Benchmark accumulation index | 3,383.60 | 2,599.20 |

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| | Balance at the start of the year | Received as part of remuneration** | Purchased during the year | Disposals/ other* | Balance at the end of the year |
|------------------------|----------------------------------|------------------------------------|---------------------------|-------------------|--------------------------------|
| <i>Ordinary shares</i> | | | | | |
| John Grant | 3,995,400 | - | - | - | 3,995,400 |
| Paul MacRae | 3,682,084 | - | - | - | 3,682,084 |
| Scott Lidgett* | 21,296,712 | - | - | (21,296,712) | - |
| Simon Ryan | 5,615,000 | - | - | (1,590,200) | 4,024,800 |
| Neil Pollock** | 340,162 | 1,464,074 | - | - | 1,804,236 |
| | 34,929,358 | 1,464,074 | - | (22,886,912) | 13,506,520 |

* Disposal/others represents 600,000 shares sold and 20,696,712 shares held at resignation date.

** Neil Pollock's remuneration represents issue of shares on vesting/exercised of 1,464,074 of service rights during the year.

Option holding

The number of options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| | Balance at the start of the year | Granted | Lapsed | Other* | Balance at the end of the year |
|-------------------------------------|-------------------------------------|---------|-----------|-------------|-----------------------------------|
| <i>Options over ordinary shares</i> | | | | | |
| John Grant | 4,200,000 | - | - | - | 4,200,000 |
| Paul MacRae | 1,200,000 | - | - | - | 1,200,000 |
| Scott Lidgett* | 1,200,000 | - | - | (1,200,000) | - |
| Simon Ryan | 1,350,000 | - | (600,000) | - | 750,000 |
| Neil Pollock | 4,000,000 | - | - | - | 4,000,000 |
| | 11,950,000 | - | (600,000) | (1,200,000) | 10,150,000 |

* Others represents options held on resignation date.

| | Vested and exercisable | Vested and unexercisable | Balance at the end of the year |
|--|---------------------------|-----------------------------|-----------------------------------|
| <i>Options over ordinary shares (vested at 30 June 2021)</i> | | | |
| John Grant | 1,400,000 | - | 1,400,000 |
| Paul MacRae | 1,200,000 | - | 1,200,000 |
| Simon Ryan | 750,000 | - | 750,000 |
| Neil Pollock | 2,666,666 | - | 2,666,666 |
| Total vested options over ordinary shares | 6,016,666 | - | 6,016,666 |

Share rights holding

The number of share rights over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| | Balance at the start of the year | Granted | Expired/ forfeited/ other* | Balance at the end of the year |
|--|----------------------------------|-----------|----------------------------|--------------------------------|
| <i>Share rights over ordinary shares</i> | | | | |
| John Grant | 6,766,638 | - | - | 6,766,638 |
| Paul MacRae | 2,040,740 | - | - | 2,040,740 |
| Simon Ryan | 4,278,681 | - | - | 4,278,681 |
| Neil Pollock | 1,903,296 | - | (1,464,074) | 439,222 |
| Iain Bartram | - | 3,083,804 | - | 3,083,804 |
| | 14,989,355 | 3,083,804 | (1,464,074) | 16,609,085 |

* Neil Pollock exercised 1,464,074 of his service rights during the period.

| | Vested and exercisable | Vested and unexercisable | Balance at the end of the year |
|---|------------------------|--------------------------|--------------------------------|
| <i>Share rights holding over ordinary shares (vested at 30 June 2021)</i> | | | |
| John Grant | 6,766,638 | - | 6,766,638 |
| Paul MacRae | - | 2,040,740 | 2,040,740 |
| Scott Lidgett* | - | - | - |
| David Acton** | - | - | - |
| Simon Ryan | 3,325,911 | - | 3,325,911 |
| Neil Pollock | 439,222 | - | 439,222 |
| Iain Bartram | 508,065 | - | 508,065 |
| Total vested share rights holding over ordinary shares | 11,039,836 | 2,040,740 | 13,080,576 |

* Scott Lidgett held 2,040,740 share rights that were vested and became exercisable on resignation.

** David Acton held 960,000 share rights that were vested and became exercisable on resignation.

Loans to key management personnel and their related parties

Loan to Simon Ryan as at 30 June 2021 amounted to \$Nil (2020: \$221,520). Interest is charged on the outstanding balance at 4.5% per annum. During the year ended 30 June 2021, interest of \$1,662 was received from Simon Ryan (2020: \$9,972) in respect of this loan.

This concludes the remuneration report, which has been audited.

Shares under option

There were 31,925,999 unissued ordinary shares of Firstwave Cloud Technology Limited under option outstanding at the date of this report. The options are exercisable at a weighted average exercise price of \$0.38 per option.

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

Shares under share rights

There were 22,493,927 unissued ordinary shares of Firstwave Cloud Technology Limited under share rights outstanding at the date of this report. This includes 2,575,739 PSARs that have an exercise price of \$0.119. The remaining 19,918,188 share rights have no exercise price.

Shares issued on the exercise of options

30,000,000 ordinary shares of Firstwave Cloud Technology Limited were issued on the exercise of options during the year ended 30 June 2021 and up to the date of this report. The options were exercised at an exercise price of \$0.05 per share.

Shares issued on the exercise of share rights

14,283,189 ordinary shares of Firstwave Cloud Technology Limited were issued on the exercise of share rights during the year ended 30 June 2021 and up to the date of this report. Share rights were exercised at an exercise price of \$Nil.

Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 26 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 26 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants (including Independence Standards) issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former partners of Grant Thornton

There are no officers of the company who are former partners of Grant Thornton.

Auditor's independence declaration

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

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



John Grant
Executive Director and Chairman



Paul MacRae
Director

28 September 2021
Sydney

FINANCIAL REPORT

General information

The financial statements cover Firstwave Cloud Technology Limited (referred to as the 'company' or 'parent') as a consolidated entity consisting of Firstwave Cloud Technology Limited and the entities it controlled at the end of, or during, the year (referred to as the 'consolidated entity'). The financial statements are presented in Australian dollars, which is Firstwave Cloud Technology Limited's functional and presentation currency.

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

Level 10, 132 Arthur Street
North Sydney, NSW 2060
Australia

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 September 2021. The directors have the power to amend and reissue the financial statements.

Auditor's independence declaration



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Auditor's Independence Declaration

To the Directors of Firstwave Cloud Technology Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Firstwave Cloud Technology Limited for the year ended 30 June 2021, 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

Grant Thornton Audit Pty Ltd
Chartered Accountants

R J Isbell

R J Isbell
Partner – Audit & Assurance

Sydney, 28 September 2021

Grant Thornton Audit Pty Ltd ACN 130 913 594
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Statement of profit or loss and other comprehensive income

For the year ended 30 June 2021

| | | Consolidated | |
|---|------|--------------|--------------|
| | Note | 2021 \$ | 2020 \$ |
| Revenue | | | |
| Revenue from contracts with customers | 4 | 7,975,182 | 8,252,880 |
| Cost of sales | 6 | (3,672,032) | (3,770,999) |
| Gross profit | | 4,303,150 | 4,481,881 |
| Other income | 5 | 2,427,485 | 1,172,565 |
| Interest income calculated using the effective interest method | | 91,660 | 48,761 |
| Expenses | | | |
| Sales and marketing - domestic | | (1,769,430) | (1,598,518) |
| Sales and marketing - international | | (3,399,836) | (3,594,396) |
| Product and development | | (3,246,854) | (3,741,179) |
| Operations and support | | (2,884,306) | (3,228,096) |
| Corporate and administration | | (6,280,826) | (7,193,129) |
| Finance costs | 6 | (53,151) | (125,370) |
| Total expenses | | (17,634,403) | (19,480,688) |
| Loss before income tax expense | | (10,812,108) | (13,777,481) |
| Income tax expense | 7 | - | - |
| Loss after income tax expense for the year attributable to the owners of Firstwave Cloud Technology Limited | | (10,812,108) | (13,777,481) |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss | | | |
| Foreign currency translation | | 4,180 | (1,819) |
| Other comprehensive income for the year, net of tax | | 4,180 | (1,819) |
| Total comprehensive income for the year attributable to the owners of Firstwave Cloud Technology Limited | | (10,807,928) | (13,779,300) |
| | | Cents | Cents |
| Basic earnings per share | 34 | (1.61) | (4.24) |
| Diluted earnings per share | 34 | (1.61) | (4.24) |

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

Statement of financial position

As at 30 June 2021

| Assets | Note | Consolidated | |
|--------------------------------------|------|-------------------|-------------------|
| | | 2021 \$ | 2020 \$ |
| Current assets | | | |
| Cash and cash equivalents | 8 | 9,961,866 | 15,281,338 |
| Term deposits | | 133,776 | 133,776 |
| Trade and other receivables | 9 | 2,843,953 | 776,062 |
| Contract assets | | 552,697 | 452,652 |
| Other assets | 10 | 1,139,701 | 1,132,099 |
| Total current assets | | 14,631,993 | 17,775,927 |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 126,206 | 228,928 |
| Right-of-use assets | 12 | 622,149 | 382,165 |
| Intangibles | 13 | 9,503,305 | 6,667,519 |
| Other assets | 10 | - | 192,016 |
| Total non-current assets | | 10,251,660 | 7,470,628 |
| Total assets | | 24,883,653 | 25,246,555 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 14 | 4,258,988 | 3,068,781 |
| Contract liabilities | 15 | 901,819 | 3,046,578 |
| Employee benefits | 16 | 1,266,539 | 976,409 |
| Lease liabilities | 18 | 176,758 | 464,271 |
| Other | 19 | 832,128 | 429,264 |
| Total current liabilities | | 7,436,232 | 7,985,303 |
| Non-current liabilities | | | |
| Contract liabilities | 15 | 121,231 | 592,812 |
| Employee benefits | 16 | 155,445 | 116,172 |
| Provisions | 17 | 105,000 | 152,649 |
| Lease liabilities | 18 | 456,230 | - |
| Other | 19 | 1,739,171 | 1,044,667 |
| Total non-current liabilities | | 2,577,077 | 1,906,300 |
| Total liabilities | | 10,013,309 | 9,891,603 |
| Net assets | | 14,870,344 | 15,354,952 |
| Equity | | | |
| Issued capital | 21 | 63,760,506 | 54,667,525 |
| Reserves | 22 | 7,611,200 | 6,386,579 |
| Accumulated losses | | (56,501,362) | (45,699,152) |
| Total equity | | 14,870,344 | 15,354,952 |

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

Statement of changes in equity

For the year ended 30 June 2021

| Consolidated | Issued capital \$ | Reserves \$ | Accumulated losses \$ | Total equity \$ |
|--|----------------------|----------------|--------------------------|--------------------|
| Balance at 1 July 2019 | 36,506,677 | 2,736,492 | (32,233,809) | 7,009,360 |
| Loss after income tax expense for the year | - | - | (13,777,481) | (13,777,481) |
| Other comprehensive income for the year, net of tax | - | (1,819) | - | (1,819) |
| Total comprehensive income for the year | - | (1,819) | (13,777,481) | (13,779,300) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Contributions of equity, net of transaction costs (note 21) | 18,160,848 | - | - | 18,160,848 |
| Share-based payments (note 35) | - | 2,134,044 | - | 2,134,044 |
| Transfer to retained earnings | - | (312,138) | 312,138 | - |
| Fair value of options issued to sub-underwriters | - | 1,830,000 | - | 1,830,000 |
| Balance at 30 June 2020 | 54,667,525 | 6,386,579 | (45,699,152) | 15,354,952 |
| Consolidated | Issued capital \$ | Reserves \$ | Accumulated losses \$ | Total equity \$ |
| Balance at 1 July 2020 | 54,667,525 | 6,386,579 | (45,699,152) | 15,354,952 |
| Loss after income tax expense for the year | - | - | (10,812,108) | (10,812,108) |
| Other comprehensive income for the year, net of tax | - | 4,180 | - | 4,180 |
| Total comprehensive income for the year | - | 4,180 | (10,812,108) | (10,807,928) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Contributions of equity, net of transaction costs (note 21) | 6,505,518 | - | - | 6,505,518 |
| Share-based payments (note 35) | - | 3,078,902 | - | 3,078,902 |
| Share issue on exercise of options | 2,587,463 | (1,848,563) | - | 738,900 |
| Transfer to retained earnings | - | (9,898) | 9,898 | - |
| Balance at 30 June 2021 | 63,760,506 | 7,611,200 | (56,501,362) | 14,870,344 |

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

Statement of cash flows

For the year ended 30 June 2021

| | | Consolidated | |
|--|------|--------------|--------------|
| | Note | 2021 \$ | 2020 \$ |
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 4,070,181 | 8,334,102 |
| Payments to suppliers and employees (inclusive of GST) | | (14,432,542) | (18,130,837) |
| Interest received | | 66,182 | 48,761 |
| Other income | | 2,287,248 | 1,172,565 |
| Interest and other finance costs paid | | (37,742) | (125,370) |
| Net cash used in operating activities | 33 | (8,046,673) | (8,700,779) |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (100,058) | (42,047) |
| Payments for intangibles | | (3,727,130) | (3,708,299) |
| Net cash used in investing activities | | (3,827,188) | (3,750,346) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | 6,441,238 | 21,615,359 |
| Proceeds from exercise of options | | 738,900 | - |
| Share issue transaction costs | | (348,029) | (1,624,511) |
| Repayment of receivables from key management personnel | | 221,500 | - |
| Repayment of lease liabilities | 33 | (499,220) | (319,553) |
| Net cash from financing activities | | 6,554,389 | 19,671,295 |
| Net increase/(decrease) in cash and cash equivalents | | (5,319,472) | 7,220,170 |
| Cash and cash equivalents at the beginning of the financial year | | 15,281,338 | 8,061,168 |
| Cash and cash equivalents at the end of the financial year | 8 | 9,961,866 | 15,281,338 |

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

Notes to the financial statements

30 June 2021

Note 1. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

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

The following Accounting Standards and Interpretations adopted during the year are most relevant to the consolidated entity:

Conceptual Framework for Financial Reporting (Conceptual Framework)

The consolidated entity has adopted the revised Conceptual Framework from 1 July 2020. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards, but it has not had a material impact on the consolidated entity's financial statements.

Research and Development (R&D) tax incentive

The R&D tax incentive of \$2,061,928 relating to the financial year 2020 ('FY20') was recognised as income on its receipt in January 2021 (i.e., in FY21). With the experience that the consolidated entity has developed in estimating R&D returns and the fact that an R&D rebate has been granted consistently over several years, the consolidated entity has recognised R&D income in FY21 on an accrual basis. Therefore, the financial result for FY21 includes both R&D income from the prior period of \$2,061,928 and FY21 accrued income estimated at \$1,275,017. Refer to note 5 for further information.

Going concern

During the year ended 30 June 2021, the consolidated entity incurred a net loss after tax of \$10,812,108 (2020: loss of \$13,777,481 and net cash outflows used in operating activities of \$8,046,673 (2020: operating cash outflow of \$8,700,779). The directors have prepared the financial statements on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The directors determined that the use of the going concern basis of accounting is appropriate in preparing the financial statements. The assessment of going concern is based on cash flow projections. The preparation of these projections incorporates a number of assumptions and judgements, including that the R&D tax incentive will continue to be claimed and approved at similar levels to prior years and that there will be continued growth in international revenue. Furthermore, the consolidated entity has the ability to significantly reduce its operating costs if the above assumptions vary and the directors believe that material reductions could be made without impact to the servicing of the business's long-standing domestic revenue streams. It is also noted that the 15,288,373 sub-underwriter options that remained unexercised at 30 June 2021 have all been exercised after the reporting date raising an additional \$764,419 in working capital.

The directors have concluded that the range of possible outcomes considered in arriving at this judgement does not give rise to a material uncertainty casting significant doubt on the consolidated entity's ability to continue as a going concern.

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 ('IFRS') as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 32.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Firstwave Cloud Technology Limited ('company' or 'parent entity') as at 30 June 2021 and the results of all subsidiaries for the year then ended. Firstwave Cloud Technology Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

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

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

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

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Firstwave Cloud Technology Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into the entity's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

The consolidated entity recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

Disaggregation of revenue

Recurring revenue relates to the provisioning of licensing, support, and professional services revenue provided over the contracted service period and where revenue is recognised over a period of time. Non-recurring revenue relates to professional services revenue that is ad hoc in nature and where revenue is recognised at a point in time.

Licensing and support revenue (recurring revenue)

Recognition of licensing and support revenue commences upon provisioning of the contracted service. Provisioning entails the setting up of the customer on the entity's infrastructure and the rendering of prescribed professional services to the customer to enable the provision of the contracted service. As licensing is subscription based, license revenue and the related support service revenue is recognised over the term of the contract, commencing on the date of service activation.

Professional services revenue (non-recurring revenue)

Professional services are recognised on a milestone basis as per agreed terms and conditions in customer contracts and at least to the extent of recoverable costs incurred to date.

Interest

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Government grants

Government grants are recognised at fair value where there is a reasonable certainty that the grant will be received upon meeting all grant terms and conditions. Grants that are meant to fund expenditure on research and development are recognised over the periods when these costs are written off to profit or loss. Grants related to assets are carried forward as deferred income at fair value and are credited to other income over the expected useful life of the asset on a straight line basis. Research and development grant revenue is recognised as income when a reliable estimate can be made of the amounts receivable.

Prepayments

Prepayments are largely made up of back to back cost of licenses procured from upstream security vendors/channel partners. These prepayments are charged to profit and loss over a term that is between 12 and 48 months, co-terming with related license revenue recognised per revenue recognition policy stated above.

Income tax

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

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

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

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

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Firstwave Cloud Technology Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

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

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group.

The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Current and non-current classification

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

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

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

Cash and cash equivalents

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

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Contract assets

Contract assets are recognised when the consolidated entity has transferred goods or services to the customer but where the consolidated entity is yet to establish an unconditional right to consideration. Contract assets are treated as financial assets for impairment purposes.

Other financial assets

Other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at amortised cost

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

Property, plant and equipment

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

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 as follows:

| | |
|------------------------|-----------|
| Leasehold improvements | 3 years |
| Computer equipment | 3-5 years |
| Computer platform | 2-3 years |

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

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

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

Right-of-use assets

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

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

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

Intangible assets

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

Capitalised development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure relating to an internally-generated intangible asset arising from development is capitalised when: it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources and intent to complete the internal development; and its costs can be measured reliably.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses on the same basis as intangible assets that are acquired separately.

Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite useful lives of 5 years.

Patents

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

Information systems

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

Impairment of non-financial assets

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

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

Trade and other payables

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

Contract liabilities

Contract liabilities represent the consolidated entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the consolidated entity has transferred the goods or services to the customer.

Lease liabilities

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

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

Finance costs

Finance costs are expensed in the period in which they are incurred.

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high-quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is determined using either the Binomial, Black-Scholes or Monte Carlo option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

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

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

Issued capital

Ordinary shares are classified as equity.

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

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Firstwave Cloud Technology Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming conversion of all dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Comparatives

Comparatives in the financial statements have been realigned to the current year presentation. There was no impact on the results of operations for the year.

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 consolidated entity for the annual reporting period ended 30 June 2021. The adoption of these Accounting Standards and Interpretations is not expected to have any significant impact on the consolidated entity's financial statements.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on various 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 (refer to the respective notes) within the next financial year are discussed below.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. The potential impact has been detailed in specific notes elsewhere in the report.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. Refer to note 35 for information regarding key assumptions.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience, historical collection rates, the impact of the Coronavirus (COVID-19) pandemic and forward-looking information that is available. The allowance for expected credit losses, as disclosed in note 9, is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower.

Capitalised development costs

Distinguishing the research and development phases of a new customised product and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired.

Estimation of useful lives of assets

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

Impairment of non-financial assets

The consolidated entity assesses impairment of non-financial assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal which incorporate a number of key estimates and assumptions including the market capitalisation of the company.

Income tax

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

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Note 3. Operating segments

Identification of reportable operating segments

The consolidated entity's operating segments are based on the internal reports that are reviewed and used by the Chief Executive Officer and the Board of Directors (being the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The CODM reviews segment revenue and consolidated adjusted EBITDA (earnings before interest, tax, depreciation and amortisation, excluding non-cash share-based payments expenses). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements. The information reported to the CODM is on a monthly basis.

The CODM does not review segment assets and liabilities.

Types of products and services

The consolidated entity is organised into two operating segments as follows:

| | |
|---------------|--|
| Australia | A geographical segment to identify development and sale of internet security software in the domestic market. |
| International | A geographical segment to identify development and sale of internet security software in the international market. |

Major customers

During the year ended 30 June 2021, there was one major external customer (2020: one customer) where revenue exceeded 10% of the consolidated revenue. Total revenue from the customer for the year ended 30 June 2021 amounted to \$6,487,157 (2020: \$7,725,225).

Operating segment information

| | Australia \$ | International \$ | Total \$ |
|---------------------------------------|------------------|---------------------|---------------------|
| Consolidated - 2021 | | | |
| Revenue | | | |
| Sales to external customers | 6,728,796 | 1,246,386 | 7,975,182 |
| Interest income | 91,660 | - | 91,660 |
| Total revenue | 6,820,456 | 1,246,386 | 8,066,842 |
| Adjusted EBITDA | | | (5,102,956) |
| Depreciation and amortisation | | | (2,668,759) |
| Interest income | | | 91,660 |
| Finance costs | | | (53,151) |
| Share-based payments expenses | | | (3,078,902) |
| Loss before income tax expense | | | (10,812,108) |
| Income tax expense | | | - |
| Loss after income tax expense | | | (10,812,108) |
| | Australia \$ | International \$ | Total \$ |
| Consolidated - 2020 | | | |
| Revenue | | | |
| Sales to external customers | 7,866,679 | 386,201 | 8,252,880 |
| Interest income | 48,761 | - | 48,761 |
| Total revenue | 7,915,440 | 386,201 | 8,301,641 |
| Adjusted EBITDA | | | (9,320,735) |
| Depreciation and amortisation | | | (2,246,093) |
| Interest income | | | 48,761 |
| Finance costs | | | (125,370) |
| Share-based payments expenses | | | (2,134,044) |
| Loss before income tax expense | | | (13,777,481) |
| Income tax expense | | | - |
| Loss after income tax expense | | | (13,777,481) |

Note 4. Revenue from contracts with customers

Disaggregation of revenue

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

| | Consolidated | |
|--|--------------|------------|
| | 2021 \$ | 2020 \$ |
| Recurring revenue (over a period of time) | 7,595,067 | 7,446,829 |
| Non-recurring revenue (at a point in time) | 380,115 | 806,051 |
| Total revenue | 7,975,182 | 8,252,880 |

Revenue from external customers by geographic regions is set out in note 3.

Note 5. Other income

| | Consolidated | |
|--|--------------|------------|
| | 2021 \$ | 2020 \$ |
| Research and development grant income* | 2,239,577 | 789,920 |
| Other income** | 187,908 | 382,645 |
| Other income | 2,427,485 | 1,172,565 |

* The Research and Development (R&D) tax incentive of \$2,061,928 relating to FY20 was recognised as income on its receipt in January 2021 (i.e., FY21). With the experience that the consolidated entity has developed in estimating R&D returns and the fact that an R&D rebate has been granted consistently over several years, the consolidated entity will recognise R&D income in FY21 on an accrual basis. Therefore, the financial results for FY21 include both R&D income from the prior period of \$2,061,928 and FY21 accrued income estimated at \$1,275,017. Total R&D income recognised in FY21 was \$2,239,577, which is less than the total of \$3,336,945 referenced above due to the work undertaken to earn this R&D grant being capitalised, and the majority of the funds, therefore, being recognised in the statement of financial position. There are no unfulfilled conditions or other contingencies attached to the grant.

** Includes Australian Government grant of \$Nil (2020: \$142,446) towards cash flow boost and other COVID-19 incentives, \$8,696 (2020: \$9,641) Singapore Government job support grant and \$100,000 (2020: \$110,000) Export Market Development Grant (EMDG).

Note 6. Expenses

| | Consolidated | |
|--|--------------|------------|
| | 2021 \$ | 2020 \$ |
| Loss before income tax includes the following specific expenses: | | |
| Cost of sales | | |
| Cost of licenses | 3,672,032 | 3,770,999 |
| <i>Depreciation</i> | | |
| Leasehold improvements | 122,758 | 129,503 |
| Computer equipment | 47,013 | 49,817 |
| Computer platform | 2,757 | 2,778 |
| Right-of-use assets | 369,075 | 454,236 |
| Total depreciation | 541,603 | 636,334 |
| <i>Amortisation</i> | | |
| Capitalised development costs | 2,113,634 | 1,577,645 |
| Patents | 13,522 | 32,114 |
| Total amortisation | 2,127,156 | 1,609,759 |
| Total depreciation and amortisation | 2,668,759 | 2,246,093 |
| <i>Finance costs</i> | | |
| Interest and finance charges paid/payable on lease liabilities | 53,151 | 125,370 |
| <i>Net foreign exchange variance</i> | | |
| Net foreign exchange variance | (12,122) | 120,259 |
| <i>Employee benefit expenses</i> | | |
| Employee salaries and other benefits* | 11,621,907 | 12,192,213 |
| Defined contribution superannuation expense | 700,747 | 961,967 |
| Share-based payments expenses | 3,078,902 | 2,134,044 |
| Total employee benefit expenses | 15,401,556 | 15,288,224 |

* Includes a salary sacrifice amount of \$1,160,422 (2020: \$512,467). Share rights have been granted for cash forgone.

Note 7. Income tax expense

| | Consolidated | |
|---|--------------|--------------|
| | 2021 \$ | 2020 \$ |
| <i>Numerical reconciliation of income tax expense and tax at the statutory rate</i> | | |
| Loss before income tax expense | (10,812,108) | (13,777,481) |
| Tax at the statutory tax rate of 26% (2020: 27.5%) | (2,811,148) | (3,788,807) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Amortisation of intangibles | 534,873 | 415,901 |
| Entertainment expenses | 1,429 | 3,059 |
| Non-deductible research and development incentive expenditure | 762,079 | 1,629,390 |
| Development costs | (1,083,272) | (988,050) |
| Deferred income | (626,490) | (217,228) |
| | (3,222,529) | (2,945,735) |
| <i>Tax losses not recognised (including reversal of previously recognised tax losses)</i> | 2,685,819 | 2,590,202 |
| Current year temporary differences not recognised | 536,710 | 355,533 |
| Income tax expense | - | - |
| | Consolidated | |
| | 2021 \$ | 2020 \$ |
| <i>Tax losses not recognised</i> | | |
| Unused tax losses for which no deferred tax asset has been recognised | 38,618,225 | 29,455,702 |
| Potential tax benefit at statutory tax rates | 10,040,739 | 8,100,318 |

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

Note 8. Cash and cash equivalents

| | Consolidated | |
|--------------|--------------|------------|
| | 2021 \$ | 2020 \$ |
| Cash at bank | 9,961,866 | 15,281,338 |

Note 9. Trade and other receivables

| | Consolidated | |
|---|--------------|------------|
| | 2021 \$ | 2020 \$ |
| Trade receivables | 1,553,923 | 450,055 |
| Less: Allowance for expected credit losses | (210,224) | (95,934) |
| | 1,343,699 | 354,121 |
| Research and development tax incentive receivable | 1,275,017 | - |
| Other receivables | 86,122 | 59,290 |
| Receivable from key management personnel | - | 221,520 |
| GST receivable | 139,115 | 141,131 |
| | 2,843,953 | 776,062 |

Allowance for expected credit losses

The consolidated entity has recognised a loss of \$156,741 (2020: \$46,126) in profit or loss in respect of impairment of receivables for the year ended 30 June 2021.

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

| | Expected credit loss rate | | Carrying amount | | Allowance for expected credit losses | |
|------------------------|---------------------------|-----------|-----------------|------------|--------------------------------------|------------|
| | 2021 % | 2020 % | 2021 \$ | 2020 \$ | 2021 \$ | 2020 \$ |
| Consolidated | | | | | | |
| Not overdue | - | - | 764,652 | 255,987 | - | - |
| 0 to 3 months overdue | 3.63% | 3.00% | 327,670 | 69,387 | 11,894 | 2,082 |
| 3 to 6 months overdue | 14.28% | 15.00% | 148,980 | 26,914 | 21,274 | 4,037 |
| 6 to 12 months overdue | 18.59% | 30.00% | 160,036 | 11,360 | 29,751 | 3,408 |
| Over 12 months overdue | 89.12% | 100.00% | 48,534 | 55,112 | 43,254 | 55,112 |
| Special provision | 100.00% | 100.00% | 104,051 | 31,295 | 104,051 | 31,295 |
| | | | 1,553,923 | 450,055 | 210,224 | 95,934 |

The consolidated entity has increased its monitoring of debt recovery as there is an increased probability of customers delaying payment or being unable to pay, due to the Coronavirus (COVID-19) pandemic. As a result, the calculation of expected credit losses has been revised as at 30 June 2021.

Movements in the allowance for expected credit losses are as follows:

| | Consolidated | |
|--|--------------|------------|
| | 2021 \$ | 2020 \$ |
| Opening balance | 95,934 | 49,808 |
| Additional provisions recognised | 156,741 | 46,126 |
| Receivables written off during the year as uncollectable | (42,451) | - |
| Closing balance | 210,224 | 95,934 |

Note 10. Other assets

| | Consolidated | |
|---------------------------|--------------|------------|
| | 2021 \$ | 2020 \$ |
| <i>Current assets</i> | | |
| Prepayments | 1,106,520 | 1,132,099 |
| Security deposits | 33,181 | - |
| | 1,139,701 | 1,132,099 |
| <i>Non-current assets</i> | | |
| Prepayments | - | 192,016 |
| | 1,139,701 | 1,324,115 |

Note 11. Property, plant and equipment

| | Consolidated | |
|----------------------------------|--------------|------------|
| | 2021 \$ | 2020 \$ |
| Leasehold improvements - at cost | 680,827 | 647,510 |
| Less: Accumulated depreciation | (612,020) | (489,262) |
| | 68,807 | 158,248 |
| Computer equipment - at cost | 505,529 | 470,579 |
| Less: Accumulated depreciation | (451,247) | (404,234) |
| | 54,282 | 66,345 |
| Computer platform - at cost | 245,475 | 243,936 |
| Less: Accumulated depreciation | (242,358) | (239,601) |
| | 3,117 | 4,335 |
| | 126,206 | 228,928 |

Reconciliations

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

| Consolidated | Leasehold improvements \$ | Computer equipment \$ | Computer platform \$ | Total \$ |
|---------------------------------|---------------------------------|-----------------------------|----------------------------|-------------|
| Balance at 1 July 2019 | 346,266 | 75,433 | 5,795 | 427,494 |
| Additions | - | 40,729 | 1,318 | 42,047 |
| Transfer to right-of-use assets | (58,515) | - | - | (58,515) |
| Depreciation expense | (129,503) | (49,817) | (2,778) | (182,098) |
| Balance at 30 June 2020 | 158,248 | 66,345 | 4,335 | 228,928 |
| Additions | 33,317 | 34,950 | 1,539 | 69,806 |
| Depreciation expense | (122,758) | (47,013) | (2,757) | (172,528) |
| Balance at 30 June 2021 | 68,807 | 54,282 | 3,117 | 126,206 |

Note 12. Right-of-use assets

| | Consolidated | |
|--------------------------------|----------------|----------------|
| | 2021 \$ | 2020 \$ |
| <i>Non-current assets</i> | | |
| Right-of-use assets | 1,268,277 | 836,401 |
| Less: Accumulated depreciation | (646,128) | (454,236) |
| | <u>622,149</u> | <u>382,165</u> |

The consolidated entity has leased office premises under operating leases expiring in two to four years, with in certain instances options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Reconciliations

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

| Consolidated | Office premises \$ |
|---|--------------------------|
| Balance at 1 July 2019 | - |
| Adoption of AASB 16 on 1 July 2019 | 779,346 |
| Transfer from property, plant and equipment | 58,515 |
| Exchange differences | (1,460) |
| Depreciation expense | (454,236) |
| Balance at 30 June 2020 | 382,165 |
| Additions | 663,016 |
| Exchange differences | (6,308) |
| Other changes - adjustments to lease make-good provisions | (47,649) |
| Depreciation expense | (369,075) |
| Balance at 30 June 2021 | <u>622,149</u> |

For other AASB 16 lease-related disclosures refer to the following:

- note 6 for details of interest on lease liabilities and other lease expenses;
- note 18 and note 33 for details of lease liabilities at the beginning and end of the reporting period;
- note 24 for the maturity analysis of lease liabilities; and
- statement of cash flows for repayment of lease liabilities.

Note 13. Intangibles

| | Consolidated | |
|---|--------------|-------------|
| | 2021 \$ | 2020 \$ |
| Capitalised development costs - at cost | 21,170,160 | 16,231,139 |
| Less: Accumulated amortisation | (11,824,093) | (9,710,459) |
| | 9,346,067 | 6,520,680 |
| Patents - at cost | 202,479 | 178,558 |
| Less: Accumulated amortisation | (135,241) | (121,719) |
| | 67,238 | 56,839 |
| Information systems - at cost | 90,000 | 90,000 |
| | 9,503,305 | 6,667,519 |

Reconciliations

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

| Consolidated | Capitalised development \$ | Patents \$ | Information systems \$ | Total \$ |
|-------------------------|----------------------------------|---------------|------------------------------|-------------|
| Balance at 1 July 2019 | 4,203,265 | 51,645 | 314,069 | 4,568,979 |
| Additions | 3,670,991 | 37,308 | - | 3,708,299 |
| Transfers in/(out) | 224,069 | - | (224,069) | - |
| Amortisation expense | (1,577,645) | (32,114) | - | (1,609,759) |
| Balance at 30 June 2020 | 6,520,680 | 56,839 | 90,000 | 6,667,519 |
| Additions | 4,939,021 | 23,921 | - | 4,962,942 |
| Amortisation expense | (2,113,634) | (13,522) | - | (2,127,156) |
| Balance at 30 June 2021 | 9,346,067 | 67,238 | 90,000 | 9,503,305 |

Note 14. Trade and other payables

| | Consolidated | |
|----------------------------|------------------|------------------|
| | 2021 \$ | 2020 \$ |
| <i>Current liabilities</i> | | |
| Trade payables | 1,028,096 | 643,798 |
| Accrued expenses | 3,020,645 | 2,424,983 |
| Other payables | 210,247 | - |
| | <u>4,258,988</u> | <u>3,068,781</u> |

Refer to note 24 for further information on financial instruments.

Note 15. Contract liabilities

| | Consolidated | |
|--------------------------------|------------------|------------------|
| | 2021 \$ | 2020 \$ |
| <i>Current liabilities</i> | | |
| Contract liabilities | <u>901,819</u> | <u>3,046,578</u> |
| <i>Non-current liabilities</i> | | |
| Contract liabilities | <u>121,231</u> | <u>592,812</u> |
| | <u>1,023,050</u> | <u>3,639,390</u> |

Reconciliation

The contract liabilities relate to sales of term-based contracts that have been prepaid and hence the entity is obligated to provide the services agreed under the contract. Reconciliation of the contract liabilities (current and non-current) during the current financial year are set out below:

| | Consolidated | |
|---|------------------|--------------------|
| | 2021 \$ | 2020 \$ |
| Opening balance | 3,639,390 | 4,245,492 |
| Payments received in advance | 1,639,893 | 6,079,420 |
| Transfer to revenue - included in the opening balance | (3,309,329) | (3,315,365) |
| Transfer to revenue - other balances | <u>(946,904)</u> | <u>(3,370,157)</u> |
| Closing balance | <u>1,023,050</u> | <u>3,639,390</u> |

Note 16. Employee benefits

| | Consolidated | |
|--------------------------------|------------------|------------------|
| | 2021 \$ | 2020 \$ |
| <i>Current liabilities</i> | | |
| Annual leave | 1,020,264 | 773,492 |
| Long service leave | 246,275 | 202,917 |
| | <u>1,266,539</u> | <u>976,409</u> |
| <i>Non-current liabilities</i> | | |
| Long service leave | 155,445 | 116,172 |
| | <u>1,421,984</u> | <u>1,092,581</u> |

Note 17. Provisions

| | Consolidated | |
|--------------------------------|----------------|----------------|
| | 2021 \$ | 2020 \$ |
| <i>Non-current liabilities</i> | | |
| Lease make-good | <u>105,000</u> | <u>152,649</u> |

Lease make-good

The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

| | Lease make-good \$ |
|--|--------------------------|
| Consolidated - 2021 | |
| Carrying amount at the start of the year | 152,649 |
| Unused amounts reversed | <u>(47,649)</u> |
| Carrying amount at the end of the year | <u>105,000</u> |

Note 18. Lease liabilities

| | Consolidated | |
|--------------------------------|--------------|------------|
| | 2021 \$ | 2020 \$ |
| <i>Current liabilities</i> | | |
| Lease liability | 176,758 | 464,271 |
| <i>Non-current liabilities</i> | | |
| Lease liability | 456,230 | - |
| | 632,988 | 464,271 |

Note 19. Other

| | Consolidated | |
|--|--------------|------------|
| | 2021 \$ | 2020 \$ |
| <i>Current liabilities</i> | | |
| Deferred research and development income | 832,128 | 429,264 |
| <i>Non-current liabilities</i> | | |
| Deferred research and development income | 1,739,171 | 1,044,667 |
| | 2,571,299 | 1,473,931 |

Note 20. Borrowings

National Australia Bank ('NAB') lease facility

The consolidated entity has an asset leasing facility for \$300,000 with NAB. The facility is available on a revolving basis with repayment terms ranging from 1 to 3 years from the draw-down date.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

| | Consolidated | |
|--|----------------|----------------|
| | 2021 \$ | 2020 \$ |
| <i>Total facilities</i> | | |
| NAB lease facility | 300,000 | 300,000 |
| Corporate credit card facility | 70,000 | 70,000 |
| AMEX credit card facility | 208,000 | - |
| | <u>578,000</u> | <u>370,000</u> |
| <i>Used at the reporting date</i> | | |
| NAB lease facility | - | - |
| Corporate credit card facility | - | - |
| AMEX credit card facility | 207,876 | - |
| | <u>207,876</u> | <u>-</u> |
| <i>Unused at the reporting date</i> | | |
| NAB lease facility | 300,000 | 300,000 |
| Corporate credit card facility | 70,000 | 70,000 |
| AMEX credit card facility | 124 | - |
| | <u>370,124</u> | <u>370,000</u> |

Note 21. Issued capital

| | Consolidated | | | |
|------------------------------|----------------|----------------|------------|------------|
| | 2021 Shares | 2020 Shares | 2021 \$ | 2020 \$ |
| Ordinary shares - fully paid | 747,390,339 | 647,625,092 | 63,760,506 | 54,667,525 |

Movements in ordinary share capital

| Details | Date | Shares | \$ |
|---|-------------------|-------------|-------------|
| Balance | 1 July 2019 | 280,805,705 | 36,506,677 |
| Issue of shares* | 28 October 2019 | 34,683,567 | 6,589,878 |
| Issue of shares* | 4 November 2019 | 547,357 | 104,000 |
| Issue of shares* | 29 May 2020 | 78,759,156 | 3,544,162 |
| Issue of shares* | 29 May 2020 | 52,475,956 | 2,361,418 |
| Issue of shares* | 16 June 2020 | 200,353,351 | 9,015,901 |
| Share issue transaction costs, net of tax | | - | (1,624,511) |
| Options issued to sub-underwriters in lieu of transaction costs | | - | (1,830,000) |
| Balance | 30 June 2020 | 647,625,092 | 54,667,525 |
| Issue of shares** | 17 September 2020 | 989,650 | 109,851 |
| Issue of shares** | 15 October 2020 | 4,900,767 | 543,985 |
| Issue of shares** | 23 November 2020 | 4,110,242 | 456,237 |
| Issue of shares*** | 25 November 2020 | 2,939,185 | 308,614 |
| Issue of shares** | 24 December 2020 | 668,318 | 74,183 |
| Issue of shares** | 10 February 2021 | 377,368 | 41,888 |
| Issue of shares*** | 10 February 2021 | 2,894,149 | 303,886 |
| Issue of shares** | 11 March 2021 | 3,094,568 | 343,497 |
| Issue of shares* | 6 May 2021 | 66,666,667 | 6,000,000 |
| Issue of shares** | 6 May 2021 | 333,654 | 37,036 |
| Issue of shares*** | 6 May 2021 | 1,867,586 | 195,701 |
| Issue of shares* | 3 June 2021 | 4,413,430 | 414,862 |
| Issue of shares* | 7 June 2021 | 4,911,158 | 442,004 |
| Issue of shares*** | 7 June 2021 | 1,361,445 | 142,952 |
| Issue of shares** | 30 June 2021 | 237,060 | 26,314 |
| Share issue transaction costs, net of tax | | - | (348,029) |
| Balance | 30 June 2021 | 747,390,339 | 63,760,506 |

* Share placement

** Options exercised

*** Service and restricted rights exercised

Ordinary shares

Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the company be wound up, in proportions that consider both the number of shares held and the extent to which those shares are paid up. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's objectives when managing capital are 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.

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

The consolidated entity will raise capital to support its growth strategy and to fund value adding projects that it deems necessary to maintain and enhance shareholder value. Any funds raised will be utilized in adherence with the governance principles underlying the consolidated entity's capital management policy under the authority of the board.

The capital risk management policy remains unchanged from the 30 June 2020 Annual Report.

Note 22. Reserves

| | Consolidated | |
|------------------------------|------------------|------------------|
| | 2021 \$ | 2020 \$ |
| Foreign currency reserve | (2,165) | (6,345) |
| Share-based payments reserve | 7,613,365 | 6,392,924 |
| | <u>7,611,200</u> | <u>6,386,579</u> |

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

Share-based payments reserve

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

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

| Consolidated | Foreign currency reserve \$ | Share-based payments \$ | Total \$ |
|--|--------------------------------------|-------------------------------|-------------|
| Balance at 1 July 2019 | (4,526) | 2,741,018 | 2,736,492 |
| Foreign currency translation | (1,819) | - | (1,819) |
| Share-based payment expense | - | 2,134,044 | 2,134,044 |
| Transfer to retained earnings | - | (312,138) | (312,138) |
| Fair value of options issued to sub-underwriters | - | 1,830,000 | 1,830,000 |
| Balance at 30 June 2020 | (6,345) | 6,392,924 | 6,386,579 |
| Foreign currency translation | 4,180 | - | 4,180 |
| Share-based payment expense | - | 3,078,902 | 3,078,902 |
| Transfer to issued capital | - | (1,848,563) | (1,848,563) |
| Transfer to retained earnings | - | (9,898) | (9,898) |
| Balance at 30 June 2021 | (2,165) | 7,613,365 | 7,611,200 |

Note 23. Dividends

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

Note 24. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk and foreign exchange risk and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The consolidated entity is not exposed to any significant foreign currency risk.

Price risk

The consolidated entity is not exposed to any significant price risk.

Interest rate risk

The consolidated entity's main interest rate risk arises from cash at bank. Bank balance at variable rates expose the consolidated entity to interest rate risk.

An official increase/decrease in interest rates of 50 (2020:50) basis points would have a favourable/adverse effect on the loss before tax of \$49,809 (2020: \$76,407) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts' forecasts.

Credit risk

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

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available. As disclosed in note 9, due to the Coronavirus (COVID-19) pandemic, the calculation of expected credit losses has been revised as at 30 June 2021.

The consolidated entity has a credit risk exposure with one major customer, which as at 30 June 2021 owed the consolidated entity \$433,717 (28% of trade receivables) (2020: \$187,592 (43% of trade receivables)). Despite the impact that the Coronavirus (COVID-19) pandemic has had on this major Australian retailer, this balance was within its terms of trade and no impairment was made as at 30 June 2021 and 30 June 2020. There are no guarantees against this receivable, but management closely monitors the receivable balance on a monthly basis and is in regular contact with this customer to mitigate risk.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity risk

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

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

Financing arrangements

Unused borrowing facilities at the reporting date:

| | Consolidated | |
|--------------------------------|----------------|----------------|
| | 2021 \$ | 2020 \$ |
| NAB lease facility | 300,000 | 300,000 |
| Corporate credit card facility | 70,000 | 70,000 |
| AMEX credit card facility | 124 | - |
| | <u>370,124</u> | <u>370,000</u> |

Remaining contractual maturities

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

| Consolidated - 2021 | Weighted average interest rate % | 1 year or less \$ | Between 1 and 2 years \$ | Between 2 and 5 years \$ | Over 5 years \$ | Remaining contractual maturities \$ |
|--------------------------------------|----------------------------------|-------------------|--------------------------|--------------------------|-----------------|-------------------------------------|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade payables | | 1,028,096 | - | - | - | 1,028,096 |
| Other payables | | 210,247 | - | - | - | 210,247 |
| <i>Interest-bearing - fixed rate</i> | | | | | | |
| Lease liability | 3.50% | 197,051 | 217,236 | 270,585 | - | 684,872 |
| Total non-derivatives | | 1,435,394 | 217,236 | 270,585 | - | 1,923,215 |
| Consolidated - 2020 | Weighted average interest rate % | 1 year or less \$ | Between 1 and 2 years \$ | Between 2 and 5 years \$ | Over 5 years \$ | Remaining contractual maturities \$ |
| <i>Non-derivatives</i> | | | | | | |
| Non-interest bearing | | | | | | |
| Trade payables | | 643,798 | - | - | - | 643,798 |
| <i>Interest-bearing - fixed rate</i> | | | | | | |
| Lease liability | 5.00% | 537,319 | - | - | - | 537,319 |
| Total non-derivatives | | 1,181,117 | - | - | - | 1,181,117 |

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

Note 25. Fair value measurement

The carrying amounts of trade and other receivables and trade and other payable approximate their fair values due to their short term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Note 26. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton, the auditor of the company:

| | Consolidated | |
|---|--------------|------------|
| | 2021 \$ | 2020 \$ |
| <i>Audit services - Grant Thornton</i> | | |
| Audit or review of the financial statements | 131,480 | 115,000 |
| <i>Other services - Grant Thornton</i> | | |
| Taxation services | 22,798 | 12,730 |
| | 154,278 | 127,730 |

Note 27. Contingent liabilities

The consolidated entity has given bank guarantees as at 30 June 2021 of \$133,776 (2020: \$133,776) to various landlords.

Note 28. Commitments

The consolidated entity had no commitments as at 30 June 2021 and 30 June 2020.

Note 29. Key management personnel disclosures

Compensation

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

| | Consolidated | |
|------------------------------|--------------|------------|
| | 2021 \$ | 2020 \$ |
| Short-term employee benefits | 1,247,138 | 1,327,020 |
| Post-employment benefits | 77,683 | 121,547 |
| Long-term benefits | 15,461 | 9,251 |
| Termination benefits | - | 120,368 |
| Share-based payments | 1,529,896 | 1,152,218 |
| | 2,870,178 | 2,730,404 |

Note 30. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|--|---|--------------------|-----------|
| | | 2021 % | 2020 % |
| First Wave Technology Pty Ltd | Australia | 100% | 100% |
| Firstwave Global Pty Ltd | Australia | 100% | 100% |
| Firstwave Cloud Technology Inc. | The United States of America | 100% | 100% |
| Firstwave Cloud Technology (Singapore) Ltd | Singapore | 100% | 100% |
| Firstwave Share Rights Pty Ltd | Australia | 100% | 100% |

Note 31. Related party transactions

Parent entity

Firstwave Cloud Technology Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 30.

Key management personnel

Disclosures relating to key management personnel are set out in note 29 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

| | Consolidated | |
|--|--------------|------------|
| | 2021 \$ | 2020 \$ |
| Sale of goods and services: | | |
| Sale of services to a director related entity of Simon Moore | - | 1,020 |
| Other income: | | |
| Interest received from key management personnel | 1,662 | 9,972 |

Receivable from and payable to related parties

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

Loans to/from related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

| | Consolidated | |
|-----------------------------------|--------------|------------|
| | 2021 \$ | 2020 \$ |
| Current receivables: | | |
| Loan to key management personnel* | - | 221,520 |

* Unsecured loan provided to key management personnel. Interest was charged on outstanding balance at 4.5% per annum.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 32. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

| | Parent | |
|----------------------------|--------------|-------------|
| | 2021 \$ | 2020 \$ |
| Loss after income tax | (11,631,006) | (3,895,272) |
| Total comprehensive income | (11,631,006) | (3,895,272) |

Statement of financial position

| | Parent | |
|------------------------------|--------------|--------------|
| | 2021 \$ | 2020 \$ |
| Total current assets | 678,019 | - |
| Total assets | 49,473,554 | 50,645,346 |
| Total current liabilities | 145,792 | - |
| Total liabilities | 145,792 | - |
| Equity | | |
| Issued capital | 63,760,506 | 54,667,525 |
| Share-based payments reserve | 7,613,365 | 6,392,924 |
| Accumulated losses | (22,046,109) | (10,415,103) |
| Total equity | 49,327,762 | 50,645,346 |

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2021 and 30 June 2020.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2021 and 30 June 2020.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 and 30 June 2020.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 33. Cash flow information

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

| | Consolidated | |
|---|--------------|--------------|
| | 2021 \$ | 2020 \$ |
| Loss after income tax expense for the year | (10,812,108) | (13,777,481) |
| Adjustments for: | | |
| Depreciation and amortisation | 2,668,759 | 2,246,093 |
| Share-based payments - employees | 3,078,902 | 2,134,044 |
| Other non-cash adjustments | (335,986) | - |
| Change in operating assets and liabilities: | | |
| Increase in trade and other receivables | (1,014,393) | (20,474) |
| Increase in contract assets | (100,045) | (452,652) |
| Decrease in prepayments | 184,414 | 399,917 |
| Decrease/(increase) in other operating assets | (1,275,017) | 273,765 |
| Increase in trade and other payables | 1,191,111 | 472,105 |
| Decrease in contract liabilities | (2,616,340) | (606,202) |
| Increase in employee benefits | 329,403 | 163,995 |
| Increase in other operating liabilities | 654,627 | 466,111 |
| Net cash used in operating activities | (8,046,673) | (8,700,779) |

Non-cash investing and financing activities

| | Consolidated | |
|--|--------------|------------|
| | 2021 \$ | 2020 \$ |
| Additions to the right-of-use assets | 663,016 | 779,346 |
| Shares issued for non-cash consideration | 2,242,081 | - |
| Fair value of options issued to sub underwriters due to share issue transaction cost | - | 1,830,000 |
| | 2,905,097 | 2,609,346 |

Changes in liabilities arising from financing activities

| Consolidated | Lease liability \$ |
|---------------------------------------|-----------------------|
| Balance at 1 July 2019 | 4,478 |
| Adoption of AASB 16 on 1 July 2019 | 779,346 |
| Net cash used in financing activities | (319,553) |
| Balance at 30 June 2020 | 464,271 |
| Acquisition of leases | 663,016 |
| Net cash used in financing activities | (499,220) |
| Other changes | 4,921 |
| Balance at 30 June 2021 | 632,988 |

Note 34. Earnings per share

| | Consolidated | |
|---|--------------|--------------|
| | 2021 \$ | 2020 \$ |
| Loss after income tax attributable to the owners of Firstwave Cloud Technology Limited | (10,812,108) | (13,777,481) |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 669,990,763 | 324,615,175 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 669,990,763 | 324,615,175 |
| | Cents | Cents |
| Basic earnings per share | (1.61) | (4.24) |
| Diluted earnings per share | (1.61) | (4.24) |

Options and rights have been excluded in the weighted average number of shares used to calculate diluted earnings per share as they were anti-dilutive.

Note 35. Share-based payments

The consolidated entity has a share option plan and a share rights plan to incentivise certain employees and key management personnel ('KMP'). Shareholders approved the Rights Plan at an Extraordinary General Meeting held on 29 July 2020. During the year, the Board established a long-term incentive scheme ('LTI') under the company's Share Rights Plan. Pursuant to the LTI, the Board will have the discretion to invite certain key executives to apply for Share Appreciation Rights, which have been designed to deliver long term variable remuneration opportunities for key executives, which have service and vesting conditions, that assist in aligning the interests of the executives, with shareholders of the company.

During the financial year no options and 4,308,845 share rights were granted (2020: 4,950,000 options and 34,606,769 share rights). The share-based payment expense for the year was \$3,078,902 (2020: \$2,134,044), out of which \$1,160,422 (2020: \$512,467) was offset by the employees agreeing to salary sacrifice in lieu of service rights and hence saving the consolidated entity cash costs.

Movements in share awards during the year

The following table illustrates the number of awards and weighted average exercise prices ('WAEP') of, and movements in, share awards during the current and previous year:

| | Number 30 June 2021 | Number 30 June 2020 | WAEP 30 June 2021 | WAEP 30 June 2020 |
|---|------------------------|------------------------|----------------------|----------------------|
| Movement in share options including share rights | | | | |
| Balance at the beginning of the year | 100,142,768 | 38,951,333 | \$0.150 | \$0.400 |
| Options granted during the year | - | 4,950,000 | \$0.000 | \$0.430 |
| Share rights granted during the year | 4,308,845 | 34,606,769 | \$0.000 | \$0.000 |
| Options granted to sub-underwriters | - | 30,000,000 | \$0.000 | \$0.050 |
| Forfeited during the year | (640,726) | (8,365,334) | \$0.000 | \$0.490 |
| Exercised during the year | (23,773,992) | - | \$0.031 | \$0.000 |
| Expired during the year | (3,610,000) | - | \$0.000 | \$0.000 |
| Balance at the end of the year | <u>76,426,895</u> | <u>100,142,768</u> | | |

40,281,036 options and 25,684,014 share rights were vested and exercisable as at 30 June 2021 (2020: 22,452,664 options and 11,628,094 share rights).

The weighted average share price of the company during the financial year was \$0.12 (2020: \$0.14).

The weighted average remaining contractual life of options and share rights outstanding at the end of the financial year was 5.80 years (2020: 6.45 years).

Share rights and restricted share rights

As noted above, executives and directors salary sacrificed their salaries and fees for service rights and restricted rights. In respect of the service rights – these rights vest on a quarterly basis at the end of each financial quarter. The service rights are subject to service conditions and there are no performance conditions. The exercise price of the service rights is \$Nil as these rights have been granted in lieu of cash salary.

Restricted rights granted to Non-Executive Directors vest on grant date and are not forfeited on resignation. The sale of the rights is restricted whether or not the Non-Executive Directors continue as a director until the expiration of three years from the date of grant. As the Service Rights and Restricted Rights were acquired by Executives and Directors agreeing to forgo their salaries and fees, the maximum allowable life of 15 years was adopted. The share rights issued during the year will not expire until June 2035.

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

| Grant date | Expiry date | Share price at grant date | Exercise price | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|------------|-------------|---------------------------|----------------|---------------------|----------------|-------------------------|--------------------------|
| | | | | % | | % | |
| 01/07/2020 | 01/01/2035 | \$0.107 | \$0.00 | 87.20% | - | 0.10% | \$0.107 |
| 30/09/2020 | 31/12/2035 | \$0.145 | \$0.00 | 87.20% | - | 0.10% | \$0.145 |
| 05/11/2020 | 05/11/2035 | \$0.135 | \$0.00 | 87.20% | - | 0.10% | \$0.126 |
| 01/12/2020 | 01/12/2027 | \$0.140 | \$0.00 | 74.00% | - | 0.07% | \$0.096 |
| 11/03/2021 | 30/06/2024 | \$0.120 | \$0.00 | 87.20% | - | 0.10% | \$0.119 |
| 11/03/2021 | 30/06/2035 | \$0.120 | \$0.00 | 87.20% | - | 0.10% | \$0.119 |

Note 36. Events after the reporting period

The consequences of the Coronavirus (COVID-19) pandemic are continuing to be felt around the world, and its impact on the consolidated entity, has been reflected in its published results to date. Whilst it would appear that control measures and related government policies have started to mitigate the risks caused by COVID-19, it is not possible at this time to state that the pandemic will not subsequently impact the consolidated entity's operations going forward. The consolidated entity now has experience in the swift implementation of business continuation processes should future lockdowns of the population occur, and these processes continue to evolve to minimise any operational disruption. Management continues to monitor the situation both locally and internationally.

Neil Pollock, the Chief Executive Officer ('CEO') resigned on 8 July 2021 and John Grant, the Executive Chairman has assumed the role until a permanent CEO is appointed.

The remaining 15,288,373 sub-underwriter options from the May 2020 capital raise were exercised in July and August 2021, raising a further \$764,419 to cash reserves.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Directors' declaration

30 June 2021

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



John Grant
Executive Director and Chairman



Paul MacRae
Director

28 September 2021
Sydney

Independent auditor's report to the members of Firstwave Cloud Technology Limited



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Independent Auditor's Report

To the Members of Firstwave Cloud Technology Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Firstwave Cloud Technology Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, 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:

- giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the year ended on that date; and
- complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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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 |
|--|---|
| Going Concern (Note 1) | |
| <p>The Group made a loss of \$10,812,108 and had net cash used in operating activities of \$8,046,673 for the year ended 30 June 2021. Proceeds from the issue of shares and exercise of options totalled \$7,180,138 during the year, and the Group had a cash balance of \$9,961,866 as at 30 June 2021.</p> <p>Given the level of losses and operating cash outflows, the Group's use of the going concern basis of accounting and the associated extent of uncertainty is a key audit matter due to the high level of judgement required in evaluating the Group's assessment of going concern.</p> <p>The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the financial report. Their assessment of going concern was based on cash flow projections. The preparation of these projections incorporated a number of assumptions and judgments, and the Directors have concluded that the range of possible outcomes considered in arriving at this judgment provides support over the Group's ability to continue as a going concern.</p> | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> obtaining and reviewing management's cash flow forecast to assess whether current cash levels can sustain operations for a period of at least 12 months from the date of signing the financial statements; agreeing year end cash balances to third party independent confirmations received to gain comfort around the opening balances used in the cash flow forecast; assessing the Group's current level of income and expenditure against management's forecast for consistency of relationships and trends to the historical results, and results since year end; performing sensitivity analysis on the significant inputs and assumptions made by management in preparing its cash flow forecast; and assessing the adequacy of the related disclosures within the financial report. |
| Research and Development tax incentive (Note 5 & Note 9) | |
| <p>The Group receives a research and development (R&D) refundable tax offset from the Australian government which represents 43.5 cents in each dollar of eligible annual R&D expenditure, if its turnover is less than \$20 million per annum.</p> <p>Registration of R&D Activities Application if files with AusIndustry in the following financial year and, based on this filing, the Group receives the incentive in cash. Management performed a detailed review of the Group's total R&D expenditure to estimate the refundable tax offset receivable under the R&D tax incentive legislation.</p> <p>This is a key audit matter due to the size of the accrual and the degree of judgement and interpretation of the R&D tax legislation required by management to assess the eligibility of the R&D expenditure under the scheme.</p> | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> obtaining through discussions with management, an understanding of the process to estimate the claim; utilising an internal R&D tax specialist to; <ul style="list-style-type: none"> review the expenditure methodology employed by management for consistency with the R&D tax offset rules; and consider the nature of the expenses against the eligibility criteria of the R&D tax incentive scheme to form a view about whether the expenses included in the estimate meet the eligibility criteria; comparing the nature of the R&D expenditure included in the current year estimate to the prior year claim; selecting a sample of R&D expenditure and agreeing to supporting documentation to ensure appropriate classification, validity of the claimed amount and eligibility against the R&D tax incentive scheme criteria; and assessing the adequacy of the related disclosures within the financial report. |



Key audit matter

Capitalised product development costs (Note 13)

Capitalised product development costs had a net carrying value of \$9,346,067 at 30 June 2021.

During the year the Group capitalised \$4,939,021 of project development costs. These intangible assets are being amortised over a 5 year period, and an amortisation expense of \$2,113,634 has been included in the statement of profit or loss and other comprehensive income.

AASB 138 *Intangible Assets* sets out the specific requirements to be met in order to capitalise development costs. Intangible assets should be amortised over their useful economic lives in accordance with AASB 138.

The Group is required to consider indicators of impairment in accordance with AASB 136 *Impairment of Assets*. The losses reported over the year provides such an indicator, and a risk that the carrying value of these assets may be higher than the recoverable amount.

This area is a key audit matter due to subjectivity and management judgement applied in the assessment of whether costs meet the development phase criteria described in AASB 138 along with the judgement required in determining whether development costs should be impaired.

How our audit addressed the key audit matter

Our procedures included, amongst others:

- assessing the Group's accounting policy in respect of product development costs for adherence to AASB 138;
- evaluating management's assessment of each project for compliance with the recognition criteria set out in AASB 138, including discussing project plans with management and project leaders to develop an understanding of nature and feasibility of key projects at 30 June 2021;
- testing a sample of costs capitalised by tracing to underlying support such as vendor invoices and payroll records in order to understand the nature of the item and whether the expenditure was attributable to the development of the related asset, and therefore whether capitalisation was in accordance with the recognition criteria of AASB 138;
- obtaining management's assessment of impairment indicators for capitalised software development and other intangible assets, and assessing in accordance with AASB 136;
- where impairment indicators are identified, assessing whether intangible assets appear recoverable based on management's impairment model;
- evaluating the reasonableness of useful lives to be applied in future reporting periods; and
- assessing the adequacy of the related disclosures within the financial report.

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 2021, 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: https://www.auasb.gov.au/auditors_responsibilities/ar1_2020.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 in pages 9 to 20 of the Directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Firstwave Cloud Technology Limited, for the year ended 30 June 2021 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

Grant Thornton Audit Pty Ltd
Chartered Accountants

R J Isbell

R J Isbell
Partner – Audit & Assurance
Sydney, 28 September 2021

Shareholder information

As at 21 October 2021

The shareholder information set out below is applicable as at 21 October 2021.

Range of units

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

| Range | Ordinary shares | |
|---------------------------------------|-----------------|---------|
| | Total holders | % Units |
| 1 - 1,000 | 1,638 | 0.01 |
| 1,001 - 5,000 | 217 | 0.09 |
| 5,001 - 10,000 | 231 | 0.24 |
| 10,001 - 100,000 | 936 | 5.18 |
| 100,001 Over | 823 | 94.48 |
| Total | 3,845 | 100.00 |
| Holding less than a marketable parcel | 1,946 | 0.17 |

Substantial holders

Substantial holders in the company are set out below:

| | % of total shares | |
|--|-------------------|--------------------------|
| | Number held | % of total shares issued |
| PERENNIAL VALUE MANAGEMENT LIMITED (PVM) | 112,204,676 | 14.58 |

Top shareholders

Twenty largest quoted equity security holders

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

| Rank | Name | Ordinary shares | |
|--|--|-----------------|---------|
| | | Units | % Units |
| 1 | NATIONAL NOMINEES LIMITED | 113,607,311 | 14.77 |
| 2 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 20,602,187 | 2.68 |
| 3 | MR SCOTT LIDGETT + MRS KATHERINE LIDGETT (LIDGETT SUPER FUND A/C) | 17,552,290 | 2.28 |
| 4 | MR GREGORY VYTAS MAREN + MRS GERALDINE MARGARET MACLEAN MAREN (MAREN SUPER FUND A/C) | 17,218,056 | 2.24 |
| 5 | MR DAVID ROTHWELL | 14,311,498 | 1.86 |
| 6 | BNP PARIBAS NOMS PTY LTD (DRP) | 12,620,668 | 1.64 |
| 7 | PATAGORANG PTY LTD (THE ROGER ALLEN FAMILY A/C) | 11,197,948 | 1.46 |
| 8 | WILLROTH PTY LTD (THE WILLROTH A/C) | 10,000,000 | 1.30 |
| 9 | EREMITE PTY LTD (JAMIESON FAMILY A/C) | 7,640,273 | 0.99 |
| 10 | PAYNES HARDWARE SERVICES PTY LTD (PAYNES HARDWARE P/L S/F A/C) | 7,155,070 | 0.93 |
| 11 | CORLETTE POINT ROAD PTY LIMITED (POINT A/C) | 6,590,062 | 0.86 |
| 12 | MR OLIVER DAMBERG | 6,470,000 | 0.84 |
| 13 | CDO INVESTMENTS PTY LTD (CDO FAMILY A/C) | 6,200,000 | 0.81 |
| 14 | PATAGORANG PTY LTD (ROGER ALLEN FAMILY A/C) | 6,000,000 | 0.78 |
| 15 | INDIGENOUS CAPITAL LIMITED | 5,555,556 | 0.72 |
| 15 | PATAGORANG PTY LTD (ROGER ALLEN FAMILY A/C) | 5,555,556 | 0.72 |
| 17 | MR WILLIAM ROBERT CARTER + MS SARAH VICTORIA WILLIAMS | 5,500,000 | 0.71 |
| 18 | MR EDWARD TIMOTHY KEATING + MRS LINDA JOY KEATING | 5,222,222 | 0.68 |
| 19 | G & L PRIOR PTY LTD (PRIOR SUPER FUND A/C) | 5,000,000 | 0.65 |
| 19 | OLD DILKARA PTY LTD (J & N OLDROYD S/F A/C) | 5,000,000 | 0.65 |
| 19 | RTEC (NSW) PTY LTD (RTEC TRADING A/C) | 5,000,000 | 0.65 |
| Totals: Top 21 holders of FULLY PAID ORDINARY SHARES (Total) | | 293,998,697 | 38.21 |
| Total Remaining Holders Balance | | 475,398,611 | 61.79 |

Unquoted equity securities

| | Number held |
|-----------------------------------|-------------|
| Options over ordinary shares | 31,925,999 |
| Share rights over ordinary shares | 23,296,219 |

Voting rights

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

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Corporate directory

30 June 2021

| | |
|--------------------------------|--|
| Directors | John Grant - Executive Director and Chairman |
| | Paul MacRae - Non-Executive Director |
| | Euh (David) Hwang - Non-Executive Director |
| Company secretary | Iain Bartram |
| Registered office | Level 10, 132 Arthur Street |
| | North Sydney, NSW 2060 |
| | Australia |
| | Tel: +61 (02) 9409 7000 |
| Share register | Computershare Investor Services Pty Limited |
| | Level 5, 115 Grenfell Street |
| | Adelaide, SA 5000 |
| | Australia |
| Auditor | Grant Thornton Audit Pty Ltd. |
| | Level 17, 383 Kent Street |
| | Sydney, NSW 2000 |
| Stock exchange listing | Firstwave Cloud Technology Limited shares are listed on the Australian Securities Exchange (ASX code: FCT) |
| Website | http://www.firstwavecloud.com |
| Corporate Governance Statement | <p>The directors and management are committed to conducting the business of Firstwave Cloud Technology Limited in an ethical manner and in accordance with the highest standards of corporate governance. Firstwave Cloud Technology Limited has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Fourth Edition) ('Recommendations') to the extent appropriate to the size and nature of its operations.</p> <p>The consolidated entity's Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year and identifies and explains any Recommendations that have not been followed and ASX Appendix 4G are released to the ASX on the same day the Annual Report is released. The Corporate Governance Statement and Corporate Governance Compliance Manual can be found on the company's website at https://www.firstwavecloud.com/corporate-governance.</p> |



Head Office

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North Sydney, NSW 2060*

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www.firstwavecloud.com

Firstwave Cloud Technology Limited

ABN 35 144 733 595