

Nitro Software Pty Ltd

ABN 15 079 215 419

**Annual financial report
for the year ended 31 December 2017**

Nitro Software Pty Ltd ABN 15 079 215 419
Annual financial report - 31 December 2017

Contents

	Page
Directors' report	1
Financial statements	4
Independent auditor's report to the members	33

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the group) consisting of Nitro Software Pty Ltd and the entities it controlled at the end of, or during, the year ended 31 December 2017.

Directors

The following persons were directors of Nitro Software Pty Ltd during the whole of the financial year and up to the date of this report:

Sam Chandler
Richard Wenzel
Andrew Barlow
Kurt Johnson
Michael Brown

Anthony Glenning was a director from the beginning of the financial year until his resignation on 30 June 2018.

John Dyson was appointed as a director on 30 June 2018 and continues in office at the date of this report.

Principal activities

The principal activities of the consolidated group during the financial year were software development, marketing and sales.

There was no significant change in the nature of the activity of the group during the year.

Dividends

No dividends have been paid during the financial year (2016: \$nil).

Review of operations

The loss from ordinary activities after income tax amounted to \$13,504,204 (2016 loss: \$17,445,416).

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the group during the year.

Matters subsequent to the end of the financial year

On 20 December 2018, Aztag Pty Limited, M&S Skyleisure Pty Ltd Trust No. 1 and M&S Skyleisure Pty Ltd Trust No. 2 was issued US\$500,000 worth of series D preference shares.

On 24 December 2018, Marygold Three Trust, Wentova Pty Ltd ATF Wentova Employees Retirement Fund and Denkar Pty Ltd ATF Dunworth Superannuation Fund was issued US\$750,000.

On 24 December 2018, Gleneagle Asset Management ATF Alium Alpha Fund was issued US\$750,000.

The company raised US\$2,000,000 in total since the end of the financial year.

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

Likely developments and expected results of operations

The directors expect that the group will continue to carry out its principal activities as detailed above. There are no other known or likely developments which the directors foresee which they wish to disclose at this time.

Environmental regulation

The group is not affected by any significant environmental regulation in respect of its operations.

Insurance of officers

Nitro provides indemnities to directors and also provides management liability insurance in the amount of AUD\$10m (2016: AUD\$10m) for all directors and officers of the group's entities.

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.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 3.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

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



Richard Wenzel
Director

Melbourne
8 March 2019



Auditor's Independence Declaration

As lead auditor for the audit of Nitro Software Pty Ltd for the year ended 31 December 2017, 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.

This declaration is in respect of Nitro Software Pty Ltd and the entities it controlled during the year.

Sam Loble
Partner
PricewaterhouseCoopers

Melbourne
8 March 2019

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Nitro Software Pty Ltd ABN 15 079 215 419

Annual financial report - 31 December 2017

Contents

	Page
Financial statements	
Consolidated statement of comprehensive income	5
Consolidated statement of financial position	6
Consolidated statement of changes in equity	7
Consolidated statement of cash flows	9
Notes to the consolidated financial statements	10
Directors' declaration	32
Independent auditor's report to the members	33

These financial statements are the consolidated financial statements of the consolidated entity consisting of Nitro Software Pty Ltd and its subsidiaries. The financial statements are presented in the USD currency.

Nitro Software Pty Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Nitro Software Pty Ltd
Level 4, 246 Bourke Street
Melbourne VIC 3000

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on page 1, which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 8 March 2019. The directors have the power to amend and reissue the financial statements.

Nitro Software Pty Ltd
Consolidated statement of comprehensive income
For the year ended 31 December 2017

	Notes	2017 \$	2016 \$
Revenue		26,739,722	28,393,310
Cost of sales		(4,801,662)	(5,681,603)
Gross profit		21,938,060	22,711,707
Other (loss)	3	(765,703)	(1,023,062)
Depreciation and amortisation expense	4	(3,206,102)	(5,462,661)
Selling and marketing expense		(16,968,269)	(17,158,307)
General and administration expense		(7,280,478)	(9,267,939)
Development expense		(6,131,740)	(6,987,421)
Finance costs	4	(757,445)	(624,253)
(Loss) before income tax		(13,171,677)	(17,811,936)
Income tax (expense)/benefit		(332,527)	366,520
(Loss) for the year		(13,504,204)	(17,445,416)
Other comprehensive income			
<i>Item that may be reclassified to profit or loss</i>			
Adjustment from translation from foreign controlled entities	18(a)	(381,283)	865,721
Other comprehensive (loss)/income for the year, net of tax		(381,283)	865,721
Total comprehensive (loss) for the year		(13,885,487)	(16,579,695)
(Loss) is attributable to:			
Owners of Nitro Software Pty Ltd		(13,504,204)	(17,445,416)
		(13,504,204)	(17,445,416)
Total comprehensive (loss) for the year is attributable to:			
Owners of Nitro Software Pty Ltd		(13,885,487)	(16,579,695)
		(13,885,487)	(16,579,695)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Nitro Software Pty Ltd
Consolidated statement of financial position
As at 31 December 2017

	Notes	2017 \$	2016 \$
ASSETS			
Current assets			
Cash and cash equivalents	5	5,926,035	11,418,892
Trade and other receivables	6	3,516,399	4,285,957
Current tax receivables		140,555	104,477
Total current assets		9,582,989	15,809,326
Non-current assets			
Receivables	7	304,758	306,833
Property, plant and equipment	8	723,588	1,616,380
Deferred tax assets		144,333	155,455
Intangible assets	9	2,778,291	3,040,996
Total non-current assets		3,950,970	5,119,664
Total assets		13,533,959	20,928,990
LIABILITIES			
Current liabilities			
Trade and other payables	10	2,541,302	3,319,894
Borrowings	11	3,244,256	3,642,847
Deferred income	12	6,055,692	4,833,453
Current tax liabilities		111,774	135,446
Provisions	13	488,819	578,655
Total current liabilities		12,441,843	12,510,295
Non-current liabilities			
Borrowings	14	4,256,265	3,799,256
Deferred income	15	2,898,806	1,969,153
Deferred tax liabilities		11,545	4,922
Provisions	16	2,579	33,704
Total non-current liabilities		7,169,195	5,807,035
Total liabilities		19,611,038	18,317,330
Net (liabilities)/assets		(6,077,079)	2,611,660
EQUITY			
Contributed equity	17	40,430,185	35,418,003
Other reserves	18(a)	233,918	430,635
(Accumulated losses)	18(b)	(46,741,182)	(33,236,978)
Total (deficiency in equity)/equity		(6,077,079)	2,611,660

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

Nitro Software Pty Ltd
Consolidated statement of changes in equity
For the year ended 31 December 2017

		Attributable to owners of Nitro Software Pty Ltd					Total equity \$
		Contributed equity \$	Warrant reserve \$	Employee equity benefits reserve \$	Foreign currency translation reserve \$	(Accumulated losses) \$	
Notes							
	Balance at 1 January 2016	23,091,235	38,438	2,401,715	(3,474,660)	(15,809,525)	6,247,203
	(Loss) for the year	-	-	-	-	(17,445,416)	(17,445,416)
	Other comprehensive income	-	-	-	865,765	-	865,765
	Total comprehensive income/(loss) for the year	-	-	-	865,765	(17,445,416)	(16,579,651)
Transactions with owners in their capacity as owners:							
	Issue of preference shares	17 12,838,359	-	-	-	-	12,838,359
	Employee share options	17, 18 -	-	561,558	-	-	561,558
	Change in functional currency differences	(533,284)	-	-	-	17,963	(515,321)
	Issue of warrants	18 -	37,819	-	-	-	37,819
	Exercise of options	17 21,693	-	-	-	-	21,693
		12,326,768	37,819	561,558	-	17,963	12,944,108
	Balance at 31 December 2016	35,418,003	76,257	2,963,273	(2,608,895)	(33,236,978)	2,611,660

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

Nitro Software Pty Ltd
Consolidated statement of changes in equity
For the year ended 31 December 2017
(continued)

	Notes	Attributable to owners of Nitro Software Pty Ltd					Total equity \$
		Contributed equity \$	Warrant reserve \$	Employee equity benefits reserve \$	Foreign currency translation reserve \$	(Accumulated losses) \$	
Balance at 1 January 2017		35,418,003	76,257	2,963,273	(2,608,895)	(33,236,978)	2,611,660
Profit/(loss) for the year		-	-	-	-	(13,504,204)	(13,504,204)
Other comprehensive income/(loss)		-	-	-	(381,283)	-	(381,283)
Total comprehensive income/(loss) for the year		-	-	-	(381,283)	(13,504,204)	(13,885,487)
Transactions with owners in their capacity as owners:							
Issue of preference shares	17	4,999,912	-	-	-	-	4,999,912
Employee share options	17, 18	-	-	184,566	-	-	184,566
Change in functional currency differences		-	-	-	-	-	-
Issue of warrants	18	-	-	-	-	-	-
Exercise of options	18	12,270	-	-	-	-	12,270
		5,012,182	-	184,566	-	-	5,196,748
Balance at 31 December 2017		40,430,185	76,257	3,147,839	(2,990,178)	(46,741,182)	(6,077,079)

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

Nitro Software Pty Ltd
Consolidated statement of cash flows
For the year ended 31 December 2017

	Notes	2017 \$	2016 \$
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		27,243,165	30,245,289
Payments to suppliers and employees (inclusive of goods and services tax)		<u>(35,301,803)</u>	<u>(35,136,613)</u>
		(8,058,638)	(4,891,324)
Interest received		22,206	7,327
Interest paid		(524,903)	(624,253)
Income taxes paid		<u>(286,932)</u>	<u>(355,920)</u>
Net cash (outflow) from operating activities	24	<u>(8,848,267)</u>	<u>(5,864,170)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(3,332)	(89,769)
Payment for software development costs		(2,048,009)	(3,676,246)
Proceeds from sale of property, plant and equipment		17,384	379,920
Net cash (outflow) from investing activities		<u>(2,033,957)</u>	<u>(3,386,095)</u>
Cash flows from financing activities			
Proceeds from issues of shares		5,000,000	13,000,000
Proceeds/(repayments) from borrowings		1,301,265	(611,186)
Repayment of lease liabilities		<u>(911,898)</u>	<u>(979,843)</u>
Net cash inflow from financing activities		<u>5,389,367</u>	<u>11,408,971</u>
Net (decrease) increase in cash and cash equivalents		(5,492,857)	2,158,706
Cash and cash equivalents at the beginning of the financial year		11,418,892	9,260,186
Cash and cash equivalents at the end of the financial year	5	<u>5,926,035</u>	<u>11,418,892</u>

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

Contents of the notes to the consolidated financial statements

	Page
1 Summary of significant accounting policies	11
2 Critical accounting estimates and judgements	20
3 Other (loss)	21
4 Expenses	21
5 Current assets - Cash and cash equivalents	21
6 Current assets - Trade and other receivables	22
7 Non-current assets - Receivables	22
8 Non-current assets - Property, plant and equipment	22
9 Non-current assets - Intangible assets	23
10 Current liabilities - Trade and other payables	23
11 Current liabilities - Borrowings	23
12 Current liabilities - Deferred income	23
13 Current liabilities - Provisions	24
14 Non-current liabilities - Borrowings	24
15 Non-current liabilities - Deferred income	24
16 Non-current liabilities - Provisions	24
17 Contributed equity	25
18 Other reserves and (accumulated losses)	27
19 Remuneration of auditors	28
20 Contingencies	29
21 Commitments	29
22 Subsidiaries	29
23 Events occurring after the reporting period	30
24 Cash flow information	30
25 Parent entity financial information	31

1 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of Nitro Software Pty Ltd and its subsidiaries.

(a) Basis of preparation

(i) Special purpose financial report

In the directors' opinion, the company is not a reporting entity because there are no users dependent on general purpose financial reports.

This is a special purpose financial report that has been prepared for the sole purpose of complying with the *Corporations Act 2001* requirements to prepare and distribute a financial report to the members and must not be used for any other purpose.

The financial report has been prepared in accordance with the recognition and measurement principles of all applicable Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. It contains the disclosures that are mandatory under the Accounting Standards and those considered necessary by the directors to meet the needs of the members. Nitro Software Pty Ltd is a for-profit entity for the purpose of preparing the financial statements.

The special purpose financial report has been prepared on a going concern basis.

(ii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

(iii) New and amended standards adopted by the company

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2017 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not yet been applied in the financial statements. The group's assessment of the impact of these new standards and interpretations is set out below.

Amendments to AASB 15 Revenue from contracts with customers

Revenue from contracts with customers will be effective for the first interim period within annual reporting periods beginning or after 1 January 2018, and will allow early adoption. There is likely to be a change in the recognition of commission costs. AASB 15 requires incremental costs of obtaining a contract are capitalised and expensed over the contract period. Under the current accounting policies, these costs are expensed as they occur. Management have not yet determined the financial impact of the change. The potential effect of the new standard on the financial results of the consolidated entity upon adoption has yet to be fully determined.

Amendments to IFRS 16 Leases

This new standard will replace the current guidance on lease accounting in AASB 117. The new accounting standard will be mandatory for the group's 31 December 2019 consolidated financial statements and early adoption is permitted. Under the new standards, entities will no longer be required to distinguish between finance leases and operating leases. For the majority of leases, lessees will be required to recognise a lease liability and a corresponding asset on the balance sheet. The potential effect of the new standard on the financial results of the consolidated entity upon adoption has yet to be fully determined.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

1 Summary of significant accounting policies (continued)

(b) Liquidity

The consolidated statement of financial position reports that total liabilities exceed total assets. The group's forecasts and projections, taking into account of reasonably possible changes in trading performance, show that the group should be able to operate within the level of its current funding with adequate liquidity. In the unlikely event the group is unable to meet their debts as and when they fall due, the directors are confident an alternative source of funding from the parent entity can be obtained to provide the group with sufficient liquidity to meet the needs of the operations and to enable debts to be paid as they fall due.

(c) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Nitro Software Pty Ltd ('company' or 'parent entity') as at 31 December 2017 and the results of all subsidiaries for the year then ended. Nitro Software Pty Ltd and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group.

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

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US dollars, presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the 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 year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income within finance costs. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

1 Summary of significant accounting policies (continued)

(d) Foreign currency translation (continued)

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position
- income and expenses for each consolidated income statement and consolidated statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Sale of software

Software license agreements are entered through direct sales to customers and through distributor agreements. The license agreements include post-contract customer support. Post contract customer support includes rights to receive unspecified software license updates and upgrades, maintenance releases and patches released during the term of the support period, and internal and telephone access to technical support personnel and content.

Revenue from sale of license agreement is recognised on a straight line basis over the period of license, from the date of contract until expiry, reflecting the period over which the services are supplied.

(ii) Sale of goods (perpetual software licenses)

Revenue is recognised when the significant risk and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer. In the case of product, this is typically when a binding purchase order in conjunction with a signed contract or distributor agreement as evidence of an arrangement. In circumstances where the customer does not issue purchase orders separate from a signed contract, the signed contract is used as evidence of the arrangement.

(iii) Maintenance and cover support

Unearned income is recognised upon receipt of payment for maintenance/support contracts. Revenue is brought to account over time as it is earned.

(iv) Interest income

Income is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

1 Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(v) Deferred revenue

Deferred revenue consists of deferred license revenue and maintenance fees. Deferred revenue is recorded net of pre-billed services and post-contract customer support billings for which the term has not commenced. Deferred license revenue relates to product sales being recognised ratably over the term of the licensing arrangement. Deferred maintenance fees generally relate to payments for maintenance in advance of the time of delivery of services. These deferred amounts are expected to be recognised as revenue based on the policy outlined above.

(f) Income tax

The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(g) Leases

Leases of property, plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

1 Summary of significant accounting policies (continued)

(g) Leases (continued)

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 21). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(i) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, 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, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

(j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 12 months of the end of the reporting period. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

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

1 Summary of significant accounting policies (continued)

(k) Property, plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on the cost basis and are therefore carried at cost less accumulated depreciation and any accumulated impairment losses. In the event the carrying amount of plant and equipment is greater than its estimated recoverable amount, the carrying amount is written down immediately to its estimated recoverable amount and impairment losses recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation of furniture and fixtures and computer equipment is measured using the straight-line method over estimated useful lives of the assets, generally three to five years. Leasehold improvements are amortised over the lesser of the estimated useful life of the asset or the remaining lease term.

The depreciation rates used for each class of depreciable assets are:

- Leasehold improvements	20%
- Furniture and fittings	33%
- Office equipment	33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

(l) Intangible assets

(i) IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight-line basis over periods generally ranging from 2 to 5 years.

The amortisation rates used for each class of intangible assets are:

- Intellectual property	20%
- Software	33% - 40%
- Commercialised software	50%
- Domains	33%

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the group has an intention and ability to use the asset.

1 Summary of significant accounting policies (continued)

(l) Intangible assets (continued)

(ii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 3 to 5 years.

(m) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(n) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the year of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the year of the facility to which it relates.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(o) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

1 Summary of significant accounting policies (continued)

(p) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(q) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

1 Summary of significant accounting policies (continued)

(r) Contributed equity

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.

(s) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(t) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of 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 taxation authority is included with other receivables or payables in the consolidated 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 taxation authority, are presented as operating cash flows.

(u) Parent entity financial information

The financial information for the parent entity, Nitro Software Pty Ltd, disclosed in note 25 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Nitro Software Pty Ltd. Dividends received from associates are recognised in the parent entity's profit or loss when its right to receive the dividend is established.

(ii) Tax consolidation legislation

Nitro Software Pty Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Nitro Software Pty Ltd, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Nitro Software Pty Ltd also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Nitro Software Pty Ltd for any current tax payable assumed and are compensated by Nitro Software Pty Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Nitro Software Pty Ltd under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

1 Summary of significant accounting policies (continued)

(u) Parent entity financial information (continued)

(ii) Tax consolidation legislation (continued)

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

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(iii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

(iv) Share based payments

The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

2 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the group's accounting policy.

(i) Research & development costs

During the year the group incurred research & development costs relating to the design and testing of new or improved products. Management recognise these costs as an intangible asset when it is probable that the project will, after considering its commercial and technical feasibility, generate future economic benefits and the costs can be measured reliably.

On an annual basis the useful lives of the intangible assets are reviewed and management deem the useful lives of research & development costs to be 2 years. This is an appropriate estimate to determine when the full future economic benefits will flow to the group.

(ii) Going concern

The company estimates the future cash resources necessary in order for it to be able to continue as a going concern. The group plans to raise equity from investors and the inability to obtain additional debt or equity financing, on terms acceptable to the company, or at all, could adversely affect the company's ability to continue as a going concern. There is also an inherent uncertainty in the company's cash flow forecast in relation to phasing of proposed expenditure which may impact the forecast cash position.

Nitro Software Pty Ltd
Notes to the consolidated financial statements
31 December 2017
(continued)

3 Other (loss)

	2017 \$	2016 \$
Net gain/(loss) on disposal of property, plant and equipment	12,032	(822,311)
Net foreign exchange (losses)	(792,628)	(213,265)
Other income	14,893	12,514
	<u>(765,703)</u>	<u>(1,023,062)</u>

4 Expenses

	2017 \$	2016 \$
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(Loss) before income tax includes the following specific expenses:

<i>Employee benefits expenses</i>		
Wages and salaries	21,601,509	22,999,171
Superannuation expense	86,495	86,750
Share-based payments expense	184,697	574,271
Total employee benefits expenses	<u>21,872,701</u>	<u>23,660,192</u>
 <i>Depreciation</i>	 863,717	 1,629,843
<i>Amortisation</i>	2,342,385	3,832,818
 <i>Rental expense relating to operating leases</i>		
Minimum lease payments owing	2,016,187	3,283,477
 <i>Finance costs</i>		
Interest and finance charges paid/payable	757,445	624,253
 <i>(Gain)/loss on disposal of fixed assets</i>	 (12,032)	 822,311
 <i>Bad debt expenses</i>	 26,011	 100,897

5 Current assets - Cash and cash equivalents

	2017 \$	2016 \$
Cash at bank	<u>5,926,035</u>	<u>11,418,892</u>

6 Current assets - Trade and other receivables

	2017 \$	2016 \$
Trade receivables	2,821,282	3,319,732
Provision for impairment of receivables	(76,167)	(62,481)
	<u>2,745,115</u>	<u>3,257,251</u>
Other receivables	172,318	209,513
Prepayments	598,966	819,193
	<u>3,516,399</u>	<u>4,285,957</u>

7 Non-current assets - Receivables

	2017 \$	2016 \$
Prepayments	-	2,075
Cash restricted or pledged	304,758	304,758
	<u>304,758</u>	<u>306,833</u>

8 Non-current assets - Property, plant and equipment

	Plant and equipment \$	Furniture, fittings and equipment \$	Leasehold improvements \$	Total \$
At 31 December 2016				
Cost	2,393,387	835,691	3,464,825	6,693,903
Accumulated depreciation	(2,186,862)	(723,028)	(2,167,633)	(5,077,523)
Net book amount	<u>206,525</u>	<u>112,663</u>	<u>1,297,192</u>	<u>1,616,380</u>
At 31 December 2017				
Cost	2,254,595	836,426	3,466,513	6,557,534
Accumulated depreciation	(2,214,566)	(810,681)	(2,808,699)	(5,833,946)
Net book amount	<u>40,029</u>	<u>25,745</u>	<u>657,814</u>	<u>723,588</u>

9 Non-current assets - Intangible assets

	Intellectual property \$	Software \$	Commercialised software \$	Domains \$	Total \$
At 31 December 2016					
Cost	140,657	722,925	9,436,458	43,316	10,343,356
Accumulated amortisation and impairment	(53,596)	(645,038)	(6,563,351)	(40,375)	(7,302,360)
Net book amount	87,061	77,887	2,873,107	2,941	3,040,996
At 31 December 2017					
Cost	144,037	722,925	11,512,111	43,316	12,422,389
Accumulated amortisation and impairment	(79,702)	(704,603)	(8,816,477)	(43,316)	(9,644,098)
Net book amount	64,335	18,322	2,695,634	-	2,778,291

10 Current liabilities - Trade and other payables

	2017 \$	2016 \$
Trade payables	733,282	959,421
Other payables	1,808,020	2,360,473
	2,541,302	3,319,894

11 Current liabilities - Borrowings

	2017 \$	2016 \$
Secured		
Bank loans	2,700,000	2,400,000
Lease liabilities	249,522	911,898
Deferred rent	294,734	330,949
Total secured current borrowings	3,244,256	3,642,847

12 Current liabilities - Deferred income

	2017 \$	2016 \$
Deferred income	6,055,692	4,833,453

13 Current liabilities - Provisions

	2017 \$	2016 \$
Employee benefits	<u>488,819</u>	<u>578,655</u>

Leave obligations

The leave obligations cover the group's liability for long service leave and annual leave.

The current provision for employee benefits includes accrued annual leave, vesting sick leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	2017 \$	2016 \$
Current leave obligations expected to be settled after 12 months	<u>-</u>	<u>25,972</u>

14 Non-current liabilities - Borrowings

	2017 \$	2016 \$
Secured		
Bank loans	4,256,265	3,255,000
Lease liabilities	-	249,522
Deferred rent (i)	-	294,734
Total secured non-current borrowings	<u>4,256,265</u>	<u>3,799,256</u>

(i) In 2012, the company entered into a non-cancellable operating lease agreement for their office facility in San Francisco, California. The agreement included a rent incentive, which has been deferred and recognised on a straight line basis over the term of the lease arrangement.

15 Non-current liabilities - Deferred income

	2017 \$	2016 \$
Deferred income	<u>2,898,806</u>	<u>1,969,153</u>

16 Non-current liabilities - Provisions

	2017 \$	2016 \$
Employee benefits - long service leave	<u>2,579</u>	<u>33,704</u>

17 Contributed equity

(a) Share capital

	2017 Shares	2016 Shares	2017 \$	2016 \$
Ordinary shares - fully paid	7,288,281	7,268,854	498,189	460,761
Preference shares - series A	2,025,240	2,025,240	789,200	789,200
Preference shares - series B	1,665,113	1,665,113	6,600,000	6,600,000
Preference shares - series C	2,382,609	2,382,609	14,729,683	14,729,683
Preference shares - series D	2,362,520	1,732,514	17,813,113	12,838,359
	15,723,763	15,074,330	40,430,185	35,418,003

(b) Movements in ordinary share capital

Details	Number of shares	\$
Opening balance 1 January 2016	7,268,898	449,643
Change in functional currency	(3,960)	495
Exercise of options	4,583	12,328
Exercise of options	1,125	3,156
Exercise of options	1,875	5,213
Exercise of options	333	926
Cancellation of ESP	(2,000)	(5,560)
Cancellation of ESP	(2,000)	(5,440)
Closing balance 31 December 2016	<u>7,268,854</u>	<u>460,761</u>
Opening balance 1 January 2017	7,268,854	460,761
Foreign currency on employee share plan movement	3,960	(1,506)
Exercise of options	197	548
Exercise of options	229	637
Exercise of options	2,000	3,518
Exercise of options	2,500	4,402
Exercise of options	2,000	2,785
Exercise of options	1,333	3,706
Employee share plan issue	400	1,244
Employee share plan issue	10,000	31,100
Cancellation of ESP	(792)	(2,202)
Cancellation of ESP	(2,000)	(5,560)
Cancellation of ESP	(400)	(1,244)
Closing balance 31 December 2017	<u>7,288,281</u>	<u>498,189</u>

17 Contributed equity (continued)

(c) Movements in preference shares - series A

Details	Number of shares	\$
Opening balance 1 January 2016	2,025,240	1,046,400
Change in functional currency	-	(257,200)
Closing balance 31 December 2016	2,025,240	789,200
Opening balance 1 January 2017	2,025,240	789,200
Closing balance 31 December 2017	2,025,240	789,200

(d) Movements in preference shares - series B

Details	Number of shares	\$
Opening balance 1 January 2016	1,665,113	6,865,509
Change in functional currency	-	(265,509)
Closing balance 31 December 2016	1,665,113	6,600,000
Opening balance 1 January 2017	1,665,113	6,600,000
Closing balance 31 December 2017	1,665,113	6,600,000

(e) Movement in preference shares - series C

Details	Number of shares	\$
Opening balance 1 January 2016	2,382,609	14,729,683
Closing balance 31 December 2016	2,382,609	14,729,683
Opening balance 1 January 2017	2,382,609	14,729,683
Closing balance 31 December 2017	2,382,609	14,729,683

(f) Movement in preference shares - series D

Details	Number of shares	\$
Opening balance 1 January 2016	-	-
Issue of preference shares	1,732,514	13,000,000
Transaction costs relating to issue of preference shares	-	(161,641)
Closing balance 31 December 2016	1,732,514	12,838,359
Opening balance 1 January 2017	1,732,514	12,838,359
Issue of preference shares	133,271	1,000,001
Issue of preference shares	33,318	250,003
Issue of preference shares	33,318	250,003
Issue of preference shares	66,635	499,999
Issue of preference shares	302,887	2,500,000
Issue of preference shares	60,577	500,000
Transaction costs relating to issue of preference shares	-	(25,252)
Closing balance 31 December 2017	2,362,520	17,813,113

17 Contributed equity (continued)

(g) Ordinary shares

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

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

(h) Preference shares

Series A,B,C Preference shares are entitled to receive any dividends declared by the Board as if the Series A, B equal to the number of Ordinary Shares which may be issued upon their conversion into Ordinary Shares.

(i) Options

As at 31 December 2017 there were 1,475,449 (2016: 1,881,487) options outstanding/unexercised.

18 Other reserves and (accumulated losses)

(a) Other reserves

	2017 \$	2016 \$
Employee equity benefits reserve	3,147,839	2,963,273
Foreign currency translation reserve	(2,990,178)	(2,608,895)
Warrant reserve	76,257	76,257
	<u>233,918</u>	<u>430,635</u>
	2017 \$	2016 \$

Movements:

<i>Employee equity benefits reserve</i>		
Opening balance 1 January	2,963,273	2,401,715
Employee share plan expense	184,566	561,558
Closing balance 31 December	<u>3,147,839</u>	<u>2,963,273</u>
<i>Foreign currency translation reserve</i>		
Opening balance 1 January	(2,608,895)	(3,474,660)
Adjustment from translation of foreign controlled entities	(381,283)	865,765
Closing balance 31 December	<u>(2,990,178)</u>	<u>(2,608,895)</u>
<i>Warrant reserve</i>		
Opening balance 1 January	76,257	38,438
Issue of warrant	-	37,819
Closing balance 31 December	<u>76,257</u>	<u>76,257</u>

18 Other reserves and (accumulated losses) (continued)

(b) (Accumulated losses)

Movements in (accumulated losses) were as follows:

	2017 \$	2016 \$
Opening balance 1 January	(33,236,978)	(15,809,525)
Net (loss) for the year	(13,504,204)	(17,445,416)
Change in foreign currency	-	17,963
Closing balance 31 December	<u>(46,741,182)</u>	<u>(33,236,978)</u>

(c) Nature and purpose of other reserves

(i) Employee equity benefits reserve

The employee share benefits reserve is used to record the value of share-based payments provided to employees, including key management personnel as part of their remuneration.

(ii) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(iii) Warrant reserve

The warrants reserve is used to record the value of warrants issued to third parties against the shares of the company.

19 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

(a) PricewaterhouseCoopers

	2017 \$	2016 \$
<i>Audit and other assurance services</i>		
Audit and review of financial statements	142,966	139,628
Total remuneration for audit and other assurance services	<u>142,966</u>	<u>139,628</u>
<i>Taxation services</i>		
Tax compliance services	38,005	49,042
Total remuneration for taxation services	<u>38,005</u>	<u>49,042</u>
Total remuneration of PricewaterhouseCoopers	<u>180,971</u>	<u>188,670</u>

19 Remuneration of auditors (continued)

(b) Non-PricewaterhouseCoopers related audit firms

	2017 \$	2016 \$
<i>Taxation services</i>		
Taxation serves	23,000	15,000
Total remuneration for taxation services	<u>23,000</u>	<u>15,000</u>
 Total remuneration of non-PricewaterhouseCoopers audit firms	 <u>23,000</u>	 <u>15,000</u>
 Total auditors' remuneration	 <u>203,971</u>	 <u>203,670</u>

20 Contingencies

The group had no contingent liabilities at 31 December 2017 (2016: \$nil).

21 Commitments

Lease commitments: group as lessee

Non-cancellable operating leases

	2017 \$	2016 \$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	2,016,187	2,161,692
Later than one year but not later than five years	-	1,121,785
	<u>2,016,187</u>	<u>3,283,477</u>

22 Subsidiaries

Significant investments in subsidiaries

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

Name of entity	Country of incorporation	Equity holding **	
		2017 %	2016 %
Nitro Software Inc.	United States of America	100	100
Nitro Software EMEA Limited	Ireland	100	100

** The proportion of ownership interest is equal to the proportion of voting power held.

23 Events occurring after the reporting period

On 20 December 2018, Aztag Pty Limited, M&S Skyleisure Pty Ltd Trust No. 1 and M&S Skyleisure Pty Ltd Trust No. 2 was issued US\$500,000 worth of series D preference shares.

On 24 December 2018, Marygold Three Trust, Wentova Pty Ltd ATF Wentova Employees Retirement Fund and Denkar Pty Ltd ATF Dunworth Superannuation Fund was issued US\$750,000.

On 24 December 2018, Gleneagle Asset Management ATF Alium Alpha Fund was issued US\$750,000.

The company raised US\$2,000,000 in total since the end of the financial year.

No other matters or circumstances have occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the group, the results of those operations or the state of affairs of the group or economic entity in subsequent financial years.

24 Cash flow information

(a) Reconciliation of (loss) after income tax to net cash (outflow) from operating activities

	2017 \$	2016 \$
(Loss) for the year	(13,504,204)	(17,445,416)
Depreciation and amortisation	1,477,706	5,462,661
Non-cash retirement benefits expense	184,566	561,557
Net (gain) loss on sale of non-current assets	(12,032)	822,311
Net exchange differences	381,283	188,804
Change in operating assets and liabilities:		
Decrease in trade and other receivables	771,633	1,001,037
(Increase) in income tax receivables	(36,078)	(78,853)
Decrease (increase) in net deferred tax assets	11,122	(155,455)
(Decrease) increase in trade and other payables	(136,145)	2,199,727
Increase in deferred income	2,151,892	2,046,471
(Decrease) in provision for income taxes payable	(23,672)	(180,613)
Increase (decrease) in net deferred tax liabilities	6,623	(380,369)
(Decrease) increase in other provisions	(120,961)	93,968
Net cash (outflow) from operating activities	<u>(8,848,267)</u>	<u>(5,864,170)</u>

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

	2017 \$	2016 \$
Net debt		
Cash and liquid investments	5,926,035	11,418,892
Borrowings - repayable within one year (including overdraft)	(3,244,256)	(3,642,847)
Borrowings - repayable after one year	(4,256,265)	(3,799,256)
Net debt	<u>(1,574,486)</u>	<u>3,976,789</u>
 Cash and liquid investments	 5,926,035	 11,418,892
Gross debt - fixed interest rates	(7,500,521)	(7,442,103)
Net debt	<u>(1,574,486)</u>	<u>3,976,789</u>

24 Cash flow information (continued)

(b) Net debt reconciliation (continued)

	Cash/bank overdraft \$	Borrowings due within 1 year \$	Borrowings due after 1 year \$	Total \$
Net debt as at 1 January 2017	11,418,892	(3,642,847)	(3,799,256)	3,976,789
Cash flows	(5,492,857)	398,591	(457,009)	(5,551,275)
Net debt as at 31 December 2017	<u>5,926,035</u>	<u>(3,244,256)</u>	<u>(4,256,265)</u>	<u>(1,574,486)</u>

25 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2017 \$	2016 \$
Statement of financial position		
Current assets	8,287,646	3,649,600
Non-current assets	33,536,568	33,555,879
Total assets	<u>41,824,214</u>	<u>37,205,479</u>
Current liabilities	254,881	563,819
Non-current liabilities	25,166	77,843
Total liabilities	<u>280,047</u>	<u>641,662</u>
Net assets	<u>41,544,167</u>	<u>36,563,817</u>
Shareholders' equity		
Issued capital	40,430,185	35,417,999
Reserves	(4,344,857)	(4,344,857)
Retained earnings	5,458,839	5,490,675
Total equity	<u>41,544,167</u>	<u>36,563,817</u>
(Loss)/profit for the year	<u>(31,836)</u>	<u>914,070</u>
Total comprehensive (loss)/income	<u>(31,836)</u>	<u>914,070</u>

(b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 December 2017 (2016: \$nil).

As stated in note 1(a) to the consolidated financial statements, in the directors' opinion, the company is not a reporting entity because there are no users dependent on general purpose financial reports. This is a special purpose financial report that has been prepared to meet *Corporations Act 2001* requirements.

The financial report has been prepared in accordance with Accounting Standards and mandatory professional reporting requirements to the extent described in note 1.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 4 to 31 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards and other mandatory professional reporting requirements as detailed above, and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable on the basis that the company is able to successfully raise funds within the next 12 months.

This declaration is made in accordance with a resolution of directors.



Richard Wenzel
Director

Melbourne
8 March 2019

Independent auditor's report to the members of
Nitro Software Pty Ltd

{The Auditor's report will be provided by your Auditor.}



Auditor's Independence Declaration

As lead auditor for the audit of Nitro Software Pty Ltd for the year ended 31 December 2017, 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.

This declaration is in respect of Nitro Software Pty Ltd and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'S. Loble'.

Sam Loble
Partner
PricewaterhouseCoopers

Melbourne
8 March 2019



Independent auditor's report

To the members of Nitro Software Pty Ltd

Our opinion

In our opinion:

The accompanying financial report of Nitro Software Pty Ltd (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards to the extent described in Note 1 and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 31 December 2017
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of matter - basis of accounting and restriction on use

We draw attention to Note 1 in the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable

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for another purpose. Our report is intended solely for Nitro Software Pty Ltd and its members and should not be used by parties other than Nitro Software Pty Ltd and its members. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Group's Special purpose financial report for the year ended 31 December 2017, including the Director's Report, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of *Corporations Act 2001* and is appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or 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 the financial report.



A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

A handwritten signature in black ink, appearing to read 'Marshall Cooper'.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Sam Loble'.

Sam Loble
Partner

Melbourne
8 March 2019