

Nitro Software Pty Ltd

ABN 15 079 215 419

**Annual report
for the year ended 31 December 2018**

Nitro Software Pty Ltd ABN 15 079 215 419
Annual report - 31 December 2018

Contents

	Page
Directors' report	1
Financial statements	6
Directors' declaration	48
Independent auditor's report to the members	49

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 2018.

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
John Dyson

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 (2017: \$nil).

Review of operations

The loss from ordinary activities after income tax amounted to \$5,518,541 (2017 loss: \$11,013,948).

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 22 August 2019, M&S Skyleisure Pty Ltd Trust No. 1 and M&S Skyleisure Pty Ltd Trust No. 2 was issued US\$250,000 worth of convertible loan notes.

On 23 August 2019, Regal Funds Management Pty Ltd was issued US\$2,375,000 worth of convertible loan notes.

On 30 August 2019, Thorney Technologies Ltd. and TIGA Trading Pty Ltd was issued US\$2,375,000 worth of convertible loan notes.

The company has raised US\$5,000,000 in total since the end of the financial year. The convertible loan note is able to be converted to ordinary shares if the company completes an initial public offering (IPO). If an IPO occurs prior to 31 December 2019 the note will be converted at 80% of the issue price of ordinary shares under the IPO. If an IPO occurs between 1 January 2020 and 31 December 2020, the note will be converted at 75% of the issue price of ordinary shares under the IPO. Otherwise, the company must redeem all convertible notes outstanding as at 31 December 2020 or unless agreed otherwise in writing.

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected the group's operations, results or state of affairs.

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.

Shares under option

(a) Unissued ordinary shares

Unissued ordinary shares of Nitro Software Pty Ltd under option at the date of this report are as follows:

Date options granted	Expiry year	Issue price of Shares	Number under option
2 Dec 2011	2021	AUD 1.84	709,660
24 Aug 2012	2022	AUD 2.00	8,000
30 Nov 2013	2023	AUD 2.22	15,500
12 May 2014	2024	AUD 3.72	161,850
28 Feb 2015	2025	USD 2.69	16,000
10 Aug 2015	2025	USD 2.78	33,853
29 Nov 2015	2027	USD 2.78	196,769
1 May 2017	2027	USD 3.11	221,242
15 Dec 2017	2027	USD 3.35	258,544
24 Jul 2018	2027	USD 3.35	305,424
			1,926,842

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

Included in these options were options granted as remuneration to the directors during the year. Details of options granted to key management personnel are disclosed in notes 29 and 33.

(b) Shares issued on the exercise of options

Ordinary shares of Nitro Software Pty Ltd were issued during the year ended 31 December 2018 on the exercise of options granted under the Nitro Employee Share Trust as disclosed in note 33. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Insurance of officers

(a) Insurance of officers

Nitro provides indemnities to directors and also provides management liability insurance in the amount of AUD\$10m (2017: AUD\$10m) for all directors and officers of the group's entities.

(b) Indemnity of auditors

Nitro Software Pty Ltd has agreed to indemnify their auditors, PricewaterhouseCoopers, to the extent permitted by law, against any claim by a third party arising from Nitro Software Pty Ltd's breach of their agreement. The indemnity stipulates that Nitro Software Pty Ltd will meet the full amount of any such liabilities including a reasonable amount of legal costs.

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*.

Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the board of directors to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

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

	Consolidated entity	
	2018	2017
	\$	\$
Other assurance services		
PricewaterhouseCoopers Australian firm:		
Other assurance services	18,687	-
Total remuneration for other assurance services	18,687	-
Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance services	15,921	15,415
Total remuneration for taxation services	15,921	15,415
Other services		
Network firms of PricewaterhouseCoopers' Australia	5,905	22,590
Total remuneration for other services	5,905	22,590
Total remuneration for non-audit services	40,513	38,005

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 5.

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.



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Richard Wenzel
Director

Melbourne
2 October 2019



Auditor's Independence Declaration

As lead auditor for the audit of Nitro Software Pty Ltd for the year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been:

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

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

Sam Loble
Partner
PricewaterhouseCoopers

Melbourne
2 October 2019

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Nitro Software Pty Ltd ABN 15 079 215 419

Annual report - 31 December 2018

Contents

	Page
Financial statements	
Consolidated statement of comprehensive income	7
Consolidated statement of financial position	8
Consolidated statement of changes in equity	9
Consolidated statement of cash flows	11
Notes to the consolidated financial statements	12
Directors' declaration	48
Independent auditor's report to the members	49

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 2 October 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 2018

		Consolidated entity	
		2018	2017
	Notes	\$	Restated *
			\$
Subscription revenue	6	6,887,923	2,958,826
Perpetual license and support revenue	6	25,518,528	24,897,335
Total revenue from ordinary activities		32,406,451	27,856,161
Cost of sales		3,845,533	3,630,490
Gross profit		28,560,918	24,225,671
Sales and marketing		(15,434,551)	(17,483,147)
Research and development		(7,669,968)	(6,632,009)
General and administrative		(7,020,639)	(7,280,478)
Other income/(loss)	7	(1,187,589)	474,294
Finance costs	8	(648,805)	(779,650)
Depreciation and amortisation expense	8	(1,957,719)	(3,206,102)
(Loss) before income tax		(5,358,353)	(10,681,421)
Income tax expense	9	(160,188)	(332,527)
(Loss) for the year		(5,518,541)	(11,013,948)
Other comprehensive income			
<i>Item that may be reclassified to profit or loss</i>			
Adjustment from translation from foreign controlled entities	25(a)	239,448	(381,283)
Other comprehensive (loss)/income for the year, net of tax		239,448	(381,283)
Total comprehensive (loss) for the year		(5,279,093)	(11,395,231)
(Loss) is attributable to:			
Owners of Nitro Software Pty Ltd		(5,518,541)	(11,013,948)
		(5,518,541)	(11,013,948)
Total comprehensive (loss) for the year is attributable to:			
Owners of Nitro Software Pty Ltd		(5,279,093)	(11,395,231)
		(5,279,093)	(11,395,231)

- See note 2 for details about restatements for changes in accounting policies.

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 2018

		Consolidated entity	
		2018	2017
		\$	Restated *
Notes			\$
ASSETS			
Current assets			
	10	4,303,933	5,926,035
Cash and cash equivalents			
	11	8,113,615	4,610,454
Trade and other receivables			
		131,716	140,555
Current tax receivables			
	12	304,758	-
Other current assets			
Total current assets		12,854,022	10,677,044
Non-current assets			
	13	13,907,365	9,467,861
Receivables and contract assets			
	14	41,261	723,588
Property, plant and equipment			
	15	922,634	2,778,291
Intangible assets			
		163,037	144,333
Deferred tax assets			
	16	-	304,758
Other non-current assets			
Total non-current assets		15,034,297	13,418,831
Total assets		27,888,319	24,095,875
LIABILITIES			
Current liabilities			
	17	3,171,161	2,541,300
Trade and other payables			
	18	2,700,000	3,244,256
Borrowings			
	19	15,702,583	9,779,575
Deferred revenue			
		70,987	111,774
Current tax liabilities			
	20	576,341	489,080
Provisions			
Total current liabilities		22,221,072	16,165,985
Non-current liabilities			
	21	1,741,965	4,256,265
Borrowings			
	22	10,919,147	8,063,170
Deferred revenue			
	23	1,117	2,579
Provisions			
		-	11,545
Deferred tax liabilities			
Total non-current liabilities		12,662,229	12,333,559
Total liabilities		34,883,301	28,499,544
Net (liabilities)		(6,994,982)	(4,403,669)
EQUITY			
	24	42,555,214	40,430,185
Contributed equity			
	25(a)	1,036,117	233,918
Other reserves			
	25(b)	(50,586,313)	(45,067,772)
(Accumulated losses)			
Total (deficiency in equity)		(6,994,982)	(4,403,669)

- See note 2 for details about restatements for changes in accounting policies.

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 2018

	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) \$	
Consolidated entity							
Balance at 1 January 2017		35,418,003	76,257	2,963,273	(2,608,895)	(33,236,978)	2,611,660
Adjustment on adoption of AASB 15 (net of tax)		-	-	-	-	(816,846)	(816,846)
Restated total equity at the beginning of the financial year		35,418,003	76,257	2,963,273	(2,608,895)	(34,053,824)	1,794,814
(Loss) for the year		-	-	-	-	(11,013,948)	(11,013,948)
Other comprehensive income/(loss)		-	-	-	(381,283)	-	(381,283)
Total comprehensive (loss) for the year		-	-	-	(381,283)	(11,013,948)	(11,395,231)
Transactions with owners in their capacity as owners:							
Issue of preference shares	24	4,999,912	-	-	-	-	4,999,912
Employee share options	24, 25	-	-	184,566	-	-	184,566
Exercise of options	24	12,270	-	-	-	-	12,270
		<u>5,012,182</u>	<u>-</u>	<u>184,566</u>	<u>-</u>	<u>-</u>	<u>5,196,748</u>
Balance at 31 December 2017		40,430,185	76,257	3,147,839	(2,990,178)	(45,067,772)	(4,403,669)

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 2018
(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) \$	
Consolidated entity							
Balance at 1 January 2018		40,430,185	76,257	3,147,839	(2,990,178)	(45,067,772)	(4,403,669)
(Loss) for the year		-	-	-	-	(5,518,541)	(5,518,541)
Other comprehensive income/(loss)		-	-	-	239,448	-	239,448
Total comprehensive income/(loss) for the year		-	-	-	239,448	(5,518,541)	(5,279,093)
Transactions with owners in their capacity as owners:							
Issue of preference shares	24	2,054,402	-	-	-	-	2,054,402
Employee share options	24, 25	-	-	562,751	-	-	562,751
Exercise of options	25	70,627	-	-	-	-	70,627
		2,125,029	-	562,751	-	-	2,687,780
Balance at 31 December 2018		42,555,214	76,257	3,710,590	(2,750,730)	(50,586,313)	(6,994,982)

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 2018

	Consolidated entity	
		2017
	2018	Restated *
Notes	\$	\$
Cash flows from operating activities		
(Loss) for the year	(5,518,541)	(11,013,948)
Depreciation and amortisation	1,957,718	3,206,101
Non-cash employee benefits expense - share-based payments	562,751	184,566
Net loss (gain) on sale of non-current assets	544,115	(12,032)
Asset write-offs	37,533	-
Net exchange differences	467,728	(430,156)
Change in operating assets and liabilities:		
(Increase) in trade and other receivables	(7,942,665)	(2,686,010)
(Increase) decrease in deferred tax assets	(18,704)	11,122
Decrease (increase) in tax receivable	8,839	(319,964)
Increase (decrease) in trade and other payables	629,863	(778,592)
Increase in deferred revenue	8,778,985	2,375,222
(Decrease) in provision for income taxes payable	(40,787)	(23,672)
(Decrease) increase in deferred tax liabilities	(11,545)	6,623
Increase (decrease) in other provisions	94,542	(89,836)
Income taxes paid	(209,976)	427,575
Net cash (outflow) from operating activities	(660,144)	(9,143,001)
Cash flows from investing activities		
Payments for property, plant and equipment	(51,690)	(3,332)
Payment for capitalised software development costs	-	(2,048,009)
Proceeds from sale of property, plant and equipment	23,260	17,384
Net cash (outflow) from investing activities	(28,430)	(2,033,957)
Cash flows from financing activities		
Proceeds from issues of shares	24 2,125,028	5,000,000
(Repayments of)/proceeds from borrowings	(2,809,034)	1,595,999
Repayment of lease liabilities	(249,522)	(911,898)
Net cash (outflow) inflow from financing activities	(933,528)	5,684,101
Net (decrease) in cash and cash equivalents	(1,622,102)	(5,492,857)
Cash and cash equivalents at the beginning of the financial year	5,926,035	11,418,892
Cash and cash equivalents at end of year	10 4,303,933	5,926,035

- See note 2 for details about restatements for changes in accounting policies.

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	13
2 Changes in accounting policies	22
3 Financial risk management	24
4 Critical accounting estimates and judgements	28
5 Segment information	29
6 Revenue	30
7 Other income/(loss)	30
8 Expenses	31
9 Income tax expense	32
10 Current assets - Cash and cash equivalents	33
11 Current assets - Trade and other receivables	33
12 Current assets - Other current assets	34
13 Non-current assets - Receivables and contract assets	34
14 Non-current assets - Property, plant and equipment	35
15 Non-current assets - Intangible assets	36
16 Non-current assets - Other non-current assets	37
17 Current liabilities - Trade and other payables	37
18 Current liabilities - Borrowings	37
19 Current liabilities - Deferred revenue	37
20 Current liabilities - Provisions	38
21 Non-current liabilities - Borrowings	38
22 Non-current liabilities - Deferred revenue	38
23 Non-current liabilities - Provisions	39
24 Contributed equity	39
25 Other reserves and (accumulated losses)	41
26 Remuneration of auditors	42
27 Contingencies	43
28 Commitments	43
29 Related party transactions	43
30 Subsidiaries	44
31 Events occurring after the reporting period	44
32 Cash flow information	45
33 Share-based payments	45
34 Parent entity financial information	47

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

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Nitro Software Pty Ltd is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

The consolidated financial statements of the Nitro Software Pty Ltd group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by assets held for sale measured at fair value less costs to sell, 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

The group has applied the following standards and amendments for first time in their annual reporting period commencing 1 January 2018:

- AASB 9 *Financial Instruments*
- AASB 15 *Revenue from Contracts with Customers*

The group had to change its accounting policies following the adoption of AASB 9 and AASB 15.

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is set out below.

Amendments to AASB 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 is expected to be immaterial for the financial statements as at 31 December 2018.

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.

(b) 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 2018 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.

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

Subsidiaries (continued)

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 an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

(c) 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 at fair value through other comprehensive income are recognised in other comprehensive income.

1 Summary of significant accounting policies (continued)

(c) 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.

(d) Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer. The group recognises revenue when it transfers control over a product or service to a customer.

(i) Sale of subscription agreements

Software license agreements are entered through direct sales to customers and through reseller agreements.

Revenue from sale of license agreements are recognised on a straight line basis over the period of license, from the date a purchase order is raised until the end of the license agreement. Revenue is recognised "over time" which is reflective of when it transfers control of the subscription service to a customer.

In adopting AASB 15 to contracts with customers, the group has determined that there are no material rights offered by way of options for additional goods or services to be provided at a discount within the contractual terms. Where the group provides discounts to customers, these are factored into the transaction price and are recognised over the life of the contract.

(ii) Reseller agreements

The group enters in Software license agreements through reseller agreements, for which a reseller is entitled to a commission payment for new contracts obtained. The group have considered the requirements in AASB 15 of whether revenue from these contracts should be recognised gross (principal) or net of commissions paid to resellers (agent). On the basis that the group is responsible for delivering the licenses to the end customer including any maintenance and support, and the group bear collection and inventory risk of these contracts the revenue recognised from these agreements are recognised gross.

(iii) Sale of goods (perpetual license and support)

Revenue is recognised when control of the software products has transferred, being when the products are delivered to the customer "at a point in time", and there is no unfilled obligation that could affect the customer's acceptance of the software.

Delivery occurs when the perpetual license software has been provided to the customer and the customer has accepted the products in accordance with the revenue contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

1 Summary of significant accounting policies (continued)

(d) Revenue recognition (continued)

(iii) Sale of goods (perpetual license and support) (continued)

The license agreements include an optional post-contract customer support service. Post-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 access to support personnel and content.

(iv) Costs of obtaining a customer contract

AASB 15 requires that incremental costs associated with acquiring a customer contract, such as sales commissions, are recognised as an asset and amortised over a period that corresponds with the period of the benefit. Sales commissions and commissions paid to distributors relate to agreements that have a contractual duration of 3 years, thus is determined to be the period of the benefit.

(v) 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.

(vi) Deferred revenue

Deferred revenue is measured based on the consideration specified in a contract with a customer for which the customer has the right to use the software in the future. Subscription license agreements generally have terms of 3 years. Deferred license revenue relates to the portion of the subscription agreement that will be recognised over the term of licensing the agreement. Deferred maintenance fees generally relate to payments for software maintenance and support 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.

(e) Cost of sales

Cost of sales includes all expenses incurred attributable to the generation of revenue by the group. These costs typically include: payments made to retail merchants to manage revenue from online stores, services to ensure our services are able to be delivered (e.g. public cloud services), and personnel costs which are directly related to delivering post contract customer support.

(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.

1 Summary of significant accounting policies (continued)

(f) Income tax (continued)

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.

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 28). 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

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 of disposal 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 their contract terms, which can be over three years. They are presented as current assets for collection which is expected within 12 months of the reporting date, otherwise is classified as non-current.

1 Summary of significant accounting policies (continued)

(j) Trade receivables (continued)

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.

The contract assets relate to subscription license agreements with terms greater than 12 months and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

(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 are 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.

1 Summary of significant accounting policies (continued)

(l) Intangible assets

Software development costs

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.

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

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

Software development costs include 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.

(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) 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.

(q) 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.

(r) 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.

1 Summary of significant accounting policies (continued)

(r) Goods and Services Tax (GST) (continued)

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.

(s) Parent entity financial information

The financial information for the parent entity, Nitro Software Pty Ltd, disclosed in note 34 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.

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 Changes in accounting policies

A number of new or amended standards became applicable for the current reporting period and the group had to change its accounting policies as a result of adopting the following standards:

- AASB 9 *Financial Instruments*, and
- AASB 15 *Revenue from Contracts with Customers*.

In addition, the group made retrospective changes, as detailed below, as a result of adopting AASB 15.

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* and makes a number of changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for allowances against financial assets.

(a) AASB 9 Financial Instruments

The group has two types of financial assets that are subject to AASB 9's new expected credit loss model which is their trade receivables and contract assets for sale of license software.

The group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. Loss allowances in previous periods have not been material. Historical loss rates have been adjusted to reflect current and forward-looking information on factors impacting the ability of the customers to settle the outstanding debt.

The resulting change is not material and therefore comparative periods have not been restated.

(b) AASB 15 Revenue from Contracts with Customers

The group has adopted AASB 15 *Revenue from Contracts with Customers* from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The group has applied the AASB 15 full retrospective approach and has restated comparatives for the 2017 financial year. The group identified the following changes:

- Commissions costs incurred to obtain contracts which is required to be capitalised onto the consolidated statement of financial position and amortised over the contract life
- Long-term contracts which have been billed upfront are required to be recognised onto the consolidated statement of financial position (recognising both a long term asset and long term liability) and is unwound over the terms of the contract.

2 Changes in accounting policies (continued)

(b) AASB 15 Revenue from Contracts with Customers (continued)

In summary, the following adjustments were made to the amounts recognised in the consolidated statement of financial position at the date of initial application (1 January 2018) and the beginning of the earliest year presented (1 January 2017):

Consolidated statement of financial position (extract)	AASB 118 carrying amount 31 Dec 2017 \$	Remeasure- ments \$	AASB 15 carrying amount 31 Dec 2017 Restated \$
Current assets			
Trade and other receivables	3,516,399	1,094,055	4,610,454
Non-current assets			
Receivables and contract assets	-	8,666,934	8,666,934
Current liabilities			
Deferred revenue	(6,055,692)	(3,723,883)	(9,779,575)
Non-current liabilities			
Deferred revenue	(2,898,806)	(5,164,364)	(8,063,170)
Equity			
Retained earnings	44,195,030	872,742	45,067,772
Consolidated statement of comprehensive income (extract)	AASB 118 carrying amount 31 Dec 2017 \$	Remeasure- ments \$	AASB 15 carrying amount 31 Dec 2017 Restated \$
Other income/(loss)	(765,703)	1,239,997	474,294
Selling and marketing expenses	(16,968,269)	(514,878)	(17,483,147)
Impact on (loss) before tax	(11,406,540)	725,119	(10,681,421)

3 Financial risk management

(a) Market risk

(i) Foreign exchange risk

Exposure

The group's exposure to foreign currency risk at the end of the reporting year, expressed in US dollars, was as follows:

Consolidated entity

	AUD \$	AUD \$
Cash and cash equivalents	77,566	269,135
Trade receivables	55,208	28,200
Trade payables	(203,408)	(196,135)

Sensitivity

The group is primarily exposed to changes in US/AUD exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from AUD-denominated balances.

Consolidated entity

	Impact on post-tax profit 2018 \$	2017 \$
US/AUD exchange rate - increase 9% (10%) *	(9,022)	1,436
US/AUD exchange rate - decrease 9% (10%) *	8,277	(1,422)

* Holding all other variables constant

(ii) Cash flow and fair value interest rate risk

In January 2017, the group refinanced an existing loan for a supplemental amount of \$6,750,000 with the Silicon Valley Bank. This is the second amendment to the original loan agreement dated 9 July 2013. The group pay a variable interest rate during the year of 9% (2017: 8%).

The US dollar denominated bank loans are expected to be repaid with receipts from US dollar denominated sales. The foreign currency exposure of these loans has therefore not been hedged. The group's main interest rate risk arises from long-term borrowings with variable rates, which expose the group to cash flow interest rate risk. During 2018 and 2017, the group's borrowings at variable rate were denominated in US dollar.

The group's borrowings and receivables are carried at amortised cost. The borrowings are periodically contractually repriced (see below) and to that extent are also exposed to the risk of future changes in market interest rates. The exposure of the group's borrowing to interest rate changes of the borrowings at the end of the reporting period are as follows:

	2018 \$	Consolidated entity % of total loans	2017 \$	% of total loans
Variable rate borrowings	4,441,965	100.0%	6,956,265	100.0%
	4,441,965	100.0%	6,956,265	100.0%

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk (continued)

Sensitivity

Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates.

Consolidated entity	Impact on post-tax profit	
	2018 \$	2017 \$
Interest rates - increase by 25 basis points	11,105	17,391
Interest rates - decrease by 25 basis points	(11,105)	(17,391)

(b) Credit risk

Credit risk arises from cash and cash equivalents and contractual cash flows carried at amortised cost and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

(i) Impairment of financial assets

The group has trade receivables and contract assets which are subject to the expected credit loss model.

While cash and cash equivalents are also subject to the impairment requirements of AASB 9, the identified impairment loss was immaterial.

Trade receivables and contract assets

The group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to work contracted greater than 12 months and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables and accordingly adjusts the historical loss rates based on expected changes in these factors.

3 Financial risk management (continued)

(b) Credit risk (continued)

(i) Impairment of financial assets (continued)

Trade receivables and contract assets (continued)

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of AASB 9) was determined as follows for both trade receivables and contract assets:

31 December 2018	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total
Expected loss rate	0.38%	0.65%	0.90%	1.15%	
Gross carrying amount – trade receivables and contract assets	21,490,343	940,797	9,713	-	22,440,853
Loss allowance	(81,117)	(6,125)	(87)	-	(87,329)

1 January 2018	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total
Expected loss rate	0.52%	0.80%	1.05%	1.30%	
Gross carrying amount – trade receivables and contract assets	13,869,650	394,251	39,693	4,419	14,308,013
Loss allowance	(72,538)	(3,154)	(417)	(57)	(76,166)

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments (more than 30 days overdue).

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

3 Financial risk management (continued)

(c) Liquidity risk

(i) Financing arrangements

The group had access to the following borrowing facilities at the end of the reporting year:

	Consolidated entity	
	2018	2017
	\$	\$
Floating rate		
- Expiring within one year (bank overdraft and bill facility)	2,700,000	3,244,256
- Expiring beyond one year (bank loans)	1,741,965	3,712,009
	4,441,965	6,956,265

(ii) Maturities of financial liabilities

The tables below present the group's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities	12 months or less	Between 1 and 3 years	Between 3 and 5 years	Total contractual cash flows	Carrying amount (assets)/ liabilities
	\$	\$	\$	\$	\$
At 31 December 2018					
Non-derivatives					
Trade and other payables	3,171,163	-	-	3,171,163	3,078,799
Bank loan	2,700,000	1,741,965	-	4,441,965	4,312,587
Total non-derivatives	5,871,163	1,741,965	-	7,613,128	7,391,386
At 31 December 2017					
Non-derivatives					
Trade and other payables	2,541,299	-	-	2,541,299	2,479,316
Bank loan	3,244,256	3,712,009	-	6,956,265	6,786,600
Total non-derivatives	5,785,555	3,712,009	-	9,497,564	9,265,916

4 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) Solvency

The company estimates the future cash resources necessary in order for it to be able to continue as a going concern. The group is reliant on future capital raisings 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.

5 Segment information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

(a) Description of segments and principal activities

The group has determined operating segments based on the information reported to the group CEO and the rest of the leadership team. The group CEO and leadership team assess the group's performance on a product/service perspective and has identified two reportable segments:

1. Subscription - being the sale of 'software-as-a-service' to businesses providing access to a license.
2. Perpetual license and support - being the sale of perpetual license products (including optional support services) both direct to customers and to businesses.

The group CEO and the leadership team, defined as the chief operating decision makers, primarily uses a measure of Gross Profit to assess the performance of the operating segments.

	Subscription 2018 \$	Perpetual license and support 2018 \$	Total 2018 \$
Consolidated entity			
Revenue	6,887,923	25,518,528	32,406,451
Cost of goods sold	(943,660)	(2,901,873)	(3,845,533)
Gross profit	<u>5,944,263</u>	<u>22,616,655</u>	<u>28,560,918</u>
	Subscription 2017 \$	Perpetual license and support 2017 \$	Total 2017 \$
Consolidated entity			
Revenue	2,958,826	24,897,335	27,856,161
Cost of goods sold	(831,644)	(2,798,846)	(3,630,490)
Gross profit	<u>2,127,182</u>	<u>22,098,489</u>	<u>24,225,671</u>

Nitro Software Pty Ltd
Notes to the consolidated financial statements
31 December 2018
(continued)

6 Revenue

	Consolidated entity	
	2018	2017
	\$	\$
From continuing operations		
<i>Sales revenue</i>		
Subscription revenue	6,887,923	2,958,826
Perpetual license and support revenue	25,518,528	24,897,335
	32,406,451	27,856,161

7 Other income/(loss)

	Consolidated entity	
	2018	2017
	\$	Restated
	\$	\$
Net (loss)/gain on disposal of property, plant and equipment	(544,115)	12,032
Net foreign exchange gains/(losses)	(467,728)	430,156
Interest income	33,701	22,206
Other (loss)/income	(209,447)	9,900
	(1,187,589)	474,294

8 Expenses

	Consolidated entity	
	2018	2017
	\$	\$
(Loss) before income tax includes the following specific expenses:		
<i>Employee related expenses</i>		
Salaries and benefits	20,285,482	21,601,509
Superannuation expense	51,076	86,495
Share-based payments expense	561,658	184,697
Total employee related expenses	20,898,216	21,872,701
 <i>Depreciation</i>	 139,025	 863,717
 <i>Amortisation</i>	 1,818,694	 2,342,385
 <i>Rental expense relating to operating leases</i>		
Minimum lease payments owing	211,609	2,016,187
 <i>Finance costs</i>		
Interest and finance charges paid/payable	648,805	779,650
 <i>Bad debt expenses</i>	 1,288	 26,011

9 Income tax expense

This note provides an analysis of the group's income tax expense, shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the group's tax position. As the group is currently loss-making they do not pay any tax derived from profits. Income tax expenses recognised relate to the obligation to pay tax bodies in Ireland and Australia on intercompany profits.

(a) Income tax expense

	Consolidated entity	
	2018	2017
	\$	\$
<i>Current tax</i>		
Current tax on (loss) for the year	167,347	314,782
Total current tax expense	167,347	314,782
<i>Deferred income tax</i>		
(Increase)/decrease in deferred tax assets	(18,704)	11,122
Increase in deferred tax liabilities	11,545	6,623
Total deferred tax (benefit)/expense	(7,159)	17,745
Income tax expense	160,188	332,527
Income tax expense is attributable to:		
Profit from continuing operations	160,188	332,527

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated entity	
	2018	2017
	\$	\$
(Loss) from continuing operations before income tax expense	(5,358,353)	(10,681,421)
Tax at the Australian tax rate of 30.0% (2017 - 30.0%)	(1,607,506)	(3,204,426)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Losses not realised for tax	1,607,506	3,204,426
Subtotal	-	-
Foreign earnings taxed at different rates	160,188	332,527
Income tax expense	160,188	332,527

(c) Tax losses

The group has unused tax losses of \$49,044,793 which has not been recognised as a deferred tax asset. The unused tax losses were incurred by our United States operations and is not likely to generate taxable income in the foreseeable future. They can be carried forward indefinitely.

10 Current assets - Cash and cash equivalents

	Consolidated entity	
	2018	2017
	\$	\$
Cash at bank	4,303,933	5,926,035

11 Current assets - Trade and other receivables

	Consolidated entity	
	2018	2017
	\$	Restated \$
Trade receivables	3,736,905	2,821,282
Loss allowance	(20,075)	(18,734)
	3,716,830	2,802,548
Capitalised contract acquisition costs	2,953,028	1,170,051
Accumulated amortisation - contract acquisition costs	(878,180)	(133,429)
Other receivables	2,034,358	172,318
Prepayments	287,579	598,966
	8,113,615	4,610,454

(i) Classification as trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

(ii) Amortisation of contract acquisition costs

The amount of amortisation recognised in the reporting period in relation to contract acquisition costs was \$1,138,562 (2017: \$400,286).

(iii) Assets and liabilities related to contracts with customers

The group has recognised the following assets and liabilities related to contracts with customers:

	31 December 2018 \$	31 December 2017 Restated \$	1 January 2017 Restated \$
Consolidated entity			
Trade receivables, net	3,716,830	2,802,548	3,257,251
Contract assets, net	12,336,594	8,666,935	2,286,269
Capitalised contract acquisition costs, net	3,645,619	1,837,549	-
Total assets	19,699,043	13,307,032	5,543,520
Deferred revenue	(26,621,727)	(17,842,742)	(3,712,407)
Total liabilities	(26,621,727)	(17,842,742)	(3,712,407)

12 Current assets - Other current assets

	Consolidated entity	
	2018	2017
	\$	\$
Cash restricted or pledged	304,758	-

13 Non-current assets - Receivables and contract assets

	Consolidated entity	
	2018	2017
	\$	Restated \$
Contract assets	12,403,848	8,724,367
Loss allowance	(67,254)	(57,433)
	12,336,594	8,666,934
Capitalised contract acquisition costs	2,231,439	1,067,784
Accumulated amortisation - contract acquisition costs	(660,668)	(266,857)
	13,907,365	9,467,861

(i) Classification as trade receivables and contract assets

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement after 1 year and therefore are all classified as non-current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The contract assets relate to work contracted greater than 12 months and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

(ii) Significant changes in contract assets

Contract assets have increased by \$3,669,660 due to an increase in revenue contracts.

14 Non-current assets - Property, plant and equipment

Consolidated entity	Plant and equipment \$	Furniture, fittings and equipment \$	Leasehold improvements \$	Total \$
At 1 January 2017				
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 value	206,525	112,663	1,297,192	1,616,380
Year ended 31 December 2017				
Opening net book value	206,525	112,663	1,297,192	1,616,380
Additions	3,332	-	-	3,332
Disposals	(32,407)	-	-	(32,407)
Depreciation charge	(137,421)	(86,918)	(639,378)	(863,717)
Closing net book value	40,029	25,745	657,814	723,588
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 value	40,029	25,745	657,814	723,588
Consolidated entity				
Year ended 31 December 2018				
Opening net book value	40,029	25,745	657,814	723,588
Additions	-	11,988	39,602	51,590
Disposals	(13,675)	-	(553,730)	(567,405)
Depreciation charge	(22,163)	(20,042)	(124,307)	(166,512)
Closing net book value	4,191	17,691	19,379	41,261
At 31 December 2018				
Cost	510,316	133,087	81,014	724,417
Accumulated depreciation	(506,125)	(115,396)	(61,635)	(683,156)
Net book value	4,191	17,691	19,379	41,261

15 Non-current assets - Intangible assets

Consolidated entity	Intellectual property \$	Software \$	Capitalised software \$	Domains \$	Total \$
At 1 January 2017					
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 value	87,061	77,887	2,873,107	2,941	3,040,996
Year ended 31 December 2017					
Opening net book value	87,061	77,887	2,873,107	2,941	3,040,996
Additions	2,499	-	2,077,181	-	2,079,680
Amortisation charge	(25,225)	(59,565)	(2,254,654)	(2,941)	(2,342,385)
Closing net book value	64,335	18,322	2,695,634	-	2,778,291
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 value	64,335	18,322	2,695,634	-	2,778,291
Consolidated entity					
Year ended 31 December 2018					
Opening net book value	64,335	18,322	2,695,634	-	2,778,291
Disposals	(4,172)	-	(32,052)	-	(36,224)
Amortisation charge	(57,974)	(18,322)	(1,743,137)	-	(1,819,433)
Closing net book value	2,189	-	920,445	-	922,634
At 31 December 2018					
Cost	23,917	722,925	11,480,259	43,316	12,270,417
Accumulated amortisation and impairment	(21,728)	(722,925)	(10,559,814)	(43,316)	(11,347,783)
Net book value	2,189	-	920,445	-	922,634

16 Non-current assets - Other non-current assets

	Consolidated entity	
	2018	2017
	\$	\$
Cash restricted or pledged	-	304,758

17 Current liabilities - Trade and other payables

	Consolidated entity	
	2018	2017
	\$	\$
Trade payables	594,651	733,282
Accrued expenses	1,928,258	1,252,603
Other payables	648,252	555,415
	3,171,161	2,541,300

18 Current liabilities - Borrowings

	Consolidated entity	
	2018	2017
	\$	\$
Secured		
Bank loans	2,700,000	2,700,000
Lease liabilities	-	249,522
Deferred rent	-	294,734
Total secured current borrowings	2,700,000	3,244,256

Under the terms of the borrowing agreement, the group is required to comply with the following financial covenants:

- As at 31 December 2018, a minimum bookings (defined as total contract value of all agreements) as set and agreed by the financial institution, but to require a minimum annual growth of 10% year-over-year.
- As at 31 December 2017, a minimum bookings (defined as total contract value of all agreements) of \$10,500,000.

The group has complied with these covenants throughout both reporting periods.

19 Current liabilities - Deferred revenue

	Consolidated entity	
	2018	2017
	\$	Restated \$
Deferred revenue	15,702,583	9,779,575

(i) Significant changes in deferred revenue

Deferred revenue has increased by \$5,923,008 due to an increase in revenue contracts.

Refer to note 1(d)(vi) for the group's policy for deferred revenue.

20 Current liabilities - Provisions

	Consolidated entity	
	2018	2017
	\$	\$
Employee benefits	576,341	489,080

Leave obligations

The leave obligations cover the group's liabilities for long service 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.

	Consolidated entity	
	2018	2017
	\$	\$
Current leave obligations expected to be settled after 12 months	1,117	2,579

21 Non-current liabilities - Borrowings

	Consolidated entity	
	2018	2017
	\$	\$
Secured		
Bank loans	1,741,965	4,256,265

22 Non-current liabilities - Deferred revenue

	Consolidated entity	
	2018	2017
	\$	Restated
	\$	\$
Deferred revenue	10,919,147	8,063,170

(i) Significant changes in deferred revenue

Deferred revenue has increased by \$2,855,977 due to an increase in revenue contracts.

Refer to note 1(d)(vi) for the group's policy for deferred revenue.

22 Non-current liabilities - Deferred revenue (continued)

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current period relates to carried-forward deferred revenue.

	Consolidated entity	
	2018	2017
	\$	Restated \$
<i>Revenue recognised that was included in the deferred revenue balance at the beginning of the period</i>		
Contracts	9,343,751	6,036,321

23 Non-current liabilities - Provisions

	Consolidated entity	
	2018	2017
	\$	\$
Employee benefits - long service leave	1,117	2,579

24 Contributed equity

(a) Share capital

	2018 Shares	2017 Shares	2018 \$	2017 \$
Ordinary shares - fully paid	7,338,365	7,288,281	628,587	498,189
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	2,387,374	2,382,609	14,729,683	14,729,683
Preference shares - series D	2,579,539	2,362,520	19,807,744	17,813,113
	15,995,631	15,723,763	42,555,214	40,430,185

(b) Movements in ordinary share capital

Details	Number of shares	\$
Opening balance 1 January 2017	7,268,854	460,761
Foreign currency on employee share plan movement	3,960	(1,506)
Exercise of options	8,259	15,596
Employee share plan issue	10,400	32,344
Cancellation of ESP	(3,192)	(9,006)
Closing balance 31 December 2017	7,288,281	498,189
Opening balance 1 January 2018	7,288,281	498,189
Exercise of options	39,778	70,627
Cancellation of ESP	(27,894)	(68,201)
Employee share plan issue	38,200	127,970
Closing balance 31 December 2018	7,338,365	628,585

24 Contributed equity (continued)

(c) Movements in preference shares - series A

Details	Number of shares	\$
Opening balance 1 January 2017	2,025,240	789,200
Closing balance 31 December 2017	2,025,240	789,200
Opening balance 1 January 2018	2,025,240	789,200
Closing balance 31 December 2018	2,025,240	789,200

(d) Movements in preference shares - series B

Details	Number of shares	\$
Opening balance 1 January 2017	1,665,113	6,600,000
Closing balance 31 December 2017	1,665,113	6,600,000
Opening balance 1 January 2018	1,665,113	6,600,000
Closing balance 31 December 2018	1,665,113	6,600,000

(e) Movement in preference shares - series C

Details	Number of shares	\$
Opening balance 1 January 2017	2,382,609	14,729,683
Closing balance 31 December 2017	2,382,609	14,729,683
Opening balance 1 January 2018	2,382,609	14,729,683
Closing balance 31 December 2018	2,382,609	14,729,683

(f) Movement in preference shares - series D

Details	Number of shares	\$
Opening balance 1 January 2017	1,732,514	12,838,359
Issue of preference shares	630,006	5,000,006
Transaction costs relating to issue of preference shares	-	(25,252)
Closing balance 31 December 2017	2,362,520	17,813,113
Opening balance 1 January 2018	2,362,520	17,813,113
Issue of preference shares	217,019	1,999,993
Transaction costs relating to issue of preference shares	-	(5,362)
Closing balance 31 December 2018	2,579,539	19,807,744

24 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 and D Preference shares are entitled to receive any dividend declared by the Board as it they are equal to the number of Ordinary Shares which may be issued upon their conversion into Ordinary Shares.

(i) Options

As at 31 December 2018 there were 1,926,842 (2017: 1,475,449) options outstanding/unexercised.

25 Other reserves and (accumulated losses)

(a) Other reserves

	Consolidated entity	
	2018	2017
	\$	\$
Employee equity benefits reserve	3,710,590	3,147,839
Foreign currency translation reserve	(2,750,730)	(2,990,178)
Warrant reserve	76,257	76,257
	1,036,117	233,918

	Consolidated entity	
	2018	2017
	\$	\$

Movements:

<i>Employee equity benefits reserve</i>		
Opening balance 1 January	3,147,839	2,963,273
Employee share plan expense	562,751	184,566
Closing balance 31 December	3,710,590	3,147,839

<i>Foreign currency translation reserve</i>		
Opening balance 1 January	(2,990,178)	(2,608,895)
Adjustment from translation of foreign controlled entities	239,448	(381,283)
Closing balance 31 December	(2,750,730)	(2,990,178)

<i>Warrant reserve</i>		
Opening balance 1 January	76,257	76,257
Issue of warrant	-	-
Closing balance 31 December	76,257	76,257

25 Other reserves and (accumulated losses) (continued)

(b) (Accumulated losses)

Movements in (accumulated losses) were as follows:

	Consolidated entity	
	2018	2017
	\$	Restated \$
Opening balance 1 January	(45,067,772)	(34,053,824)
Net (loss) for the year	(5,518,541)	(11,013,948)
Closing balance 31 December	(50,586,313)	(45,067,772)

(c) Nature and purpose of other reserves

(i) 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.

(ii) 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.

(iii) Warrant reserve

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

26 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

	Consolidated entity	
	2018	2017
	\$	\$
<i>Audit and other assurance services</i>		
Audit and review of financial statements	158,237	142,966
Other assurance services		
Other assurance services	18,687	-
Total remuneration for audit and other assurance services	176,924	142,966
<i>Taxation services</i>		
Tax compliance services	15,921	15,415
Total remuneration for taxation services	15,921	15,415
Total remuneration of PricewaterhouseCoopers	192,845	158,381

26 Remuneration of auditors (continued)

(b) Network firms of PricewaterhouseCoopers Australia

	Consolidated entity	
	2018	2017
	\$	\$
<i>Taxation services</i>		
Tax compliance services	5,905	22,590
Total remuneration for taxation services	5,905	22,590
Total remuneration of network firms of PricewaterhouseCoopers Australia	5,905	22,590
Total auditors' remuneration	198,750	180,971

27 Contingencies

The group had no contingent liabilities at 31 December 2018 (2017: \$nil).

28 Commitments

Lease commitments: group as lessee

Non-cancellable operating leases

	Consolidated entity	
	2018	2017
	\$	\$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	211,609	2,016,187

29 Related party transactions

(a) Key management personnel compensation

Key management personnel (KMP) are members of the leadership team who have authority and responsibility for planning, directing and controlling the activities of the group either directly or indirectly. They include all Directors of the Board and direct reports of the CEO.

	Consolidated entity	
	2018	2017
	\$	\$
Short-term employee benefits	1,727,418	1,427,049
Post-employment benefits	-	150,000
Share-based payments	286,386	128,385
Total key management personnel compensation	2,013,804	1,705,434

29 Related party transactions (continued)

(b) Loans to/from related parties

	Consolidated entity	
	2018	2017
	\$	\$
<i>Loans to key management personnel</i>		
Beginning of the year	65,469	86,242
Loans repayments received	(37,693)	(27,963)
Interest charged	3,131	7,190
End of year	30,907	65,469

(c) Terms and conditions

Loans were issue to directors in order to fund the exercise of options. The loans are scheduled to expire 30 August 2019.

30 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(b):

Name of entity	Country of incorporation	Equity holding **	
		2018 %	2017 %
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.

31 Events occurring after the reporting period

On 22 August 2019, M&S Skyleisure Pty Ltd Trust No. 1 and M&S Skyleisure Pty Ltd Trust No. 2 was issued US\$250,000 worth of convertible loan notes.

On 23 August 2019, Regal Funds Management Pty Ltd was issued US\$2,375,000 worth of convertible loan notes.

On 30 August 2019, Thorney Technologies Ltd. and TIGA Trading Pty Ltd was issued US\$2,375,000 worth of convertible loan notes.

The company has raised US\$5,000,000 in total since the end of the financial year. The convertible loan note is able to be converted to ordinary shares if the company completes an initial public offering (IPO). If an IPO occurs prior to 31 December 2019 the note will be converted at 80% of the issue price of ordinary shares under the IPO. If an IPO occurs between 1 January 2020 and 31 December 2020, the note will be converted at 75% of the issue price of ordinary shares under the IPO. Otherwise, the company must redeem all convertible notes outstanding as at 31 December 2020 or unless agreed otherwise in writing.

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.

32 Cash flow information

Net debt reconciliation

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

	Consolidated entity	
	2018	2017
	\$	\$
Net debt		
Cash and liquid investments	4,303,933	5,926,035
Borrowings - repayable within one year (including overdraft)	(2,700,000)	(3,244,256)
Borrowings - repayable after one year	(1,741,965)	(4,256,265)
Net debt	(138,032)	(1,574,486)
Cash and liquid investments	4,303,933	5,926,035
Gross debt - fixed interest rates	(4,441,965)	(7,500,521)
Net debt	(138,032)	(1,574,486)

	Liabilities from financing activities			
	Cash/bank overdraft	Borrow. due within 1 year	Borrow. due after 1 year	Total
	\$	\$	\$	\$
Consolidated entity				
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	5,926,035	(3,244,256)	(4,256,265)	(1,574,486)
Net debt as at 1 January 2018	5,926,035	(3,244,256)	(4,256,265)	(1,574,486)
Cash flows	(1,622,102)	544,256	2,514,300	1,436,454
Net debt as at 31 December 2018	4,303,933	(2,700,000)	(1,741,965)	(138,032)

33 Share-based payments

(a) Employee Option Plan

The establishment of the Nitro Employee Option Plan was approved by the Board of Directors in 2010. The Employee Option Plan is designed to provide long-term incentives for employees and directors to deliver long-term shareholder returns. Under the plan, participants are granted options which over a period of time. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of options that will vest depends on various performance factors, including share price growth, dividends and capital returns, ranking within a peer group of 20 selected companies that are listed on the Australian Stock Exchange over a three year period. Once vested, the options remain exercisable.

Options are granted under the plan for no consideration and carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share. The exercise price of options is based on the weighted average price at which the group's shares are valued by an external valuer.

33 Share-based payments (continued)

(a) Employee Option Plan (continued)

Set out below are summaries of options granted under the plan:

Consolidated entity	2018		2017	
	Average exercise price per share option	Number of options	Average exercise price per share option	Number of options
As at 1 January	\$2.73	1,475,449	\$2.70	1,886,441
Granted during the year	\$3.35	598,823	\$3.11	268,492
Exercised during the year	\$2.75	(41,340)	\$2.75	(8,259)
Forfeited during the year	\$2.73	(106,090)	\$2.73	(671,225)
As at 31 December	\$2.74	1,926,842	\$2.73	1,475,449

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Grant date	Expiry date	Exercise price	Share options 31 December 2018	Share options 31 December 2017
2011	2021	AUD 1.84	709,660	739,580
2012	2022	AUD 2.00	8,000	12,500
2012	2023	AUD 2.22	15,500	32,000
2014	2024	AUD 3.72	161,850	161,850
2015	2025	USD 2.69	16,000	21,291
2016	2025	USD 2.78	33,853	37,916
2016	2027	USD 2.78	196,769	227,071
2017	2027	USD 3.11	221,242	243,241
2018	2027	USD 3.35	258,544	-
2018	2027	USD 3.35	305,424	-
Total			1,926,842	1,475,449

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 31 December 2018 was \$3.35 per option (2017: \$3.11). The fair value at grant date is independently determined using an adjusted form of the Black Scholes Model that takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of the peer group companies.

34 Parent entity financial information

(a) Summary financial information

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

	2018 \$	2017 \$
Statement of financial position		
Current assets	10,310,768	8,203,247
Non-current assets	33,566,450	33,536,568
Total assets	<u>43,877,218</u>	<u>41,739,815</u>
Current liabilities	273,408	254,881
Non-current liabilities	19,209	25,166
Total liabilities	<u>292,617</u>	<u>280,047</u>
Net assets	<u>43,584,601</u>	<u>41,459,768</u>
<i>Shareholders' equity</i>		
Issued capital	42,555,214	40,430,185
Reserves	(4,338,435)	(4,344,857)
Retained earnings	<u>5,367,822</u>	<u>5,374,440</u>
Total equity	<u>43,584,601</u>	<u>41,459,768</u>
(Loss) for the year	<u>(148,624)</u>	<u>(116,235)</u>
Total comprehensive (loss)	<u>(148,624)</u>	<u>(116,235)</u>

(b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 December 2018 (2017: \$nil).

Nitro Software Pty Ltd
Directors' declaration
31 December 2018

In the directors' opinion:

- (a) the financial statements and notes set out on pages 6 to 47 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 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.

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



□□□2□□

Richard Wenzel
Director

Melbourne
2 October 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 2018, I declare that to the best of my knowledge and belief, there have been:

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

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
2 October 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 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 31 December 2018
- 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 (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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2018, but does not include the financial report and our auditor's report thereon.



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

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

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

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards 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 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 stylized, handwritten signature in black ink, likely representing a member of the PricewaterhouseCoopers audit team.

PricewaterhouseCoopers

A stylized, handwritten signature in black ink, likely representing Sam Lobley, a Partner at PricewaterhouseCoopers.

Sam Lobley
Partner

Melbourne
2 October 2019