

Appendix 4E

Senetas Corporation Limited

Results for announcement to the market

ACN 006 067 607

1 Details of the reporting period and the previous corresponding period

	Reporting Period Financial Year ended 30 June 2020		Previous Corresponding Period Financial Year ended 30 June 2019	
2 Results for announcement to the market	30-Jun-20	30-Jun-19	Change	
	\$	\$	\$	%
2.1 Revenues from ordinary activities	22,604,983	21,313,012	1,291,971	6.06%
2.2 Loss on fair value through profit or loss investment	-	(1,892,941)	1,892,941	(100.00%)
2.3 Share of loss of an associate	(1,234,353)	(1,651,232)	416,879	(25.25%)
2.4 Fair value gain on step acquisition of Votiro	452,041	-	452,041	100.00%
2.5 Net (loss)/profit before tax attributable to members	(253,084)	319,802	(572,886)	(179.14%)
2.6 Net (loss)/profit after tax attributable to members	(1,087,747)	(463,345)	(624,402)	134.76%
2.7 Other comprehensive income for the year (foreign currency translation reserve)	51,812	55,399	(3,587)	6.47%
3 Net comprehensive loss after tax attributable to members	(1,035,935)	(407,945)	(627,990)	153.94%

Brief Explanation of Figures 2.1 to 2.6

Commentary on the results for the period can be found in the attached 30 June 2020 full year Directors' Report. The ASX Appendix 4e (Listing Rule 4.3A) should be read in conjunction with the 30 June 2020 Financial Report which has been audited by Ernst & Young, with an unmodified audit opinion and any public announcements made in the period by Senetas Corporation Limited in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules.

3 Statement of Comprehensive Income	Please refer to attached 30 June 2020 Financial Report
4 Statement of Financial Position	Please refer to attached 30 June 2020 Financial Report
5 Statement of Cash Flows	Please refer to attached 30 June 2020 Financial Report
6 Statement of Changes in Equity	Please refer to attached 30 June 2020 Financial Report
7 Dividends and distribution payments	
Interim dividend	None
Final dividend	No final dividend proposed

8 Details of Dividend Reinvestment Plan

N/A

9 Net tangible asset Backing

30-Jun-20 (Cents Per Share)	30-Jun-19 (Cents Per Share) ⁽¹⁾
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Net tangible asset backing per ordinary security	0.25	1.75
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⁽¹⁾ The Group applied for the first time AASB16 Leases for the year end 30 June 2020. The Group adopted the modified retrospective approach which does not require restatement of previous financial statements. The net tangible asset backing in FY19 has not been restated to include the impacts of AASB 16.

10 Details of Entities Over Which Control Has Been Gained or Lost During The Period

On 31 October 2019, Senetas gained control of Votiro Cybersec Global Limited following the increase in investment to 50.3% equity holding (on a fully diluted basis) as part of a step acquisition. The fair value of the identifiable assets acquired and liabilities assumed in the acquisition have been determined. On the 10 January 2020, Senetas' equity holding (on a fully diluted basis) increased to 59.5%. Refer to Note 25 of the financial report for further details.

10 Details of Associates / Joint Venture Holdings

Associate: Votiro

Investment in associate - Votiro Cybersec Global Limited. Senetas increased its investment in associate on 7 August 2019 to 42.8% prior to obtaining control on 31 October 2019. Refer to Notes 24 and 25 for further details.

11 Other Information on Financial Statements

Please refer to attached 30 June 2020 Financial Report

12 Foreign Entities – accounting standards used to prepare report

Senetas Europe Ltd - IFRS

13 Other Information

None

Appendix 4E (continued)

Compliance Statement

- 1 This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and other standards acceptable to the ASX.
- 2 This report, and the accounts upon which the report is based (if separate), use the same accounting policies.
- 3 This report does give a true and fair view of the matters disclosed.
- 4 This report is based on accounts which have been audited and an unmodified audit report has been issued on these financial statements.
- 5 The entity has a formally constituted audit committee.



Francis W. Galbally
Chairman
Date 28 August 2020

Senetas Corporation Limited
ACN 006 067 607

Annual Financial Report
for the year ended 30 June 2020

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Corporate information

Non-Executive Directors

Francis W. Galbally - Chairman
Lachlan P. Given
Kenneth J. Gillespie
Lawrence D. Hansen
Philip Schofield

Executive Director and Chief Executive Officer

Andrew R. Wilson

Company Secretary

Brendan Case

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Investor Relations

For all investor enquiries
Phone: 1300 787 795
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Auditors

Ernst & Young

8 Exhibition Street
Melbourne VIC 3000

Annual General Meeting Date and Place

Annual General Meeting (AGM) of shareholders of Senetas Corporation Limited (Company) will be held as a virtual meeting on Friday 20 November 2020. Further details on how to register and login will be provided in the AGM Notice of Meeting.

Directors' Report

Senetas Corporation Ltd

Senetas Corporation Ltd (ASX: SEN) (Senetas / the Company), a leading developer and manufacturer of certified, high-assurance encryption hardware; virtualised (software based) network encryption; and advanced encrypted file sharing application.

Your directors are pleased to submit their report for the year ended 30 June 2020 (FY20).

Names, Qualifications, Experience and Special Responsibilities

The following directors were in office for the entire financial year and until the date of this report unless otherwise noted:

Francis W. Galbally	Director (Non-Executive Chairman)
Andrew R. Wilson	Director (Executive)
Lachlan P. Given	Director (Non-Executive)
Kenneth J. Gillespie	Director (Non-Executive)
Lawrence D. Hansen	Director (Non-Executive)
Philip Schofield	Director (Non-Executive)

Francis W. Galbally LLB (Hons) - Non-Executive Chairman

Mr Francis Galbally is the founder and non-executive Chairman of Senetas.

He held the positions of CEO and Chairman of the company from its commencement in 1999 until, for family reasons, Mr Galbally retired as an executive in February 2006 and as a director in May 2007.

In 2012 Mr Galbally led Senetas's significant capital and business restructure and re-joined the company as a significant shareholder and board member. He was re-appointed chairman on 30 April 2013.

Mr Galbally has over 35 years' experience in international business and commercial law. He is a graduate (first class honours) in Law at Melbourne University and worked in a professional legal practice for 15 years, specialising in business law. He was a partner in the leading law firm Galbally & O'Bryan during which time he successfully led a number of landmark commercial litigation cases.

An investor and corporate advisor, Mr Galbally is the major shareholder in Southbank Capital Pty Ltd. (AFSL 343678). He specialises in technology, environment, food, mining and energy sectors.

Mr Galbally has been a director, chairman and significant investor in a number of Australian Stock Exchange (ASX) listed companies over the past 25 years. As a result Mr Galbally has developed an extensive network of international business partners.

During his successful legal career, Mr Galbally was responsible for recovering more than \$1 billion in investor funds (\$1 for \$1) lost as a result of the major corporate failures (Pyramid Building Societies and Estate Mortgage Trusts) during the 1990's.

Francis Galbally is Director of the Cabrini Foundation. The Cabrini Foundation oversees and guides all fundraising activities on behalf of Cabrini, a not-for-profit, private, Catholic healthcare provider. Francis is also the Victorian convenor of the Constitution Education Fund of Australia – a non-political charity dedicated to advancing knowledge of the Australian constitution within the community. He is also a member of the Australian Institute of Company Directors.

Directors' Report

Andrew R. Wilson BEcon, CA, ACIS - Chief Executive Officer

Mr Andrew Wilson was appointed CEO on 15 August 2012. Previously he was Senetas's Chief Financial Officer (CFO) and Company Secretary. Throughout his career with Senetas, Mr Wilson has had a significant role in the important stages of the company's development since it was first listed on the ASX in 1999.

Mr Wilson has developed a strong understanding of Senetas's technologies and product applications, including customers' requirements and their distribution channels. His focus included product development, manufacturing and the business's financial drivers. Mr Wilson has significant expertise in the global cyber-security market and the data networking and encryption segments in particular.

Through his extensive engagement with cyber-security communities – government, commercial and regulatory – Mr Wilson has been closely involved in the management of the company's R&D and customers' security solution needs and expectations.

Mr Wilson's strong relationships in the international cyber-security sector, including solutions vendors and service providers, has contributed to his strong understanding of the markets and demand drivers for Senetas security products.

Commencing his career with KPMG working with the banking and broking financial sectors, Mr Wilson has also worked in the United Kingdom with Deutsche Bank and NatWest Bank Plc. His experience in corporate restructure has added to Mr Wilson's considerable financial and administrative skills.

Importantly, Mr Wilson brings to his CEO role strategic planning skills, a customer-centric focus and an understanding of the cyber-security markets' dynamics.

Mr Wilson is a member of the Institute of Chartered Accountants Australia and the Institute of Chartered Secretaries Australia.

Lachlan P. Given BBus - Non-Executive Director

Mr Lachlan Given is currently a consultant to Madison Park LLC, a global strategic and financial advisory business. Madison Park is Senetas's largest single shareholder, after participating in a comprehensive capital restructure in June 2012.

Prior to joining Madison Park in 2004, Mr Given spent five years working in the investment banking and equity capital markets divisions of Merrill Lynch in Hong Kong and Sydney, Australia. He specialised in the origination and execution of a variety of M&A, equity, equity-linked and fixed income transactions.

Until 18 September 2019 Mr Given held the role of Executive Chairman of EZCORP, Inc., a Nasdaq listed speciality financial services firm and is now Head of M&A and Funding. He is a board member of The Farm Journal Corporation, a 134 year old pre-eminent US agricultural media company; of CANSTAR Pty Ltd, the leading Australian financial services ratings and research firm; and of Cash Converters, an ASX listed retail and financial services organisation.

Mr Given graduated from the Queensland University of Technology with a Bachelor of Business majoring in banking and finance with distinction.

Kenneth J. Gillespie AC DSC CSM - Non-Executive Director

Mr Ken Gillespie retired from the Australian Army after a distinguished 43 year career rising to Lieutenant General and Chief of the Australian Army. He demonstrated high-order strategic planning, engagement and implementation skills, and excelled in high-command appointments. He was awarded a Companion in the Military Division of the Order of Australia and awarded the Legion of Merit (Commander) by the United States of America. He was also awarded the Meritorious Service Medal (Military) by the Republic of Singapore.

Directors' Report

Mr Gillespie currently serves on government, public company and not-for-profit sector organisations' boards. These include the Australian Strategic Policy Institute Council, Naval Group Australia, Airbus Group (Asia Pacific) (until June 2020) and the Anzac Research Institute. Mr Gillespie is also a member of the Government Advisory Panel and a member of the advisory board for Veolia Australia and New Zealand.

Recently, Mr Gillespie completed a five-year role as Chairman of the NSW Centenary of Anzac Advisory Council and has been the Defence Industry Advocate for the New South Wales Government. He also completed an independent advisory role to the Premier of NSW.

Currently, Mr Gillespie holds the position of Land Forces 2020 Convenor with the Aerospace Maritime Defence and Security Foundation. He advises government departments and corporations on strategy, infrastructure, leadership, and culture and change management. These include his appointment as Chair of the NSW Government Central West Freight and Transport Task Force.

Mr Gillespie is a successful speaker and supports ex-service organisations. He is an ambassador for national bowel and prostate cancer organisations, White Ribbon Australia and Soldier On.

Lawrence D. Hansen - Non-Executive Director

Mr Lawrence Hansen has had a successful career in leading international IT and data security organisations. He has a strong international M&A and business integration background, having directed world-wide teams since 2005.

Mr Hansen is currently an Operating Executive for Marlin Operations Group, Inc. Mr. Hansen joined Marlin in September 2015. Prior to joining Marlin, Mr Hansen was VP and general manager of Dell Software Group employing 3,000 staff in sales, marketing, channels and services, and oversaw its go to market strategy. Previously, Mr Hansen was President and CEO of SafeNet Inc. At SafeNet, he led a significant recapitalisation of the company that saw strong growth in revenues and profits before its successful sale to Gemalto NV. Gemalto NV was acquired by Thales and is Senetas' global distribution partner.

Mr Hansen's deep knowledge of Senetas' existing and potential global customer base, sales function, product development and innovation program makes him an extremely valuable addition to the Senetas board. Mr Hansen also brings his wealth of global experience in services, products, marketing and business planning.

Mr Hansen also held the role of president and CEO of Numara Software, a \$100 million business, where he oversaw the company's successful sale and integration into BMC Software.

From 2002 to 2011, Mr Hansen held several executive positions with CA Technologies including CIO, GM, Security and GM, Enterprise Products and Solutions.

Mr Hansen, a Canadian born US citizen, resides in McKinney, Texas.

Philip Schofield BEc - Non-Executive Director

Appointed to the Senetas board in December 2017, Mr Philip Schofield is an Executive Director at Canaccord Genuity Australia. Canaccord is a leading global financial services firm, operating in wealth management and capital markets.

Mr Schofield has over 30 years of international experience in the banking and finance sectors, including senior management and director roles. These positions include major investment banking groups Goldman Sachs and Citi Group.

Mr Schofield's experience in capital markets around the world's financial centres include his working in London, New York, Melbourne and Sydney. He obtained a Bachelor of Economics degree from Monash University, Melbourne.

As Senetas reviews and implements the Group's capital management and market facing strategies, Mr Schofield's expertise provides local and international perspectives.

Directors' Report

Company Secretary

Brendan Case MCom Law, BEc, CPA

Mr Brendan Case has more than 20 years of company secretarial, corporate governance and finance experience. He is a former Associate Company Secretary of National Australia Bank Limited (NAB), former secretary of NAB's Audit and Risk Committees and has held senior management roles in risk management and regulatory affairs.

Mr. Case worked for the NAB for almost 15 years and prior to joining NAB, he worked at UniSuper Limited for 8 years. He is a Chartered Secretary with a Masters of Commercial Law from the University of Melbourne and has degrees in both economics and finance.

DISTRIBUTIONS PAID AND PROPOSED

	Cents	\$
Distributions paid during the year:		
Capital return	0.000462	499,583
		<u>499,583</u>

CORPORATE INFORMATION

Senetas is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

CORPORATE STRUCTURE

Senetas has a direct controlling interest in each of the entities listed in Note 28. No other entities are included in the consolidated entity.

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activity of the entities within the consolidated group during the year was the sale of IT security products which provide network data security solutions to businesses and governments around the world.

EMPLOYEES

The consolidated group employed 61 employees as at 30 June 2020 (2019: 30 employees).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There are no significant changes in the state of affairs.

OPERATING & FINANCIAL REVIEW

FY2020 Financial Highlights:

- Group operating revenue of \$22.6 million – up 6.1%
- Underlying Senetas segment operating profit before tax up 4.8% to \$4.1 million prior to the impact of Votiro investment
- R&D investment continues to deliver new market opportunities
- Votiro global sales and marketing capability established – new North American distribution agreement signed with Thales
- Strong balance sheet position and no debt

Directors' Report

Full year ended 30 June 2020 (\$000's)	FY2020*	FY2019
Revenue from ordinary activities	22,605	21,313
Gross profit	19,641	16,692
Other income	712	708
Share of loss of an associate (Votiro)*	(1,234)	(1,651)
Profit (loss) before tax	(2,855)	320
Tax expense	(696)	(783)
Net profit (loss) after tax	(3,551)	(463)

*Votiro results consolidated from November 2019. Loss of associate in FY2020 reflects Senetas's share of Votiro results from July-October 2019

The following table highlights the underlying operating results for the Senetas operating segment for FY2020. The share of loss of an associate reflects Senetas's share of Votiro results for the 4 months to 31 October 2019. Votiro became a controlled entity from 1 November 2019 and its results for the 8 months to 30 June 2020 have therefore been reflected in the Votiro operating segment and consolidated in Senetas's financial statements for FY2020.

Full year ended 30 June 2020 (\$000's)	FY2020*	FY2019
Senetas operating segment		
Revenue from ordinary activities	19,790	21,313
Gross profit	16,950	16,692
Other income	1,254	708
Profit before tax	3,269	320
<i>Adjustments to calculate underlying Senetas segment net profit before tax</i>		
Share of loss of an associate (Votiro)*	1,234	1,651
Gain on step acquisition	(452)	-
Impairment to investment in SAT	-	1,893
Underlying Senetas segment net profit before tax	4,051	3,864

* Loss of associate in FY2020 reflects Senetas's share of Votiro results from July-October 2019

- Group operating revenue of \$22.6 million was up 6.1% over the prior year (FY2019: \$21.3 million)
- Group operating revenue includes \$2.8 million of revenue from Votiro for the period after it became a controlled entity in November 2019
- Gross margin of 87% was significantly higher than the prior period reflecting 96% gross margins for Votiro and the depletion of hardware inventory during the year
- The Group net loss before tax of \$2.9 million includes Senetas's share of Votiro losses for the first 4 months of the period before Votiro became a controlled entity (\$1.23 million), and \$6.1 million of Votiro operating losses for the 8 months from November 2019
- The Group net loss after tax was \$3.6 million including the results for Votiro
- The underlying operating profit before tax for the Senetas operating segment in FY2020 was \$4.1 million, 4.8% ahead of the prior period.
- Higher R&D in FY2020 was largely associated with finalising European certification and network independent encryption for hardware products
- Cost reduction initiatives implemented during FY2020 reduced Senetas corporate overheads by 8.2%
- The US\$2 million second tranche of Senetas's investment in Votiro was paid in 2 instalments totaling A\$2.9 million in August and October 2019. The final US\$2 million (A\$2.9 million) tranche of the investment was paid in January 2020 resulting in Senetas holding a controlling interest of approximately 60%
- Senetas retains a strong balance sheet with no debt and \$15.7 million of consolidated cash at 30 June 2020.

Directors' Report

The past year has seen further important developments in our business as we continued to bring new products to market and completed our investment in Votiro.

Importantly, in the current economic climate, the performance of the Senetas business has been strong despite a second half slowdown in hardware sales to US commercial customers, with good sales to government customers and strong recurring maintenance revenue streams leading to growth in FY2020 underlying profit before tax.

Overall, customer interest in Senetas and Votiro products remains strong, however, sales execution in some market segments has slowed as a result of COVID-19 related disruption to the normal customer engagement process and product testing procedures. However, we are pleased that no supply chain issues have emerged at this stage.

Notable milestones during the year included the final tranche of our investment in Votiro being completed in January 2020 leading to Senetas taking a controlling interest of approximately 60%. Votiro returned strong revenue growth during the year driven by the expansion of Asia Pacific sales to Singapore and the ANZ region, and initial sales into the North American market.

FY2020 also saw the completion of our development to provide network independent encryption capabilities for our hardware encryption portfolio which now have the capability to encrypt across both ethernet and internet networks, significantly expanding the customer environments across which Senetas hardware encryptors can be used.

After a significant period of development and testing Senetas has now finalised its custom algorithm encryptor that was developed specifically for the Eastern European market. Sales of the new encryptor remain subject to final Australian Government approvals prior to commencing export, however, a significant pipeline of orders for 10Gbps and 1Gbps encryptors has already been developed and we are optimistic that the first sales will be completed in the first half of FY2021.

Senetas's balance sheet remains strong with no debt and \$15.7 million of cash on hand and no debt at 30 June 2020.

Operational review

Group operating revenue growth of 6.1% in FY2020 was attributable to the consolidation of Votiro into Group revenue for the period from November 2019.

Senetas segment operating revenue was down 7.1% with lower product sales partially offset by good growth in maintenance revenue. Product sales revenue was higher in the Asia Pacific region, but lower in Europe and North America. Overall there was good growth in product sales revenue from government customers, offset by lower sales to commercial customers.

Recurring maintenance revenue in the Senetas business segment increased 15% in FY2020 and now represents 50% of total Group revenue. Stronger maintenance revenue reflects the increasing number of Senetas hardware encryptors in use globally.

Underlying net profit before tax for the Senetas business (prior to any impacts from the investment in Votiro and one-time items included in FY2019) was up 4.8% on a like for like basis compared to FY2019.

Having reached a position of control over Votiro during the year, Senetas has consolidated 100% of Votiro's revenue and earnings from November 2019. The Votiro segment net loss after tax for the period from November 2019 was \$5.8 million, of which \$2.5 million was attributable to non-controlling interests in Votiro.

Higher gross margins for the Group reflect lower inventory transfers and the depletion of Thales inventory during the period, and 96% gross margins for the Votiro business.

Sales of 100Gbps encryptors continue to grow as more customers move to adopt 100Gbps networks, but there has been an offsetting moderation in sales of 10Gbps encryptors.

Directors' Report

Senetas entered into a partnership in Australia with AUCloud during the year in relation to SureDrop. AUCloud is a sovereign Australian IaaS provider which now offers file sharing and collaboration capability with 100% data sovereignty and end-to-end encryption security to Australian customers.

Higher R&D costs in FY2020 were primarily associated with finalising the new European certification and the network independent encryption capabilities for hardware products. However, cost reduction initiatives implemented during FY2020 reduced Senetas corporate overheads by over 8%.

R&D and new product development

The major areas of R&D focus during the year were:

- Development of network independent encryption capabilities across layers 2, 3 and 4 for Senetas hardware encryptors; and
- European certification for Senetas's hardware encryptors
- Completion of development of Senetas's custom algorithm encryption solutions for the Eastern European market
- Investment in quantum safe encryption

Development of network independent encryption capabilities for Senetas's hardware encryptors was completed during the year and the 1Gbps encryptor has been launched into the market. Network independence for Senetas's CN series hardware encryptors provides the capability to operate concurrently across Ethernet and Internet networks – substantially increasing the product use cases.

Senetas has finalised its submission for the new European certification for Senetas hardware encryptors during the year and is awaiting final clearance. The certification will strengthen Senetas's market reach and creates the opportunity to generate new sales in the region where we cannot currently compete.

Development of Senetas's custom algorithm encryption solutions is targeted specifically at the Eastern European market. The first stage of product development was funded by a local technology partner but finalisation of the project has been delayed by a number of regulatory requirements both in Australia and offshore. A pipeline of sales has been developed for the new product and Senetas is optimistic that once the final Australian regulatory clearances are achieved that sales can commence in the first half of FY2021.

The advent of quantum computing poses the single greatest cybersecurity threat in history putting today's 'conventional' mathematics-based data encryption at risk. The Senetas crypto-agile and high-performance encryption platform is evolving from 'conventional' mathematics-based encryption algorithms to future quantum mechanics-based algorithms.

- Evaluated candidate quantum resistant algorithms
- Advanced random number generation
- Quantum key distribution

Providing an almost limitless and entirely random encryption of data. This will provide customers long-term data protection against the arrival of quantum computing.

Directors' Report

Votiro

Senetas completed its 3 tranche investment in Votiro convertible notes during the year with the 3rd tranche payment made in January 2020. Subsequently, Senetas's convertible notes automatically converted into ordinary shares in accordance with the terms of the notes in July 2020. Senetas's investment of US\$8 million across the 3 tranches resulted in a controlling interest in Votiro of approximately 60%.

FY2020 saw a number of highlights for the Votiro business. Sales grew strongly driven by initial sales into the North American market and the expansion of Asia Pacific sales into Singapore, Australia and New Zealand. Votiro's target markets in the near term remain Japan, Asia Pacific and North America with the North American market expected to become Votiro's largest sales market within the next 2 years.

Ransomware attacks are one of the greatest cyber security threats the world is facing. The capability of Votiro's File Disarmer to protect users against most ransomware threats is driving significant customer interest from both commercial and government customers.

In July 2020 Votiro announced a partnership and distribution agreement with Thales in relation to Votiro's Secure File Gateway product line. The partnership will focus on government agencies in North America and allow Votiro to substantially increase its footprint in the region.

Votiro R&D team has recently completed an upgrade to the Company's CDR technology to become a rapid deployment virtual appliance, further broadening the market opportunity for its products. The first deployment of the new product was delivered successfully in the US in May.

Despite COVID-19 uncertainty, Votiro continues to expect good sales growth in FY2021. Existing pipeline opportunities have been slower to progress, however, Votiro has been encouraged by ongoing customer interest in its products, including requests for proof of concept deployments. Large existing customers are also continuing to expand their user bases, with one large international financial services company having recently increased its user base for Votiro's CDR technology to over 30,000 instances.

Balance sheet and cash flow

Senetas's balance sheet at 30 June 2020 includes Votiro after it became a controlled entity from November 2019. Consolidated net assets increased 3% to \$20.3 million during the year with no debt and cash on hand of \$15.7 million at 30 June 2020.

Investing cash flows during the year included the first instalment of the 2nd tranche of Senetas's investment in Votiro (US\$1 million / A\$1.5 million), prior to Votiro becoming a controlled entity.

Other significant cash outflows during the period include \$0.5 million relating to the return of capital approved by shareholders at the 2019 AGM.

Net cash flow from operating activities in FY2020 was \$0.2 million, comprising \$3.3 million of operating cash inflows for the Senetas business segment and \$3.1 million of operating cash outflows for the Votiro business segment.

Outlook

FY2020 has seen some important technical milestones achieved with finalisation of our application for European certification, final developments on network independent encryption capability for our hardware encryptors and completion of the custom algorithm encryptors, all of which continue to expand the use case and customer opportunities for our products.

However, the broader economic impacts of COVID-19 across our key markets have caused some sales disruption and created uncertainty in relation to the near term outlook.

We have already seen some slowing of product sales to commercial customers in the second half of FY2020 but we have been encouraged by the resilience of the Senetas business and the ongoing market interest in Votiro's File Disarmer.

Directors' Report

Whilst we remain confident about the outlook for the Senetas and Votiro businesses, it seems clear that COVID-19 will cause some disruption in the near term. In particular, the disruption to normal customer engagement and product testing processes has the potential to lengthen the sales cycle and lead to some delays in sales completion, particularly in the Votiro business which doesn't have the same benefit of many long term customer relationships that the Senetas business has.

The FY2021 Senetas sales pipeline currently reflects a modest softening in near term sales demand, but no material impact is expected on recurring maintenance revenue. At this stage our global distribution partner, Thales, is expecting near term US commercial sales to be soft, however, the outlook for government customers and the EMEA region and Eastern Europe is looking positive.

The capability of Votiro's File Disamer to eliminate most threats posed by ransomware attacks is creating significant customer interest which is expected to drive continued Votiro sales growth in FY2021, but in the current COVID-19 environment that growth will potentially be at a slower rate than had been previously forecast.

The benefit of cost saving initiatives undertaken in FY2020 across the business are expected to continue into FY2021.

The increasing focus on cyber security by governments and commercial organisations continues to create opportunities for Senetas. In Australia, both the Federal and NSW Governments have recently made announcements focussed on sovereign cyber security initiatives.

The Australian government recently highlighted the growing threats to Australia's cybersecurity through increasingly sophisticated cyber-attacks targeting businesses and governments at all levels, and stressed the importance of cyber-resilience and sovereign cybersecurity solutions. This has been highlighted in the government's 2020 National Cybersecurity Strategy.

The government's statements about Australia's national cybersecurity resilience, in the face of these increasing cyber-threats, have included emphasis on Australian sovereign cybersecurity solutions. This emphasis provides important recognition of the world class Australian products and leadership in cybersecurity categories, and Senetas is increasingly seeing this translate into the choice of Australian cybersecurity solutions.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

On the 3 July 2020, the USD \$8 million convertible notes that Senetas Corporation Limited has previously subscribed for in Votiro Cybersec Global Pty Limited converted into ordinary shares in accordance with the terms of the convertible notes. Senetas also held 3 convertible preference shares which have also converted into ordinary shares in Votiro. As a result of the conversion, Senetas holds 59.5% of shares in Votiro on a fully diluted basis.

SHARE OPTIONS

Unissued Shares

As at the date of this report there were 9,425,000 unissued ordinary shares under performance rights and options. Refer to the remuneration report for executive performance rights and options and Note 30 for full details of the performance rights and options outstanding at the balance sheet date.

Performance rights and option holders do not have any right, by virtue of the performance right or option, to participate in any share issue of the Company or any related body corporate.

Shares Issued as a Result of the Exercise of Performance Rights

During the year 819,731 ordinary shares were issued to employees on the exercise of performance rights. These performance rights had an exercise price of zero. Refer Note 30 to the financial statements for further details.

Directors' Report

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Senetas has Director's & Officer's Liability Insurance covering the directors and officers against liability in addition to Employment Practices Insurance. The terms of the insurance and the insurer are subject to a confidentiality clause and are therefore not disclosed.

The Group also indemnifies all directors, the chief executive officer and the company secretary for any liability incurred by the officer as officers of the Group to the full extent permitted by law. In accordance with the Group's constitution in consideration of the officer agreeing to continue to act as an officer of the Group, the Group has agreed to:

- indemnify the officer against liabilities incurred while acting as an officer of the Group;
- provide the officer with insurance cover; and
- provide the officer access to Group documents which relate to the obligations of the officer contained in the Corporations Act for a period of 7 years.

The Group also has Professional Risk Insurance (including cover for cyber attack) and Public Liability Risk Insurance.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Group has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

ROUNDING

The Company is an entity to which ASIC Class Order 2016/191 applies and, accordingly the amounts contained in the financial report have been rounded to the nearest \$1 (where rounding is applicable).

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity is not subject to any particular or significant environmental regulations.

MEETINGS OF DIRECTORS

The following table summarises the number of meetings of directors and their attendance.

	Number of meetings	
	Held while a director	Attended
F. Galbally (Chair)	5	5
L. Given	5	5
K. Gillespie	5	5
L. Hansen	5	4
P. Schofield	5	5
A. Wilson	5	5

A total of five (5) Directors' meetings were held during the year ended 30 June 2020.

In addition, a two day board strategy session was held and two board briefing sessions were held.

The Company has an Audit and Risk Committee.

Members acting on the committee of the board during the year were:

	Number of meetings	
	Held while a director	Attended
L. Given (Chair)	2	2
F. Galbally	2	2
K. Gillespie	2	2

Mr A. Wilson attended two (2) Audit and Risk Committee meetings in the capacity of CEO.

A total of two (2) Audit and Risk Committee meetings were held during the year ended 30 June 2020.

Directors' Report

The Company has a Remuneration and Nomination Committee.
Members acting on the committee of the board during the year were:

	Number of meetings	
	Held while a director	Attended
K. Gillespie (Chair)	1	1
F. Galbally	1	1
L. Hansen	1	1

A total of one (1) Remuneration and Nomination Committee meeting was held during the year ended 30 June 2020.

More information about the board and the sub-committees are set out in the 'Corporate Governance Statement' located on our website www.senetas.com.

Remuneration Report

The information provided in the Remuneration Report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

1 KMP INFORMATION

This remuneration report for the year ended 30 June 2020 outlines the remuneration arrangements in accordance with the requirements of the *Corporations Act 2001* for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent Company.

For the purposes of this report, the term "executive" includes the Chief Executive Officer (CEO) and other senior executives of the Company and the Group.

The following directors and key management personnel were in office for the entire financial year and until the date of this report unless otherwise noted:

Non-executive Directors (NEDs)

F. Galbally	Chairman
L. Given	Director
K. Gillespie	Director
L. Hansen	Director
P. Schofield	Director

Executive Directors

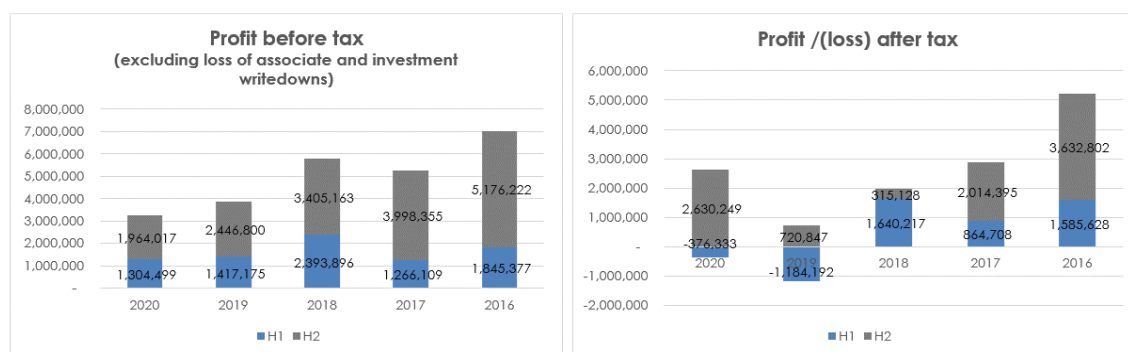
A. Wilson	Chief Executive Officer
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Other Key Management Personnel

J. Weston	Chief Architect
J. Fay	Chief Technology Officer

2 FIVE-YEAR PERFORMANCE SUMMARY

The charts and table below provides a summary of the key financial results for the Senetas operating segment over the past five financial years, which influence the remuneration outcomes as provided in the following sections:



Performance measure	2020	2019	2018	2017	2016
Average number of ordinary shares for basic earnings per share	1,081,752,066	1,081,317,462	1,083,231,560	1,079,905,126	1,078,641,948
Earnings per share (cents)	(0.0010)	0.0004	0.0018	0.0027	0.0048
Net tangible assets per share (cents per share)	0.25	1.75	2.10	1.92	1.65
Closing share price	\$0.05	\$0.06	\$0.11	\$0.09	\$0.13

Table 1: Performance metrics

3 EXECUTIVE KMP REMUNERATION

(a) Remuneration and incentive principles

The performance of the Group depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To this end, the Group embodies the following principles in its remuneration framework:

- link executive rewards to shareholder value;
- have a significant portion of executive remuneration 'at risk', dependent upon meeting pre-determined performance benchmarks;
- establish appropriate and stretched performance hurdles in relation to 'at risk' executive remuneration;
- strongly encourage directors to invest a portion of their fees to acquire shares in the Company at market price during designated trading windows.

Objective

The Company aims to reward executives, including the CEO, with a level and mix of remuneration commensurate with their position and responsibilities within the Company that:

- align the interests of executives and shareholders;
- links executive rewards with the strategic goals and performance of the Company; and
- ensures total remuneration for executives is competitive by market standards.

Structure

In determining the level and make-up of the CEO's remuneration, the Remuneration and Nomination Committee considers advice from external consultants as well as market survey information on remuneration for comparable roles. No consultants were used for the remuneration review for the 2020 financial year.

In determining the level and make-up of the remuneration for executives other than the CEO, the CEO considers advice from external consultants as well as remuneration paid to executives from comparable companies using market based surveys.

It is the policy of the Remuneration and Nomination Committee that employment contracts are entered into with all executives. These are similar to those for all employees except for the contract entered into with the CEO. Details of these contracts are provided on pages 18 and 19 of this report.

Executive remuneration consists of the following key elements:

Fixed Remuneration

Variable Remuneration

- Short Term Incentives (STI); and
- Long Term Incentives (LTI).

The mix between fixed and variable remuneration is established for the executive by the Remuneration and Nomination Committee. Pages 17 to 19 of this report details the fixed and variable components of the executive remuneration.

Fixed Remuneration

Objective

Fixed remuneration is set at a level which is both appropriate to the position and competitive in the market.

Fixed remuneration of the CEO is reviewed annually by the Remuneration and Nomination Committee, and by the CEO for other executives, having regard to company-wide and individual performance, relevant comparative remuneration in the market and internally, and where appropriate, external advice on policies and practices. As noted above, the Remuneration and Nomination Committee has access to external advice independent of management.

Structure

Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

The fixed remuneration component for KMP is detailed on pages 17 and 20 of this report.

(b) How performance is linked to Short Term Incentives variable reward outcomes

Objective

The Group operates an annual STI program that is available to executives and awards a cash bonus subject to the attainment of clearly defined Group performance measures.

Payments made are usually delivered as a cash bonus.

The aggregate of annual STI payments available for the CEO is subject to the approval of the Remuneration and Nomination Committee.

Structure

Actual STI payments awarded to each executive depend on the extent to which specific set operating targets during the financial year are met. The operational targets may consist of a number of financial and non-financial measures, typically including measures such as contribution to profit before tax, customer service, risk management, product management, and leadership/team contribution.

For the 2020 financial year the target was based on a combination of the contribution to profit before tax and other key drivers for the short and long term success of the business. These drivers include project completion for new products, team leadership and customer relationship management.

On an annual basis the Remuneration and Nomination Committee reviews and determines the amount of the STI paid to the CEO. The following factors are taken into account during the committee's review: overall remuneration, overall performance of the Group and the individual performance of the CEO.

For executives other than the CEO, annual STI payments are determined by consideration of the overall performance rating for the Group and the individual performance of individual executives, as approved by the CEO.

The variable remuneration component for key management personnel is detailed on page 17 of this report.

Current year performance and STI remuneration

As the Group did not meet the performance targets set by the Board, executives of the Group are not entitled to short term incentives for the year ended 30 June 2020.

The Remuneration and Nomination Committee (for the CEO) and the CEO (for the other executives) considered the STI payment for the 2020 year in July 2020. The maximum STI payable for the 2020 financial year to the CEO and executives was \$150,000 of which \$nil was allocated. The minimum payable to each executive including the CEO was \$nil. These payments, when made, are allocated as a proportion of the total bonus funds available for all employees.

There have been no alterations to the STI bonus plans since their grant date.

(c) How performance is linked to Long Term Incentives outcomes

Objective

The objective of the LTI plan is to reward executives for their contribution to shareholder wealth creation by linking rewards to improvements in the financial performance of the Company and aligning interests with shareholders.

Structure

LTI grants are delivered in the form of options, shares or performance rights. These securities are defined below:

- An ordinary share (share) is a share of stock giving the stockholder the right to vote on matters of corporate policy and the composition of the members of the board of directors.
- A call option (option) is a financial instrument that gives its owner the right, but not the obligation, to purchase a Share at a price set at the date of grant (the exercise price).
- A Performance Right is a grant of actual shares of stock, the receipt of which is contingent on a tenure condition.

Performance Hurdles and Conditions

Both options and performance rights are subject to a tenure condition and the financial performance of the Company. The tenure conditions vary between 18 to 24 months; the time period selected by the Board at the time of the grant.

The performance rights fully vest on meeting the tenure condition.

The options are subject to both a tenure hurdle and an exercise price - the exercise price exceeds the current share price thus tying rewards to improved financial performance and shareholder wealth.

Hurdles and conditions were elected by the Board and are reviewed and revised periodically.

Maximum LTI payable to each executive including the CEO is 100% of the options and performance rights outstanding at 30 June 2020. The minimum payable is nil. Refer tables 4 and 5 for details of outstanding performance rights and options.

(d) Executive KMP Remuneration

Details of the nature and amount of each element of the total remuneration of each member of the KMP for the years ended 30 June 2020 and 2019 are set out in the following table:

Executive		Short term benefits			Post employment	Long term benefits	Share-based payments	Total	Performance related ⁵
		Salary & fees	STI ¹	Other ³	Super contribution	Long service leave ²	Amortisation expense ⁴		
A. Wilson	2020	418,517	-	19,079	21,003	9,030	39,107	506,736	7.72%
	2019	412,069	-	-	20,531	10,526	49,491	492,617	10.05%
J. Weston	2020	272,007	-	48,224	21,003	5,499	3,737	350,470	1.07%
	2019	267,869	-	-	20,531	6,179	9,094	303,673	2.99%
J. Fay	2020	272,007	-	1,095	21,003	5,784	3,737	303,626	1.23%
	2019	267,869	-	-	20,531	6,724	9,094	304,218	2.99%
Total 2020		962,531	-	68,398	63,009	20,313	46,581	1,160,832	
Total 2019		947,807	-	-	61,593	23,429	67,679	1,100,508	

Table 2: Executive KMP statutory remuneration 2019-2020

- ¹ Cash bonus payments reward attainment of specific key performance indicators (KPI's) set for individual executives. Cash bonuses are paid in August each year for KPI's met in the financial period ending in the June of that year. The maximum payable for the CEO and executives was \$150,000. No bonuses were paid for the year ended 30 June 2020.
- ² Comprises Long Service Leave accrued during the year.
- ³ Includes staff amenities, annual leave paid out as cash and the cost to the business of any non-cash business benefits provided inclusive of fringe benefits tax (FBT). Executive's partners may travel once a year at company expense.
- ⁴ Relates to the amortisation booked during the year in relation to the fair value of the long term incentive plans. The share based payments in the form of options or performance rights will only vest when tenure conditions are met.
- ⁵ Calculated as STI plus amortisation of share based payments, as a proportion of total remuneration. These two elements represent the at-risk and discretionary amount payable which will vary depending on the financial performance of the Company. They are in addition to the fixed remuneration.

Short term incentives

KPI targets were not achieved so no STI payments were made in 2019 and no variable reward payments were made in 2020.

Share-based payments awarded, vested and forfeited during the year

The options/ performance rights, issued for nil consideration, are issued in accordance with performance guidelines established by the Directors of the Company. Each option/ performance right carries an entitlement to one fully paid ordinary share in Senetas Corporation Limited.

The following table disclosed the number of options / performance rights granted, vested, exercised or forfeited as remuneration:

Executive	Year	Number awarded	Award date	Fair value at award date \$	Exercise price \$	Vesting date	Expiry date	Total vested	Total forfeited / lapsed	Value of options granted during the year \$	Value of options exercised during the year \$
A. Wilson	2019	2,000,000	22 Nov 19	0.013	0.093	22 Nov 22	29 Nov 30	-	-	25,400	-
	2018	2,000,000	29 Nov 18	0.018	0.120	29 Nov 20	29 Nov 28	-	-	-	-
	2017	2,000,000	27 Nov 17	0.039	0.100	27 Nov 19	29 Nov 27	2,000,000	-	-	-
	2015	187,500	19 Nov 15	0.076	-	19 Nov 17	19 Nov 22	187,500	-	-	-
J. Weston	2018	500,000	15 May 18	0.028	0.115	27 Nov 19	29 Nov 27	500,000	-	-	-
J. Fay	2018	500,000	15 May 18	0.028	0.115	27 Nov 19	29 Nov 27	500,000	-	-	-
	2015	40,000	21 Sept 15	0.098	-	21 Sept 17	21 Sept 22	40,000	-	-	-
		7,227,500						3,227,500	-	25,400	-

Table 3: Options / performance rights awarded, vested and lapsed during the year

(d) Executive KMP Remuneration (continued)

Performance rights holdings of key management personnel as at 30 June 2020

The following table discloses a summary of performance rights granted under the LTI plans.

Executive	Opening balance 1 July 2019	Rights granted	Rights vested and exercised	Rights lapsed	Closing balance 30 June 2020	Vested and exercisable at 30 June 2020	Vested and not exercisable at 30 June 2020
A. Wilson	187,500	-	-	-	187,500	187,500	-
J. Weston	-	-	-	-	-	-	-
J. Fay	40,000	-	-	-	40,000	40,000	-
	227,500	-	-	-	227,500	227,500	-

Table 4: Performance rights holdings at year end

The above performance rights were fully vested in November 2017. The performance condition attached to these rights was a tenure period of two years. The performance rights for the CEO, Mr Wilson, will expire in November 2022 and for the executives in September 2022.

Options holdings of key management personnel as at 30 June 2020

The following table discloses a summary of options granted under the LTI plans.

Executive	Opening balance 1 July 2019	Options granted	Options vested and exercised	Options lapsed	Closing balance 30 June 2020	Vested and exercisable at 30 June 2020	Vested and not exercisable at 30 June 2020
A. Wilson	4,000,000	2,000,000	-	-	6,000,000	2,000,000	-
J. Weston	500,000	-	-	-	500,000	500,000	-
J. Fay	500,000	-	-	-	500,000	500,000	-
	5,000,000	2,000,000	-	-	7,000,000	3,000,000	-

Table 5: Options holdings at year end

The CEO, Mr Wilson, was granted 2,000,000 options at the AGM in November 2019. The options are subject to a service condition of 36 months continuous service and the exercise price upon vesting is \$0.093. Each option granted entitles Mr Wilson to one fully paid ordinary share in the company, subject to satisfaction of the vesting condition, and payment of the exercise price.

Shareholdings of key management personnel as at 30 June 2020

The number of ordinary shares in Senetas Corporation held during the financial year by each KMP, including details of shares granted as remuneration during the current financial year and ordinary shares provided as the result of the vesting of options or rights during the current financial year, are included in the table below.

Executive	Opening balance 1 July 2019	Granted as remuneration	On vesting of rights	Shares bought / (sold)	Closing balance 30 June 2020
A. Wilson	1,125,000	-	-	-	1,125,000
J. Weston	1,995,412	-	-	(10,000)	1,985,412
J. Fay	442,725	-	-	-	442,725
	3,563,137	-	-	(10,000)	3,543,137

Table 6: Share holdings at year end

Loans, other transactions and balances with KMP and their related parties

For the years ended 30 June 2020 and 30 June 2019, there have been no other loans or transactions including purchases, sales or investments to KMP and their related parties.

(e) Executive KMPs' service arrangements

Employment agreements are entered into with all executives. These agreements are similar to the employment agreements used for all staff.

Chief Executive Officer - Mr A. Wilson

Under the CEO's contract:

Mr Wilson receives fixed remuneration of \$439,520 per annum including superannuation of \$21,003 and he is eligible to receive short term incentives based on a combination of the contribution to profit before tax and other key drivers for the short and long term success of the business.

Mr Wilson has a rolling contract and may resign from his position and thus terminate his contract by giving six months written notice. The Company may terminate Mr Wilson's employment agreement with six months written notice or payment in lieu of notice (based on the fixed component of Mr Wilson's remuneration). On resignation by Mr Wilson, any unvested LTI options will be forfeited within one month of the resignation date. On termination or notice by the Company, any LTI options that have vested, or will vest during the notice period will be released. LTI options that have not yet vested will be forfeited within twelve months of the termination date. The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the CEO is only entitled to that portion of remuneration which is fixed, and only up to the date of termination.

(e) Executive KMPs' service arrangements (continued)

Chief Technology Officer (CTO) - Mr J. Fay, Chief Architect (CA) - Mr J. Weston

Under the CTO and CA's contracts:

Mr Fay and Mr Weston receive fixed remuneration of \$293,010 each per annum including superannuation of \$21,003 and are eligible to receive short term incentives based on a combination of the contribution of profit before tax and other key drivers for the short and long term success of the business.

Mr Fay and Mr Weston have rolling contracts and may resign from their positions and thus terminate their contracts by giving three months written notice. The Company may terminate Mr Fay and Mr Weston's employment agreement with three months written notice or payment in lieu of notice (based on the fixed component of Mr Fay and Mr Weston's remuneration). On resignation by Mr Fay or Mr Weston, any unvested LTI options will be forfeited within one month of the resignation date. On termination or notice by the Company, any LTI options that have vested, or will vest during the notice period will be released. LTI options that have not yet vested will be forfeited within twelve months of the termination date. The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the CTO and CA are only entitled to that portion of remuneration which is fixed, and only up to the date of termination.

4 NON-EXECUTIVE DIRECTORS' REMUNERATION

(a) Remuneration principles

Objectives

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 16 November 2017 when shareholders approved an aggregate remuneration of \$1,000,000 per year. The combined payment to all non-executive directors does not exceed this aggregate amount.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process. No consultants were used for the remuneration review for the 2020 financial year.

Each director receives a fee for being a director of the Company.

Non-executive directors are encouraged by the Board to hold shares in the Company (purchased by the director on market during designated trading windows). It is considered good governance for Directors to have an investment in the Company on whose Board he or she sits. The non-executive directors of the Company can participate in the Employee Share Incentive Plan which provides incentives where specified criteria are met.

With the exception of the Chair, who has taken on additional duties with respect to Votiro Cybersec Global Limited, there has not been an increase in director remuneration during the 2020 financial year.

(b) Non-Executive Directors' Remuneration

The remuneration of directors for the years ended 30 June 2020 and 30 June 2019 is outlined in the table below:

		Short term benefits		
Non-Executive Director		Salary & fees	Other ¹	Total
F. Galbally ²	2020	312,000	38,636	350,636
	2019	265,000	23,568	288,568
L. Given ³	2020	115,000	-	115,000
	2019	115,000	-	115,000
K. Gillespie ⁴	2020	115,000	-	115,000
	2019	115,000	-	115,000
L. Hansen ⁵	2020	115,000	-	115,000
	2019	115,000	-	115,000
P. Schofield ⁶	2020	115,000	-	115,000
	2019	115,000	-	115,000
Total 2020		772,000	38,636	810,636
Total 2019		725,000	23,568	748,568

Table 7: Non-Executive Directors' remuneration

¹ Director's partners may travel once a year at Company expense.

² Mr Galbally's director fees are invoiced by and paid to Southbank Capital Pty Ltd.

³ Mr Given's director fees are paid to LPG Group LLC.

⁴ Mr Gillespie's director fees are invoiced and paid to Sector West Pty Ltd.

⁵ Mr Hansen's director fees are paid to Carikster Advisors, LLC.

⁶ Mr Schofield's director fees are paid to Cadigal Advisors Pty Ltd.

(c) Shareholdings of Non-Executive Directors' as at 30 June 2020

Non-Executive Director	Opening balance 1 July 2019	Net change other ¹	Closing balance 30 June 2020
F. Galbally	141,005,000	-	141,005,000
L. Given	-	-	-
K. Gillespie	-	-	-
L. Hansen	-	-	-
P. Schofield	657,855	-	657,855
	141,662,855	-	141,662,855

Table 8: Non-Executive Directors' shareholdings

¹ On market transactions

5 GOVERNANCE

(a) Remuneration and Nomination Committee

The Remuneration and Nomination Committee comprises three non-executive directors - two independent directors and one non-independent director.

The Remuneration and Nomination Committee of the Board of directors of the Company is responsible for determining and reviewing compensation arrangements for the directors and CEO. The Remuneration and Nomination Committee has delegated decision making authority to the CEO for some matters related to the remuneration arrangements of KMP and other staff.

The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of remuneration of directors and the CEO on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

The Remuneration and Nomination Committee did not use the services of a remuneration consultant during the year. The Remuneration and Nomination Committee meets regularly throughout the year. The CEO attends certain Remuneration and Nomination Committee meetings by invitation, where management input is required. The CEO is not present during any discussions related to his own remuneration arrangements.

(b) Remuneration Policy

Remuneration policies are determined by the Board which makes specific recommendations of remuneration packages and other terms of employment for executive directors and non-executive directors.

Executive remuneration and other terms of employment are reviewed annually by the CEO with regard to performance. Remuneration packages include superannuation, performance related bonuses and an entitlement to participate in the Senetas Directors and Employees Share Option Plan. The Company has a securities dealing policy for directors, senior executives and employees.

(c) Securities trading policy

The Company has approved a *Policy for Dealing in Securities* aimed at ensuring that no director or employee of the Company makes use of his or her position or information acquired by being a director or employee to gain (directly or indirectly) an advantage for any person or to cause detriment to the Company.

The policy provides guidance on what share trading by directors or employees are deemed acceptable and those which are not. Such guidance includes identifying conduct that may constitute insider trading, how an employee or director can minimise the risk of insider trading, and the closed periods during which directors, officers and KMP (and parties related to them) are not permitted to trade in Senetas Corporation Limited shares.

The policy also details the steps for directors and employees to take when buying or selling shares in Senetas Corporation Limited which includes requiring any director or KMP buying or selling Senetas Corporation Limited's shares, or exercising any options, to first obtain approval from the Chair of the Board (for Directors) or from the Chief Executive Officer (for KMP and senior executives).

Directors' Report (Continued)

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance services	\$63,140
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Signed in accordance with a resolution of the directors.



Francis W. Galbally
Chair

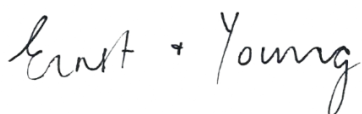
Date: 28 August 2020

Auditor's Independence Declaration to the Directors of Senetas Corporation Limited

As lead auditor for the audit of the financial report of Senetas Corporation Limited for the financial year ended 30 June 2020, I declare 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 Senetas Corporation Limited and the entities it controlled during the financial year.



Ernst & Young



Alison Parker
Partner
28 August 2020

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2020

		CONSOLIDATED	
	Notes	2020 \$	2019 \$
Revenue from contracts with customers	1	22,604,983	21,313,012
Revenue		22,604,983	21,313,012
Cost of sales		(2,964,325)	(4,621,189)
Gross profit		19,640,658	16,691,823
Other income	2	711,804	707,941
Loss on fair value through profit or loss investment	14	-	(1,892,941)
Employee benefits expense	3	(10,870,324)	(6,418,747)
Depreciation and amortisation expense	3	(2,828,408)	(736,210)
Administration expenses	3	(5,936,077)	(3,972,777)
Other expenses	3	(2,790,121)	(2,408,055)
Gain on step acquisition of investment in an associate	24	452,041	-
Share of loss of an associate	24	(1,234,353)	(1,651,232)
(Loss)/Profit before income tax		(2,854,780)	319,802
Income tax expense	4	(696,245)	(783,147)
(Loss)/Profit after income tax		(3,551,025)	(463,345)
Other comprehensive income/(loss)			
Items that may be subsequently classified to profit or loss			
Foreign currency translation reserve		92,473	55,399
Other comprehensive income/(loss) for the year		92,473	55,399
Total comprehensive (loss)/ income for the year, net of tax		(3,458,552)	(407,945)
(Loss)/profit for the period is attributable to:			
Owners of the parent		(1,087,747)	(463,345)
Non-controlling interest		(2,463,278)	-
		(3,551,025)	(463,345)
Total comprehensive (loss)/profit for the year is attributable to:			
Owners of the parent		(1,035,935)	(407,945)
Non-controlling interest		(2,422,617)	-
		(3,458,552)	(407,945)
Earnings per share			
Basic, profit for the year attributable to ordinary equity holders of the Parent.	5	(0.0010)	(0.0004)
Diluted, profit for the year attributable to ordinary equity holders of the Parent.	5	(0.0010)	(0.0004)

⁽¹⁾ The Group applied for the first time, AASB 16 Leases for the year ended 30 June 2020. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in Note 17 of the financial statements.

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

Statement of Financial Position

AS AT 30 JUNE 2020

CONSOLIDATED			
	Notes	2020 \$	2019 \$
ASSETS			
Current assets			
Cash and cash equivalents	8	15,711,373	17,860,132
Trade receivables and contract assets	9	5,482,928	5,055,592
Inventories	12	2,453,253	2,424,535
Prepayments		609,997	537,322
Other assets	13	45,006	45,395
Total current assets		24,302,557	25,922,976
Non-current assets			
Long-term cash deposit		91,667	97,670
Non-current prepayments		101,034	8,100
Investment securities	14	-	-
Investment in an associate	24	-	4,972,722
Deferred tax asset	4	1,001,558	568,591
Plant and equipment	15	1,439,579	1,593,598
Goodwill and intangible assets	16	14,095,847	195,517
Right-of-use asset ⁽¹⁾	17	1,475,628	-
Total non-current assets		18,205,313	7,436,199
TOTAL ASSETS		42,507,870	33,359,174
LIABILITIES			
Current liabilities			
Trade and other payables	11	3,085,789	2,509,324
Contingent consideration liability	26	33,610	22,894
Current income tax payable	4	657,002	471,633
Contract liabilities	10	8,351,167	6,207,688
Lease liabilities ⁽¹⁾	17	589,381	-
Provisions	18	1,293,484	1,068,891
Total current liabilities		14,010,433	10,280,430
Non-current liabilities			
Deferred tax liabilities	4	2,960,578	320,670
Provisions	18	65,138	53,493
Other payables	11	129,623	-
Contract liabilities	10	3,940,724	2,881,966
Lease liabilities ⁽¹⁾	17	1,041,114	-
Contingent consideration liability	26	43,707	83,426
Other non-current liabilities		-	5,412
Total non-current liabilities		8,180,885	3,344,967
TOTAL LIABILITIES		22,191,318	13,625,397
NET ASSETS		20,316,552	19,733,777
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	19	104,316,022	104,728,595
Accumulated losses		(86,911,826)	(85,824,079)
Employee benefits reserve	20	1,405,526	866,233
Other reserves	20	582,186	-
Foreign currency translation reserve	20	14,840	(36,972)
Equity attributable to owners of the parent		19,406,748	19,733,777
Non-controlling interests		909,804	-
TOTAL EQUITY		20,316,552	19,733,777

(1) The Group applied for the first time, AASB 16 *Leases* for the year ended 30 June 2020. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in Note 17 of the financial statements.

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2020

	Notes	CONSOLIDATED	
		2020 \$	2019 \$
Cash flows from operating activities			
Receipts from customers		22,757,738	23,781,060
Payments to suppliers and employees		(21,836,205)	(17,547,285)
Income tax paid		(921,075)	(679,082)
Interest received		169,554	310,519
Net cash flows from operating activities	8	170,012	5,865,212
Cash flows used in investing activities			
Purchase of plant and equipment	15	(390,244)	(492,413)
Purchase of other intangibles	16	(128,585)	(91,593)
Acquisition of a subsidiary (net of cash acquired)	25	614,195	-
Additional investment in an associate (prior to step acquisition)	24	(1,626,440)	(6,623,955)
Net cash flows used in investing activities		(1,531,074)	(7,207,961)
Cash flows used in financing activities			
Advanced payment to dividend trust account	6	-	(3,999,776)
Return of capital to equity holders of the parent	6	(499,583)	-
Payment of interest on lease liability	17	(91,397)	-
Payment of principal portion of lease liability	17	(274,615)	-
Net cash flows used in financing activities		(865,594)	(3,999,776)
Net (decrease)/increase in cash and cash equivalents		(2,226,656)	(5,342,524)
Net foreign exchange differences		77,897	(55,399)
Cash and cash equivalents at beginning of the year		17,860,132	23,258,056
Cash and cash equivalents at 30 June	8	15,711,373	17,860,132

⁽¹⁾ The Group applied for the first time, AASB 16 Leases for the year ended 30 June 2020. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in Note 17 of the financial statements.

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2020

	Attributable to equity holders of Senetas Corporation Ltd					Owners of the parent	Non-controlling interest	Total equity
	Contributed equity	Accumulated (losses) / profits	Foreign currency translation reserve	Employee benefits reserve	Other reserves	Total		
	\$	\$	\$	\$	\$	\$	\$	\$
CONSOLIDATED								
At 1 July 2018	104,726,285	(81,373,818)	18,427	697,095	-	24,067,989	12,860	24,080,849
Loss for the year	-	(463,345)	-	-	-	(463,345)	-	(463,345)
Other comprehensive income	-	-	(55,399)	-	-	(55,399)	-	(55,399)
Total comprehensive income	-	(463,345)	(55,399)	-	-	(518,744)	-	(518,744)
Transactions with owners in their capacity as owners								
Movement in non-controlling interest	-	12,860	-	-	-	12,860	(12,860)	-
Dividends declared and paid	-	(3,999,776)	-	-	-	(3,999,776)	-	(3,999,776)
Share based payments expense	-	-	-	171,448	-	171,448	-	171,448
Options converted to shares	2,310	-	-	(2,310)	-	-	-	-
At 30 June 2019	104,728,595	(85,824,079)	(36,972)	866,233	-	19,733,777	-	19,733,777
	\$	\$	\$	\$		\$	\$	\$
At 1 July 2019	104,728,595	(85,824,079)	(36,972)	866,233	-	19,733,777	-	19,733,777
Loss for the year	-	(1,087,747)	-	-	-	(1,087,747)	(2,463,278)	(3,551,025)
Other comprehensive income	-	-	51,812	-	-	51,812	40,660	92,472
Total Comprehensive Income	-	(1,087,747)	51,812	-	-	(1,035,935)	(2,422,617)	(3,458,552)
Transactions with owners in their capacity as owners								
Non-controlling interests on acquisition of subsidiary	-	-	-	-	-	-	3,527,056	3,527,056
Acquisition of non-controlling interests	-	-	-	-	582,186	582,186	(582,186)	-
Return of capital	(499,583)	-	-	-	-	(499,583)	-	(499,583)
Share based payments expense	-	-	-	626,303	-	626,303	387,552	1,013,854
Options and performance rights converted to shares	87,010	-	-	(87,010)	-	-	-	-
At 30 June 2020	104,316,022	(86,911,826)	14,840	1,405,526	582,186	19,406,748	909,804	20,316,552

⁽¹⁾ The Group applied for the first time, AASB 16 Leases for the year ended 30 June 2020. The Group has adopted the modified retrospective approach which does not require the restatement of previous financial statements. The nature and effect of these changes are disclosed in Note 17 of the financial statements.

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

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FOR THE YEAR ENDED 30 JUNE 2020

ABOUT THIS REPORT

This is the consolidated financial report of Senetas Corporation Limited and its subsidiaries (collectively, the Group) for the year ended 30 June 2020. The financial report was authorised for issue in accordance with a resolution of Directors on 28 August 2020.

It is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

Senetas Corporation Limited (the Company or the Parent) is a company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange. The Company is a for-profit entity.

The nature of the operations and principal activities of the Group are described in the Directors' report. The registered office of Senetas Corporation Limited is at 312 Kings Way, South Melbourne, Victoria 3205, Australia.

BASIS OF PREPARATION

The financial report has also been prepared on an historical cost basis except for contingent consideration that has been measured at fair value. The financial report is presented in Australian dollars and all values are rounded to the nearest dollar (\$), unless otherwise stated, under the option available to the Company under *ASIC Corporations (Rounding in Financial / Director's Report) Instrument 2016/191* (Instrument 2016/191). The Company is an entity to which Instrument 2016/191 applies.

The financial report has been prepared on a going concern basis. At 30 June 2020, the Group had cash and cash equivalents of \$15.7m. The Group has prepared scenarios which consider varying levels of unfavourable impacts from the COVID-19 pandemic on trading activities and its cash reserves. Based on these scenarios, the Group contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business for a period of 12 months from the date of these financial statements.

SIGNIFICANT ACCOUNTING POLICIES

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concept of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The below describes significant accounting policies applicable to the Group's financial statements. Other specific significant accounting policies are described in respective notes to the financial statements.

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of Senetas Corporation Limited (the Company) and its subsidiaries as at 30 June each year (the Group). The Group controls a subsidiary, if and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is lost.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

Investments in subsidiaries are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. The parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting, which involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed. The identifiable assets acquired and liabilities assumed are measured at their acquisition date fair values. The difference between the above items and the fair value of the consideration (including any fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units. Where goodwill forms part of a CGU, and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of, and the portion of the cash generating unit retained.

Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Senetas Corporation Limited has control. A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

On the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss.

(b) Foreign currency translation

Both the functional and presentation currency of Senetas Corporation Limited and its Australian subsidiaries is Australian dollars (A\$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

All exchange differences in the consolidated financial report are recognised in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency translation (continued)

As at the reporting date all foreign subsidiaries, with the exception of Senetas Europe and Votiro Cybersec Global Limited, are dormant. However any assets and liabilities of foreign subsidiaries are translated into the presentation currency of Senetas at the rate of exchange ruling at the reporting date and the income statements are translated at the weighted average exchange rates for the year.

Exchange differences resulting from the translation of foreign operations are recognised in equity.

On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit and loss.

(c) Financial instruments - initial recognition and subsequent measurement

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (FVTOCI), or fair value through profit and loss. This classification is made on the basis of the Group's business model for managing the financial assets and the cash flow characteristics of the financial assets. Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI); and
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments - initial recognition and subsequent measurement (continued)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The categories of financial assets which are most relevant to the group are:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes primarily comprises of cash and cash equivalents, trade receivables and other receivables.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit and loss, or financial assets mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit and loss, irrespective of the business model.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of comprehensive income.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition

- A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments - initial recognition and subsequent measurement (continued)

Impairment of financial assets

Detailed disclosures relating to impairment of financial assets are to be found in:

Disclosures for significant assumptions - Note 21 and trade receivables including contract assets - Note 9

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives.

All financial liabilities are recognised initially at fair value and, in the case of lease liabilities and payables, net of directly attributable transaction costs.

Financial liabilities at fair value through profit and loss and at amortised cost

The Group's financial liabilities are trade and other payables - carried at amortised cost and contingent consideration, classified as a financial liability at fair value through profit and loss. Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Contingent consideration is held at fair value through profit and loss. It is assessed at each period end using a discounted cash flow analysis.

Subsequent measurement

Financial liabilities at fair value through profit and loss include liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss. Gains or losses on liabilities held for trading are recognised through profit and loss.

After initial recognition, financial liabilities at amortised cost are subsequently measured using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of comprehensive income.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2020

CHANGES IN ACCOUNTING POLICIES

The Group applies, for the first time, AASB 16 *Leases* (AASB 16). The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application being 1 July 2019. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 July 2019.

As the Group adopted the modified retrospective method, there was no restatement of previous financial statements. The right-of-use assets were measured on adoption as if AASB 16 had always applied. The nature and effect of these changes are disclosed in the respective notes to the financial statements. Refer to note 17 for further details.

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenues and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which forms the basis of the carrying values of these assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Information on significant estimates and judgements considered when applying the accounting policies can be found in the following notes:

Accounting estimates and judgements	Notes
Revenue	1
Taxation	4
Intangibles and useful lives	16
Impairment	16
Leases	17
Gain on derecognition of investment in an associate	24
Contingent consideration	26
Share based payment transactions	30

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

FINANCIAL PERFORMANCE SECTION

1 REVENUE FROM CONTRACTS WITH CUSTOMERS

(a) Disaggregated revenue information

Set out below is the disaggregation of the Group's revenue from contracts with customers

	CONSOLIDATED	
	2020	2019
	\$	\$
Sale of goods	9,797,709	12,632,143
Product maintenance revenue	11,013,199	8,668,633
Provision of services	1,794,075	12,236
Total revenue from contracts with customers	22,604,983	21,313,012

Geographical markets

Asia Pacific	3,926,802	2,068,962
United States	12,595,500	13,213,823
Europe	6,082,681	6,030,227
Total revenue from contracts with customers	22,604,983	21,313,012

Timing of revenue recognition

Goods transferred at a point in time	11,591,784	12,644,379
Services transferred over time	11,013,199	8,668,633
Total revenue from contracts with customers	22,604,983	21,313,012

The aggregate amount of transaction prices (i.e. unrecognised revenue) allocated to remaining performance obligations, at the reporting date, is as follows:

Sale of goods	-	-
Product maintenance revenue	12,291,892	9,089,654
Provision of services	-	-
Total	12,291,892	9,089,654

Of the aggregate amount of transaction prices (i.e. unrecognised revenue) allocated to remaining performance obligations, at the reporting date the following amounts are expected to be recognised.

Product maintenance revenue expected to be recognised within:

	\$	\$
One (1) year of the reporting date	8,351,167	6,207,688
Two (2) years from the reporting date	2,728,516	1,957,081
Three (3) years from the reporting date	811,421	735,453
Between four (4) and five (5) years	400,787	189,433
Total	12,291,891	9,089,654

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

1 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

(b) Contract balances

Set out below is the amount of revenue from contracts with customers recognised from:

	CONSOLIDATED	
	2020	2019
	\$	\$
Amounts included in contract liabilities at the beginning of the year	6,207,688	4,573,148

(c) Accounting policy

(i) Revenues from contracts with customers

Revenue from contracts with customers is recognised when the control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services. The Group has concluded that it is the principal in its revenue arrangements because it controls the goods or services before transferring them to the customer.

Sale of equipment

Revenue from the sale of equipment is recognised at the point in time when control of the asset is transferred to the customer, generally on shipping of the equipment. The normal credit term is 30 to 90 days from delivery.

The Group has considered whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. There are no such obligations at this time.

Sale of software

Revenues from the sale of software is recognised when the control of the services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the principal in its revenue arrangements as it controls the goods or services before transferring to the customer. Delivery of the software occurs electronically by providing the right to use the service.

Variable consideration

The Group's distribution agreement with Thales entitles the Group to variable consideration from when the goods are sold by Thales to its end users. The details of this variable consideration and the methods used for estimation are outlined below.

Maintenance revenue

Maintenance revenue is recorded over the period of the maintenance agreement. Cash received in advance for the maintenance agreement is originally recorded as a contract liability. This is recognised as revenue over the term of the agreement as the Group performs under the contract.

(ii) Key judgements and estimates

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers.

Determining method to estimate variable consideration and assessing the constraint

The Group's distribution agreement with Thales has fixed and variable consideration. Fixed consideration is received at the time of fulfilling the contractual obligation and Group is entitled to a variable consideration when the equipment is sold by Thales to its end users. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The method used to calculate the variable consideration has been estimated using the most likely amount which represents the single most likely amount in a range of possible consideration amounts. This is an estimate of the likelihood of sales taking place to an end user and the amount of revenue due towards the Group if this event occurs. The nature of the promise within the contract is to perform an unknown number of sales to end users throughout the contract period and the consideration received is contingent upon the quantity which is sold to end users. Therefore, the total transaction price is variable since it is based upon the occurrence or non-occurrence of events outside the Group's control and the contract has a range of possible transaction prices.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are constrained based on its historical experience, business forecast and the current economic conditions.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

2 OTHER INCOME

	Notes	CONSOLIDATED	
		2020	2019
		\$	\$
(a) Other income			
Government grants		397,369	-
Net gain on foreign exchange		55,435	-
Interest income		259,000	624,415
Other income		-	-
Total		711,804	624,415

(b) Accounting policy

(i) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs for which it is intended to compensate are expensed.

(ii) Interest Income

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

3 EXPENSES

(a) Employee benefits expense

Salaries & wages		9,422,558	5,853,816
Superannuation		392,869	393,483
Termination payouts		41,043	-
Share based payment expense	30	1,013,854	171,448
Total		10,870,324	6,418,747

(b) Depreciation and amortisation expense

Depreciation:

Plant and equipment	15	590,260	525,379
Leasehold improvements	15	69,554	104,057
Right-of-use asset	17	453,008	-

Amortisation:

Customer relationships	16	177,674	-
Software	16	1,537,912	106,774

Total		2,828,408	736,210
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Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

3 EXPENSES (CONTINUED)

Notes	CONSOLIDATED	
	2020 \$	2019 \$
(c) Administration expenses		
Premises costs	157,147	468,568
Travel expenditure	673,571	624,415
Telephone and internet expenditure	167,152	128,405
Insurance expenditure	431,910	286,490
Loss on disposal of equipment	-	1,817
Marketing expenditure	1,171,361	551,430
External contractors -sales and corporate	3,334,936	1,911,652
Total	5,936,077	3,972,777
(d) Other expenses		
Certification, testing and direct R&D expenditure	520,271	498,613
Legal fees	404,029	773,606
Professional services	796,345	607,655
Subscriptions and membership fees	269,209	108,446
Interest on ROU asset	91,397	-
Re-measurement of contingent consideration liability	(29,003)	106,320
Other expenses	737,873	313,415
Total	2,790,121	2,408,055

4 INCOME TAX

(a) Major components of income tax expense for the years ended 30 June 2020 and 2019 are:

Current income tax

Current income tax charge	1,050,281	830,272
Adjustments in respect of current income tax of previous years	56,164	(39,367)

Deferred income tax

Relating to origination and reversal of temporary differences	(410,200)	(7,758)
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Income tax expense reported in statement of comprehensive income

696,245	783,147
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(b) Reconciliation of tax expense and the accounting profit and multiplied by Australia's domestic tax rate for 2020 and 2019:

Accounting profit before tax	(2,854,780)	319,802
At the statutory income tax rate of 27.5% (2019: 27.5%)	(785,065)	87,946
Expenditure not allowable for income tax purposes	76,287	68,882
Non-deductible share of loss of Votiro and fair value adjustment	215,136	533,972
Adjustments in respect of current income tax of previous years	54,872	(5,921)
Non-deductible impairment loss booked on SAT (FY19)	-	520,559
R&D tax incentive	(225,943)	(399,024)
Israel tax losses not recognised	1,047,523	
Foreign losses not recognised	20,403	(23,268)
Effect of lower tax rate in Israel (23%) compared to Australian statutory income tax rate (27.5%)	271,458	
Other	21,574	-
Income tax expense reported in statement of comprehensive income	696,245	783,146

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

4 INCOME TAX (CONTINUED)

(c) Deferred tax assets and liabilities

CONSOLIDATED	Statement of Financial Position	
	2020	2019
	\$	\$
Deferred tax assets		
Accruals:		
Accrued expenses	69,889	69,280
Employee benefits:		
Annual leave	102,849	90,765
Long service leave	238,601	217,891
Other:		
Amortised business costs	304	608
Patents	5,974	7,066
FBT accrual	9,146	11,234
DTA on unrealised foreign exchange loss	47,309	19,568
DTA on unutilised losses	104,147	121,452
DTA on lease liabilities	357,291	-
Other	66,048	30,727
Total	1,001,558	568,591
Deferred tax liabilities		
Prepayments	(1,006)	(1,053)
DTL Variable Consideration	(277,971)	(255,358)
DTL on unrealised foreign exchange gain	(20,311)	(57,611)
DTL on plant and equipment	(31,438)	
DTL on intangible assets	(2,298,785)	
DTL on ROU asset	(321,921)	
FBT accrual	(9,146)	(6,648)
	(2,960,578)	(320,670)
Net deferred tax asset	(1,959,020)	247,921

CONSOLIDATED	Statement of Comprehensive Income	
	2020	2019
Deferred tax assets		
Accruals:		
Stock obsolescence	(13,750)	-
Accrued expenses	(609)	(15,308)
Employee benefits:		
Annual leave	(12,085)	(3,031)
Long service leave	(20,710)	(20,693)
Bonus accruals	-	28,550
Other:		
Amortised business costs	304	304
Patents	1,092	1,092
Unrealised foreign exchange loss	(27,741)	(103,834)
FBT accrual	2,088	(4,586)
DTA on unutilised tax losses	17,305	22,433
DTA on lease liabilities	(357,291)	-
Other	26,940	(24,058)
Total	(384,457)	(119,131)
Deferred tax liabilities		
Prepayments	(47)	(1,606)
DTL Variable consideration	22,613	54,639
DTL on plant and equipment	31,438	-
DTL on intangibles	(366,866)	-
DTL on ROU asset	321,921	-
Unrealised foreign exchange gain	(37,299)	57,611
FBT accrual	2,497	729
	(25,743)	111,373
Deferred tax (benefit) /expense	(410,200)	(7,759)
Deferred tax asset (non-current)	1,001,558	568,591
Deferred tax liability (non-current)	2,960,578	320,670

The franking account balance for both 2020 is \$384,327 (2019: \$384,327).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

4 INCOME TAX (CONTINUED)

(d) Accounting policy

(i) Current taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and establishes provisions where appropriate.

(ii) Deferred taxes

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:

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

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint arrangements, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(iii) Tax consolidation

Senetas Corporation Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated Group with effect 1 July 2002. Senetas Corporation Limited is the head entity of the tax consolidated Group. Members of the Group entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities.

The allocation of current taxes and deferred taxes of subsidiaries has been allocated to the subsidiaries via intercompany transactions, in accordance with company policy.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

4 INCOME TAX (CONTINUED)

(d) Accounting policy (continued)

(iii) Tax consolidation (continued)

Tax effect accounting by members of the tax consolidated group

Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting

The head entity and the controlled entities in the tax consolidated Group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated Group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112

Income Taxes

In addition to its own current and deferred tax amounts, the head entity also recognises 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 Group has tax losses arising in Australia of \$378,716 (2019: \$441,642) that may be available indefinitely for offset against future income tax payable. Of the total tax losses available for offset against future income tax payable, \$104,147 has been recognised as a deferred tax asset (2019: \$121,452).

Nature of the tax funding agreement

Members of the tax consolidated group have entered into a tax funding agreement. Under the funding agreement the funding of tax within the Group is based on accounting profit. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call. To the extent that there is a difference between the amount charged under the tax funding agreement and the allocation under AASB Interpretation 1052, the head entity accounts for these as equity transactions with the subsidiaries.

The amounts receivable or 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.

(iv) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

5 EARNINGS PER SHARE

- (a) The following reflects the income and share data used in the basic and diluted profit per share computations:

	CONSOLIDATED	
	2020	2019
	\$	\$
Net profit attributable to equity holders of the parent	(1,087,747)	(463,345)
Net profit attributable to ordinary shareholders for diluted earnings per share	(1,087,747)	(463,345)
	No. of shares	No. of shares
Weighted average number of ordinary shares for basic earnings per share	1,081,752,066	1,081,317,462
<i>Effect of dilution:</i>	8,594,399	7,291,306
Adjusted weighted average number of ordinary shares for diluted profit per share	1,090,346,465	1,088,608,768

The outstanding share options were included in this calculation but were not considered to have a dilutive effect as the tenure condition for vesting has not yet been met.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the authorisation of these financial statements.

(b) Accounting policy

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares:

- Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:
 - costs of servicing equity (other than dividends); and
 - other non-discretionary changes in revenue or expenses during the period that would result from the dilution of potential ordinary shares
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

6 DISTRIBUTIONS MADE AND PROPOSED

	2020	2019
	\$	\$
(a) Cash distributions on ordinary shares declared and paid:		
Capital return for 2020: \$nil per share (2019 - \$0.000462)	-	499,583
	-	499,583

The return of capital relating to the financial reporting period ended 30 June 2019 was approved by the shareholders on 22 November 2019.

The record date for the capital return was 29 November 2019 and the payment date was 13 December 2019.

(b) Accounting policy

The Company recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the corporate laws of Australia, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

7 SEGMENT INFORMATION

Basis of segment identification

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Senetas's chief operating decision maker is the Chief Executive Officer (CEO). The CEO provides strategic direction and management oversight of the day to day activities of the Group in terms of monitoring results and approving strategic planning. Operating segments have been identified based on the information provided to the CEO.

Following the acquisition of Votiro Cybersec Global Limited, the Group has two reportable segments - the product division (Senetas) and solutions technology division (Votiro). In accordance with the master distribution agreement and other direct customers, both product sales and maintenance services are inter-related and reported as one (1) product division reportable segment.

For the comparative period, the Group only had one reportable segment - the product division as control of Votiro Cybersec Global Limited commenced during the year ended 30 June 2020. The Group therefore only historically prepared operating segment reports based on the geographical segment.

The following tables present the revenue and profit information regarding reportable segments for the years ended 30 June 2020:

Year ended 30 June 2020	Senetas \$	Votiro \$	Total \$
<i>Segment revenue - Revenue from contracts with customers</i>			
Sale of equipment	9,797,709	-	9,797,709
Maintenance revenue	9,973,036	1,040,163	11,013,199
Provision of services	19,115	1,774,960	1,794,075
Total Segment revenue	19,789,860	2,815,123	22,604,983

	Senetas \$	Votiro \$	Eliminations \$	Total \$
<i>Result</i>				
Segment profit/(loss) before tax	3,268,516	(6,123,296)	-	(2,854,780)
Income tax expense / (benefit)	(1,014,600)	318,355	-	(696,245)
Segment loss after tax	2,253,916	(5,804,942)	-	(3,551,025)
<i>Income / (expenses)</i>				
Depreciation and amortisation	(996,408)	(1,832,000)	-	(2,828,408)
Share based payments expense	(95,945)	(917,908)	-	(1,013,854)
Share of loss of associate	(1,234,353)	-	-	(1,234,353)
Fair value gain on step acquisition	452,041	-	-	452,041

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

7 SEGMENT INFORMATION (CONTINUED)

Non-current assets	14,669,932	14,371,081	(10,835,700)	18,205,313
Total assets	36,676,520	16,667,050	(10,835,700)	42,507,870
Total liabilities	(15,100,212)	(10,469,212)	3,378,106	(22,191,318)
Net assets	21,576,308	6,197,838	(7,457,594)	20,316,552
<i>Cashflows</i>				
Operating activities	3,281,700	(3,111,688)	-	170,012
Investing activities	(3,552,310)	(42,179)	2,063,415	(1,531,074)
Financing activities	(3,643,754)	2,778,159	-	(865,595)

Revenue is attributed to geographic locations based on the location of the customers. The company does not have external revenues from any external customers that are attributable to any foreign country other than as shown below.

30 June 2020	Senetas	Votiro	Total
	\$	\$	\$
Asia Pacific	2,112,405	1,814,397	3,926,802
United States	12,251,739	343,761	12,595,500
Europe	5,425,716	656,965	6,082,681
Total	19,789,860	2,815,123	22,604,983

30 June 2019	Senetas
	\$
Asia Pacific	2,068,962
United States	13,213,823
Europe	6,030,227
Total	21,313,012

Revenue from one customer - the Company's global distribution partner, Thales - amounted to \$17,364,871 (2019: \$19,244,050) arising from the above mentioned geographical areas.

	2020	2019
Non-current assets	\$	\$
Asia Pacific	14,669,932	7,436,199
Europe	14,371,081	-
	29,041,013	7,436,199

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

WORKING CAPITAL SECTION

8 CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2020	2019
	\$	\$
Cash at bank and on hand	8,308,501	9,605,148
Short-term deposits	7,402,872	8,254,984
Total cash and cash equivalents	15,711,373	17,860,132

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

(a) Reconciliation from the net profit after tax to the net cash flows from operations

Profit after tax	(3,551,025)	(463,345)
<i>Adjustments for non-cash items:</i>		
Depreciation and amortisation	2,828,408	736,210
Unrealised foreign currency loss/(gain)	98,171	(138,335)
Impairment of unquoted equity instruments	-	1,892,941
Share of loss of an associate	1,234,353	1,651,232
Gain on step acquisition of investment in an associate	(452,041)	
Gain on reassessment of contingent consideration	(29,003)	
Loss on disposal of equipment	-	1,817
Impairment of inventories	93,547	1,863
Share based payment expense	1,013,854	171,448
Other non-cash items	(165,391)	-
<i>Changes in assets and liabilities:</i>		
Decrease in trade and other receivables (net of foreign currency gains)	205,093	2,540,353
Increase in inventories	(28,718)	(1,118,216)
Decrease/(increase) in prepayments	323,129	(207,280)
Decrease in other current assets	106,164	15,354
(Decrease)/increase in trade and other payables	(365,003)	577,429
Decrease in deferred income tax assets	708	28,114
Decrease in deferred income tax liability	(422,633)	(227,826)
Increase/(decrease) in income tax payable	185,369	(1,947,830)
(Decrease)/increase in provisions	(411,446)	84,494
Increase in contract liabilities & other non-current liabilities	(493,522)	2,266,789
Net cash from operating activities	170,012	5,865,212

(b) Accounting policy

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

9 TRADE RECEIVABLES AND CONTRACT ASSETS

	Notes	CONSOLIDATED	
		2020	2019
		\$	\$
Trade receivables (i)		4,041,103	3,928,832
Contract asset (ii)		1,010,803	928,575
Net GST receivable		209,487	198,185
Government grants (iii)		221,535	-
Total		5,482,928	5,055,592

(a) CONTRACT ASSETS

Recognised on 1 July	928,575	729,882
Reclassified as a receivable during the year	(634,665)	(729,882)
Contract asset recognised during the year	716,893	928,575
Closing balance as at 30 June	1,010,803	928,575

(c) Accounting policy

(i) Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

The fair value of trade receivables is equivalent to its carrying amounts. It is expected that the full contractual amounts can be collected. AASB 9 requires a calculation of the expected credit losses (ECL's). The Group's evaluation of this requirement has determined that an allowance for credit losses is negligible.

The Group holds no collateral against possible default by a customer. There were no receivables written off during the year.

(ii) Contract Assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract assets are originally recognised for the revenue earned from the sale of inventory from our world-wide distributor, Thales, to their end customers. Upon completion of the sale by Thales to its end customer, the amounts recognised as contract assets are reclassified to trade receivables. The reclassification of contract assets to trade receivables usually takes three to six months.

The increase in the value of the contract asset is a result of the product mix held by Thales based on their sales forecast.

(iii) Government grants

Refer to Note 2(b)(i) for the government grants accounting policies.

(iv) Impairment of financial assets

Trade receivables have been classified as debt instruments held at amortised cost. Accounting for impairment losses for trade receivables and contract assets uses a forward-looking expected credit loss (ECL) approach. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.

The Group has applied the simplified approach to trade receivables and the contract asset in AASB 9 and has calculated ECLs based on lifetime expected credit losses. A provision for ECLs is determined based on historical credit loss rates and adjusted for forward looking factors specific to the debtor and the economic environment.

For further information on risk disclosures refer to Note 22.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

10 CONTRACT LIABILITY

	Notes	CONSOLIDATED	
		2020	2019
		\$	\$
(a) Contract liability Reconciliation			
Opening balance as at 1 July		9,089,654	6,910,368
Maintenance prepayments received during the year		14,215,436	10,847,919
Maintenance revenue recognised during the year		(11,013,199)	(8,668,633)
Closing balance as at 30 June		12,291,891	9,089,654
Current contract liabilities		8,351,167	6,207,688
Non-current contract liabilities		3,940,724	2,881,966
Total		12,291,891	9,089,654

(b) Accounting policy

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received the consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Maintenance revenue is recorded over the period of the maintenance agreement. Cash received in advance for the maintenance agreement is originally recorded as a contract liability. This is recognised as revenue over the term of the agreement as the Group performs under the contract.

11 TRADE AND OTHER PAYABLES

Current

Trade payables	1,751,972	1,784,181
Other payables	1,333,818	725,143
Total	3,085,789	2,509,324

Non-current

Other payables(i)	129,623	-
	129,623	-

(a) Accounting policy

Trade and other payables are financial liabilities carried at amortised cost. Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Trade payables are non-interest bearing and are normally settled on 30-day terms.

Other payables are non-interest bearing and have an average term of six months and relate to general and employee related accruals.

- (i) Non-current other payables is an amount payable in relation to the U.S. Small Business Administration Paycheck Protection Program which carries an interest of 1% per annum and has a tenure of 24 months.

The fair value of trade and other payables is deemed to approximate their carrying value.

For further information on risk disclosures refer Note 22.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

12 INVENTORIES

	Notes	CONSOLIDATED	
		2020	2019
		\$	\$
Inventories		2,453,253	2,424,535

(a) Accounting policy

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials - purchase cost on a first-in, first-out basis. Included in the cost of purchase are other directly attributable costs as well as the purchase price.

Finished goods - cost of direct materials and external assembly costs.

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

Provision for slow moving items

Inventories are reviewed annually to identify slow moving inventory. When these items are identified the remaining technological useful life is assessed, then an estimation is made of the quantum of sales expected over that remaining useful life. Where there is a shortfall of estimated sales versus the quantity of inventory on hand at the end of the period, a provision is raised.

During 2020, \$93,547 (2019: \$1,863) was recognised as an expense for inventories carried at the lower of cost and net realisable value. This is recognised in cost of sales.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

OPERATING ASSETS AND LIABILITIES

13 OTHER ASSETS

	CONSOLIDATED	
	2020	2019
	\$	\$
Interest receivable	12,108	32,375
Security deposit	23,450	13,020
Other current assets	9,448	-
Total	45,006	45,395

14 INVESTMENT SECURITIES

Unquoted investment securities at FVTPL	-	1,892,941
Revaluation losses recognised during the year	-	(1,892,941)
Closing balance	-	-

The Group has investments in the entities shown in the table below

	Equity Interest	
	%	%
DeepRadiology Inc (i)	3.45%	3.45%
Smart Antenna Technologies Ltd (ii)	5.76%	5.76%
EonReality Inc. (iii)	4.70%	4.70%

The above investments have a net carrying amount of zero.

(i) DeepRadiology Inc

In May 2017, the Group acquired an interest in Deep Radiology Inc., a medical machine learning and artificial intelligence company based in the USA. During the 2018 financial year, following a review of the performance of Deep Radiology, management concluded that there was objective evidence of impairment, therefore the full carrying value of \$1,361,532 was impaired as at 30 June 2018.

(ii) Smart Antenna Technologies Ltd

In December 2016, the Group invested in Smart Antenna Technologies Ltd ("SAT"), a smart antenna technology company based in the UK. During the 2019 financial year, the major shareholder and primary financiers of SAT advised the Group of their intention not to proceed with additional funding and as a result, the Board of SAT resolved to put the business into the hands of administrators with a view to disposing of the Company's business and intellectual property.

Due to the uncertainty as to whether the underlying value of the investment in SAT will be recoverable, there was objective evidence of impairment, therefore an impairment for the full carrying value of \$1,892,941 was recognised as at 30 June, 2019.

(iii) Eon Reality Inc.

The directors point out that the Company is the owner of 185,000 series B convertible stock and 888,889 series C convertible stock in EON Reality Inc. (previously RealityBUY.com Inc.) of Irvine California USA (www.eonreality.com).

The shareholding (which is preferred stock) also carries certain dividend rights which date back to the year 2000. The shareholding represents approximately 3% of the current issued share capital in EON Reality Inc (www.eonreality.com). Should EON Reality have a liquidity event (such as a trade sale or substantial capital raising) it may be necessary to convert the preferred stock to ordinary stock. The investment was made during the year 2000 and was since written off by the board. Until such time as there has been a liquidity event such as a capital raising, merger transaction, corporate restructuring, sale of securities or other such transaction which will provide the board with an independent value of the investment, the board will continue to not ascribe a value to the investment as an asset.

Refer to significant accounting policy (c)(i) for further details on accounting for financial assets.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

15 PLANT AND EQUIPMENT

		Leasehold improvements	Plant and equipment	Total
		\$	\$	\$
Year ended 30 June 2020				
At 1 July 2019, net of accumulated depreciation		210,189	1,383,409	1,593,598
Acquisition through business combination	25	-	113,116	113,116
Additions (net of disposals)		22,267	288,211	310,478
Transfers to plant and equipment from inventory		-	79,766	79,765
Depreciation charge for the year		(69,554)	(590,260)	(659,814)
Exchange differences		-	2,435	2,436
At 30 June 2020, net of accumulated depreciation		162,902	1,276,677	1,439,579
At 1 July 2019				
Cost		553,871	3,007,805	3,561,676
Accumulated depreciation and impairment		(343,682)	(1,624,396)	(1,968,078)
Net carrying amount		210,189	1,383,409	1,593,598
At 30 June 2020, net of accumulated depreciation				
Cost		586,629	3,675,727	4,262,356
Accumulated depreciation		(423,727)	(2,399,050)	(2,822,777)
Net carrying amount		162,902	1,276,677	1,439,579
Year ended 30 June 2019				
At 1 July 2018, net of accumulated depreciation		146,928	1,585,510	1,732,438
Additions (net of disposals)		167,318	87,754	255,072
Transfers to plant and equipment from inventory		-	237,341	237,341
Writeoff		-	(1,817)	(1,817)
Depreciation charge for the year		(104,057)	(525,379)	(629,436)
At 30 June 2019, net of accumulated depreciation		210,189	1,383,409	1,593,598
At 1 July 2018				
Cost		386,544	2,922,783	3,309,327
Accumulated depreciation and impairment		(239,616)	(1,337,273)	(1,576,889)
Net carrying amount		146,928	1,585,510	1,732,438
At 30 June 2019, net of accumulated depreciation				
Cost		553,871	3,007,805	3,561,676
Accumulated depreciation		(343,682)	(1,624,396)	(1,968,078)
Net carrying amount		210,189	1,383,409	1,593,598

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

15 PLANT AND EQUIPMENT (CONTINUED)

(a) Accounting policy

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated by the straight line method over the estimated useful life of the asset as follows:

- Leasehold improvements - the lease term
- Plant and equipment - over 3 to 15 years

The assets' residual value, useful lives and amortisation methods are reviewed, and adjusted if applicable, at each financial year end.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the asset is disposed.

Plant and equipment are not subject to or pledged as collateral for any liabilities or contingent liabilities.

16 GOODWILL AND INTANGIBLE ASSETS

	Notes	Goodwill \$	Customer relationships \$	Software \$	Total \$
Year ended 30 June 2020					
At 1 July 2019, net of accumulated amortisation and impairment		-	-	195,517	195,517
Acquisition through business combination	25	3,887,950	1,290,978	10,298,811	15,477,739
Additions		-	-	128,585	128,585
Amortisation		-	(177,674)	(1,537,912)	(1,715,586)
Exchange differences		2,410	800	6,382	9,592
At 30 June 2020 net of accumulated amortisation and impairment		3,890,360	1,114,104	9,091,383	14,095,847
At 30 June 2020 net of accumulated amortisation and impairment					
Cost (gross carrying amount)		3,890,360	1,291,778	10,998,806	16,180,943
Accumulated amortisation and impairment		-	(177,674)	(1,907,422)	(2,085,096)
Net carrying amount at 30 June 2020		3,890,360	1,114,104	9,091,383	14,095,847
Year ended 30 June 2019					
At 1 July 2018, net of accumulated amortisation and impairment		-	-	210,698	210,698
Additions		-	-	91,593	91,593
Amortisation		-	-	(106,774)	(106,774)
At 30 June 2019 net of accumulated amortisation and impairment		-	-	195,517	195,517
At 30 June 2019 net of accumulated amortisation and impairment					
Cost (gross carrying amount)		-	-	565,027	565,027
Accumulated amortisation and impairment		-	-	(369,510)	(369,510)
Net carrying amount at 30 June 2019		-	-	195,517	195,517

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

16 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

(a) Accounting policy

The useful lives of these intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

The carrying value of any intangible assets denominated in foreign currencies is revalued at the year end spot rate of each reporting period, leading to changes in the carrying value of the intangible assets in reporting currency. Any revaluation amounts are recognised directly in the foreign currency translation reserve.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

A summary of the policies applied to the Group's intangible assets is as follows:

(i) Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets and liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash generating units (CGUs) expected to benefit from the combination's synergies. The goodwill acquired during the reporting period has been allocated to the Votiro CGU.

(iii) Customer relationships

The useful life of customer relationships is finite and customer contracts are amortised on a straight line basis over a period of five years based on historical attrition rates.

(iv) Software

The useful life of software is finite and software assets are amortised on a straight line basis over periods of three to five years. All software assets are acquired and the amortisation method is reviewed annually, at each financial year-end, for indications of impairment.

(v) Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use and sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

(vi) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

16 GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

(a) Accounting policy (continued)

(iv) Impairment of assets (continued)

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less cost to sell, and it does not generate cash inflows that are largely independent of those from other assets, or groups of assets, in which case, the recoverable amount is determined for the CGU to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(b) Key judgements and estimates

The Group has performed its annual impairment testing over the carrying value of goodwill acquired through a business combination. As all of the goodwill was allocated to the Votiro CGU, the recoverable amount was determined based on a value-in-use method and was assessed based on board and management approved forecasts covering a three year period (2021-2023) with growth rates applied for a further seven year period (2024 - 2030) and thereafter applying a terminal value. A longer forecast period was applied as Votiro are further investing in the development of their technologies and their global expansion strategy which extends beyond a five year period. The forecasts also considered the impacts of COVID-19 during the forecast period.

Growth rates

Revenue growth rates were applied to new revenues based on historical rates and market share available by region. Subsequent renewal of contracts was also evaluated based on historical renewal rates. Growth rates steadily reduced beyond the budget period cash flows to a rate consistent with the terminal growth rate.

Gross margins during the budget period are estimated based on the average gross margins achieved in the period immediately before the start of the budget period, reduced by a range of 5-15% to allow for higher costs during the growth phase. Gross margin beyond on the budget period are forecast to increase to the average gross margins currently achieved by Votiro.

Discount rate

A discount rate of 16.6% was applied in the value in use model, which was determined based on specific circumstances of Votiro and is derived from its weighted average cost of capital (WACC). Market-specific risk is incorporated by applying individual beta factors which are evaluated annually based on publicly available market data.

Adjustments to the discount rate are made to factor in the specific amount of the future tax flows in order to reflect a pre-tax discount rate. The recoverable amount was determined to be higher than the carrying amount and therefore the Directors determined that the intangible assets with an indefinite useful life were not impaired.

Terminal value

A terminal value of 2% was applied in the value in use model which reflects an assessment of inflation and perpetual growth using market and economic data.

Sensitivities to change in assumptions

As Votiro Cybersec Global Limited was acquired during the period at fair value, any variation in the key assumptions used to determine the recoverable amount of the Votiro CGU that had a negative impact on recoverable amount could indicate a requirement for impairment of non-current assets.

The following reasonably possible sensitivity changes to the forward assumptions will have an impact of increasing or decreasing the recoverable amount:

- An increase or decrease of the subsequent renewal rate by 50% will result in an increase or decrease of approximately \$2.5 million
- An increase or decrease of 100 basis points to the discount rate will result in an increase or decrease of approximately \$0.5 million

It must be noted that each of the sensitivities above assumes that the specific assumptions move in isolation, whilst all other assumptions are held constant. In reality, a change in one assumption may result in a change in another assumption which could have an offsetting impact. Action is also usually taken by management to respond to adverse changes in economic assumptions that may mitigate the impact of any such change.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

17 LEASES

	Right-of-use assets \$	Lease liabilities \$
As at 1 July 2019	-	-
Additions on transition	1,451,271	1,451,271
Additions through business combination	471,793	449,520
Depreciation expense	(453,008)	-
Interest expense	-	91,397
Foreign currency translation	5,572	4,319
Payments	-	(366,012)
As at 30 June 2020	1,475,628	1,630,495

Set out below are the amounts recognised in profit or loss during the year:

	2020 \$
Depreciation expense of right-of-use assets	453,008
Interest expense on lease liabilities	91,397
Short term and low value lease expense	38,991
Total amount recognised in profit or loss	583,396

Set out below is a maturity analysis of lease liabilities:

	Leases committed to but not yet commenced 30/06/2020 \$	Leases in effect during year ended 30/06/2020 \$	Total 30/06/2020 \$
Maturity analysis - contractual undiscounted cash flows			
Less than one year	-	683,461	683,461
One to five years	-	1,150,656	1,150,656
More than five years	-	-	-
Total undiscounted lease liabilities at 30 June	-	1,834,118	1,834,118

(a) Adoption of AASB 16: Leases (AASB 16)

AASB 16 *Leases* ('AASB 16') supersedes AASB 117 *Leases* ('AASB 117'), AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, Interpretation 115 *Operating Leases - Incentive* and Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosures of leases and requires lessees to account for most leases under a single on-balance sheet model.

Practical expedients applied

In applying AASB 16 for the first time, the Group elected to use the following practical expedients permitted by the standard:

- Applied the 'grandfathering' practical expedient to contracts previously assessed as containing a lease as at the date of initial application
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease terms that end within 12 months of the date of initial application
- Excluded initial direct costs from the measurement of the right-of-use ('ROU') asset at the date of initial application

Impact on transition

Before the adoption of AASB 16, the Group classified its lease at the inception date as an operating lease. In an operating lease, the leased property was not capitalised, and the lease payments were recognised as rent expense in the statement of comprehensive income on a straight-line basis over the lease term. The Group is a party to contracts for lease of office premises.

Upon adoption of AASB 16, the Group applied a single on balance sheet approach for the lease. The Group recognised a lease liability to make lease payments and a ROU asset representing the right to use the underlying asset. Adoption of AASB 16 resulted in lower administrative expenses and higher finance and depreciation costs as the accounting profile of lease payments changes under the new model. Cash flows from operating activities increased as affected lease payments and interest payments are now classified as financing cash flows.

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. In accordance with the modified retrospective method of adoption, the Group applied AASB 16 at the date of initial application and measured the carrying amount of the ROU asset at an amount equal to the lease liability. There was no restatement of previous financial statements.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

17 LEASES (CONTINUED)

(a) Adoption of AASB 16: Leases (AASB 16)

Impact on transition (continued)

The effect of adopting AASB 16 is as follows:

Impact on the statement of financial position (increase/(decrease)) as at 1 July 2019

	\$
Assets	
Right-of-use asset	1,451,271
Deferred tax asset	396,890
Liabilities	
Current lease liabilities	(287,651)
Non-current lease liabilities	(1,163,621)
Deferred tax liability	(396,890)
Impact on accumulated losses using the modified retrospective method	-

There is no impact on the statement of comprehensive income, basic and diluted EPS or the statement of cash flows for the prior period as the Group has elected to adopt the modified retrospective approach.

The Group has lease contracts for premises with lease terms between 1 and 5 years. Generally the Group is restricted from assigning and subleasing the premises.

Set out below is a reconciliation to the opening balance for lease liabilities as at 1 July 2019, based on the operating lease commitments as at 30 June 2019:

	\$
Reconciliation	
Operating lease commitments at 30 June 2019	1,696,355
Gross lease liabilities at 1 July 2019	1,696,355
Weighted average incremental borrowing rate as at 1 July 2019	5.12%
Effect of discounting	(245,084)
Lease liabilities recognised at 1 July 2019	1,451,271

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of AASB 16.

(i) Right-of-use assets

The Group recognises ROU assets at the commencement of all leases except for short term and low value leases. ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes:

- the amount of lease liabilities recognised;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. ROU assets are subject to annual impairment assessment.

(ii) Lease liabilities

At the commencement date of a lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the lessee uses its incremental borrowing rate at the date of initial application if the interest rate implicit in the lease is not readily determinable. After the date of initial application, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, which is not accounted for as a separate lease, a change in the lease term, a change in the in-substance fixed lease payments, a change in future lease payments resulting from a change in an index or a rate used to determine those payments, or a change in the assessment to purchase the underlying asset.

(iii) Short-term leases exemptions

The Group applies the short-term leases (i.e. those leases that have a lease term at the commencement date of 12 months or less and do not contain a purchase option) and low value leases recognition exemption made by class of underlying assets to the right-of-use asset related to its short-term leases and low value leases.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

17 LEASES (CONTINUED)

(c) Key judgements and estimates

(i) Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as a non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. The Group assesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

(ii) Significant judgement in determining the incremental borrowing rate

Where the lessee cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the lessee 'would have to pay', which requires estimation when no observable rates are available. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

18 PROVISIONS

	CONSOLIDATED	
	2020	2019
	\$	\$
Current		
Annual leave		
Long service leave	483,840	330,053
Total	809,644	738,839
	1,293,484	1,068,891
Non-current		
Long service leave	65,138	53,493
Total provisions	1,358,622	1,122,384

(a) Accounting policy (continued)

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the statement of comprehensive income.

Long service leave

The Group does not expect its long service leave benefits to be settled wholly within 12 months of each reporting date. The Group recognises a liability for long service leave measured at the present value of expected future payments to be made in respect of employees up to the reporting date. Consideration is given to expected future salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

CAPITAL AND FINANCIAL RISK MANAGEMENT

19 CONTRIBUTED EQUITY

Ordinary shares

	CONSOLIDATED	
	2020	2019
	\$	\$
<i>Issued and paid-up capital</i>		
Ordinary shares each fully paid	<u>104,316,022</u>	<u>104,728,595</u>

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Movements in ordinary shares on issue

	2020		2019	
	Number of shares	\$	Number of shares	\$
Beginning of the financial year	1,081,329,448	104,728,595	1,081,311,948	104,726,285
Capital return	-	(499,583)	-	-
Performance rights converted to shares	819,731	87,010	17,500	2,310
End of the financial year	<u>1,082,149,179</u>	<u>104,316,022</u>	<u>1,081,329,448</u>	<u>104,728,595</u>

Terms, conditions and movements of contributed equity

Ordinary shares are classified as equity. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. Issued and paid up capital is classified as contributed equity and recognised at the fair value of the consideration received by the entity. Incremental costs directly attributable to the issue of new shares or options are shown in contributed equity as a deduction, net of tax, from the proceeds.

20 RESERVES

	CONSOLIDATED	
	2020	2019
	\$	\$
Foreign currency translation reserve	14,840	(36,974)
Employee benefits reserve	1,405,526	866,233
Other reserves	582,186	-
	<u>2,002,552</u>	<u>829,259</u>

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.

Employee benefits reserve

The employee benefits reserve is used to recognise the value of equity-settled share based payment transactions provided to employees, including KMP, as part of their remuneration. Refer to Note 30 for further details of these plans.

Other reserves

The other reserve includes the reattribution of acquired non-controlling interest

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise of cash and short-term deposits and investment securities. The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Group does not enter into derivative transactions at this point in time. With the exception of lease liabilities, the Group has no borrowings. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The board reviews and agrees policies for managing risks and they are summarised below. Primary responsibility for the identification and control of financial risks rests with management under the supervision of the Audit and Risk Committee and under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios to support its business and maximise shareholder value. Capital includes issued capital and equity reserves attributable to the equity holders of the parent.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the distribution payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 30 June 2020 or 30 June 2019. Refer to Note 6 for distributions made and proposed during the year.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency).

As the Group has invested in a subsidiary (Votiro), the functional currency of which is \$US, the Group may consider hedging its exposure.

The investment in Senetas Europe has exposed the Group to an overseas operation with a functional currency of GBP. This investment and exposure is not considered significant and the Group considers that the statement of financial position will not be affected significantly by changes in the \$A/£GBP exchange rates.

The Group may have significant transactional currency exposures. Such exposure arises from sales or purchases in currencies other than the unit's functional currency, particularly in \$US. These transactional currency exposures are managed through improved liquidity management. Management monitors timing of cash flows from sales to reduce the exposure.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

As at 30 June 2020, the Group had the following exposure to \$US foreign currency

	CONSOLIDATED	
	2020	2019
	\$	\$
Financial Assets		
Cash and cash equivalents	6,627,694	3,580,864
Trade and other receivables	3,669,377	3,345,699
	10,297,071	6,926,563
Financial Liabilities		
Trade and other payables	(490,244)	(447,928)
Net exposure	9,806,826	6,478,635

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the reporting date.

As at 30 June 2020, had the \$A moved, as illustrated in the table below, with all over variables held constant, pre-tax profit/(loss) and equity would have been affected as per below.

	Net Profit / (loss) Higher / (lower)		Equity Higher / (lower)	
	2020	2019	2020	2019
	\$	\$	\$	\$
Consolidated				
AUD/USD +10% (2019: +10%)	(1,293,998)	(824,591)	(1,293,998)	(824,591)
AUD/USD -10% (2019: -10%)	1,581,553	431,863	1,581,553	431,863

As at 30 June 2020, the Group had the following exposure to £GBP foreign currency

	CONSOLIDATED	
	2020	2019
	\$	\$
Financial Assets		
Cash and cash equivalents	83,382	284,874
Trade and other receivables	154,409	67,669
	237,791	352,543
Financial Liabilities		
Trade and other payables	(49,966)	(138,897)
Net exposure	187,825	213,646

As at 30 June 2020, had the \$A moved, as illustrated in the table below, with all over variables held constant, pre-tax profit/(loss) and equity would have been affected as per below.

	Net Profit / (loss) Higher / (lower)		Equity Higher / (lower)	
	2020	2019	2020	2019
	\$	\$	\$	\$
Consolidated				
AUD/GBP +10% (2019: +10%)	(30,653)	(73,353)	(30,653)	(73,353)
AUD/GBP -10% (2019: -10%)	37,465	137,131	37,465	137,131

The assumed movement in \$A against \$US and £GBP is based on the currently observable market environment, showing a high volatility and uncertainty due to the future impacts of COVID-19.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and foreign exchange transactions

Trade receivables and contract assets

The Group trades only with recognised, creditworthy third parties and as such, collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

The Group has one major global distributor, Thales. Thales has exclusivity in all areas except Australia and New Zealand. Thales is a French multinational company listed on the Euronext Paris. It reported revenues of 18.4 billion EUR for the year ended 31 December 2019 and has a credit rating of A2. As such, the Group considers any economic or credit risk arising from its relationship with Thales to be negligible.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Chief Accountant.

With respect to credit risk arising from the financial assets of the Group, which comprise cash and cash equivalents, trade receivables and other receivables, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Concentration of risk is attributable to the counter party with whom the Group deals: a public listed company on the Euronext. The counter party's financial status is assessed to be strong and all payments due were received on time. The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

The Group does not hold any credit derivatives to offset its credit exposure.

Financial instruments and cash deposits

All cash assets in the Senetas operating segment are held in Australian banks except for GBP £46,429 in the HSBC in the UK. The company has a \$US account with an Australian bank which held US\$3,344,512 at 30 June 2020.

Significant amounts of cash are held in Australian banks whose credit is highly rated.

Cash assets in the Votiro operating segment are primarily held in Australian or Israeli banks and denominated in \$US.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group's policy is to minimise the use of any interest-bearing borrowings, with the objective of maintaining continuity of funding and flexibility primarily through the use of cash and short-term deposits. Liquidity risk is managed via the regular review of forecasted cash inflows and outflows, with any surplus funds being placed in short term deposits to maximise interest revenue.

As such, the Group's exposure to liquidity risk is minimal.

The Group monitors its capital using a ratio of liquid assets over total liabilities. The Group's policy is to maintain the ratio greater than 1:1. A calculation of the liquid asset ratio is set out on the following tables for the financial years ended 30 June 2020 and 30 June 2019.

	2020 \$	2019 \$
Liquid assets		
Cash & cash equivalents	15,711,373	17,860,132
Trade and other	5,482,928	5,055,592
Total liquid assets	21,194,301	22,915,724
Liabilities		
Current liabilities	(14,010,432)	(10,280,430)
Non-current liabilities	(8,180,885)	(3,344,967)
Total liabilities	(22,191,318)	(13,625,397)
Excess of liquid assets over total liabilities	(997,017)	9,290,327

Maturity analysis of financial assets and liabilities

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as of 30 June 2020. The undiscounted cash flows for the respective upcoming fiscal years are presented. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2020. The Group has no derivative financial instruments at 30 June 2020.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in ongoing operations such as plant and equipment and investments in working capital - e.g. inventories and trade receivables. These assets are considered in the Group's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, the Group has established risk reporting that reflects expectations of management of expected settlement of financial assets and liabilities.

Management aims to maintain sufficient net liquid assets; assets in the form of cash and cash equivalents, trade and other receivables due in less than six months, to ensure that the value of these assets exceeds financial liabilities on demand. The table below demonstrates that this objective has been achieved.

	< 6 months \$	6 to 12 months \$	1 to 5 years \$	No fixed term \$	Total \$
30 June 2020					
Financial assets					
Cash & cash equivalents	15,711,373	-	-	91,667	15,803,040
Trade & other receivables	5,482,928	-	-	-	5,482,928
	21,194,301	-	-	91,667	21,285,968
Financial liabilities					
Trade & other payables	(2,956,166)	-	(129,623)	-	(3,085,789)
Lease liabilities	(367,862)	(315,599)	(1,150,656)	-	(1,834,119)
Contingent consideration	-	(33,610)	(43,707)	-	(77,316)
	(3,324,028)	(349,209)	(1,323,987)	-	(4,997,225)
Liquidity position	17,870,273	(349,209)	(1,323,987)	91,667	16,288,743

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

Maturity analysis of financial assets and liabilities (continued)

30 June 2019	< 6 months \$	6 to 12 months \$	1 to 5 years \$	No fixed term \$	Total \$
Financial assets					
Cash & cash equivalents	17,860,132	-	-	97,670	17,957,802
Trade & other receivables	5,055,592	-	-	-	5,055,592
	22,915,724	-	-	97,670	23,013,394
Financial liabilities					
Trade & other payables	(2,509,324)	-	-	-	(2,509,324)
Contingent consideration	-	(22,894)	(83,426)	-	(106,320)
	(2,509,324)	(22,894)	(83,426)	-	(2,615,644)
Liquidity position	20,406,400	(22,894)	(83,426)	97,670	20,397,750

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates to the Group's cash and cash equivalents.

The following table sets out the carrying amount, by maturity, of the financial instruments that are exposed to interest rate risk:

	2020		2019	
	<1 year	Total	<1 year	Total
Financial assets				
Cash & cash equivalents	15,803,040	15,803,040	17,957,802	17,957,802

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

At 30 June 2020, if interest rates had moved, as illustrated in the table below, with all other variables held constant, pre-tax profit and equity would have been affected as follows

	Net Profit		Equity	
	Higher / (lower)		Higher / (lower)	
	2020 \$	2019 \$	2020 \$	2019 \$
Consolidated				
+0.5% (2019: +1%)	50,223	127,421	50,223	127,421
-0.25% (2019: - 0.5%)	(25,112)	(63,710)	(25,112)	(63,710)

The assumed movement in basis points for interest rate sensitivity analysis is based on the observable market environment, with currently low interest rates and the uncertain future impacts on COVID-19.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

22 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group has various financial instruments such as investment securities, cash in hand, trade debtors, trade creditors, lease liabilities and a contingent consideration liability. Apart from investment securities and the contingent consideration liability, other financial instruments arise directly from its operations. Except for the investment securities and contingent consideration liability, due to the short term nature of other financial assets and financial liabilities, the fair value of these items approximates their carrying amount.

AASB 13 requires disclosure of fair value measurements using a three-level fair value hierarchy.

The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability. The following table shows financial instruments recognised at fair value, categorised between those whose fair value is based on:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The level in which instruments are classified in the hierarchy is based on the lowest level input that is significant to the net market value measurement in its entirety. Assessment of the significance of an input requires judgement after considering factors specific to the instrument.

	Quoted price in active market	Significant observable inputs	Significant unobservable inputs
30 June 2020			
<i>Financial liabilities</i>			
Contingent consideration liability (Note 26)	-	-	77,317
30 June 2019			
<i>Financial liabilities</i>			
Contingent consideration liability (Note 26)	-	-	106,320

There have been no transfers between Level 1, 2 or 3 of the fair value hierarchy during the year.

Other than the remeasurement of contingent consideration liability to \$77,317, there has been no other movement in Level 3 items.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

22 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Description of significant unobservable inputs to valuation

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 30 June 2020 are shown below.

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of the input to fair value
Contingent consideration liability	DCF method	Projected sales of SureDrop	2020: \$700,000 - \$780,000 '2019: \$1,500,000 - \$2,100,000	10% increase (decrease) in the projected sales would result in an increase (decrease) in fair value of \$1,402.
		Discount factor based on WACC	2020: 7.5% - 8.6% '2019 - 8.6% - 9.7%	0.5% increase (decrease) in the discount rate would result in an increase (decrease) in fair value of the contingent liability by \$472.

The movement in the contingent consideration liability is a result of a management assessment of the potential sales of the SureDrop. See Note 26 for further information.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

GROUP STRUCTURE

23 INVESTMENTS IN CONTROLLED ENTITIES

		CONSOLIDATED	
		2020	2019
		\$	\$
Investments in securities	14	-	-
		Senetas Corporation Ltd	
		2020	2019
		\$	\$
Investments in controlled entities	28	21,284,186	10,867,471

24 INVESTMENT IN AN ASSOCIATE

On 14 November 2018, the Group invested \$5.7 million (USD \$4 million) in convertible notes in Votiro Cybersec Global Limited (Votiro), a leading Israeli content disarm and reconstruction company. Votiro is a private entity that is not listed on any public exchange. During the period, the Group's subscription of the Tranche 2 convertible notes was split into two payments of USD \$1 million each on 7 August 2019 (AUD \$1.48 million) and 31 October 2019 (AUD \$1.45 million). This resulted in the ownership interest in Votiro to be 42.8% and 50.3%, respectively. The additional investment in Votiro on 7 August 2019 resulted in goodwill of \$1.8 million being recognised.

The following summarised financial information of Votiro as at 7 August 2019 and for the period to 7 August 2019 represents the amounts as presented in the most recent management accounts of Votiro, adjusted for translation into AUD and adjusted for any significant differences in accounting policies:

Reconciliation of the carrying value of the investment in Votiro:

	\$
Carrying value as at 1 July 2019	4,972,722
Share of losses to 7 August 2019	(358,104)
Additional investment	1,478,675
Capitalised convertible notes interest	52,083
Carrying value as at 7 August 2019	6,145,376
<i>Fair value of Votiro Net Assets as at 7 August 2019</i>	
Current assets	2,619,610
Non-current assets	293,594
Current liabilities	(3,891,389)
Non-current liabilities	(7,931,875)
Equity	(8,910,060)
Additional ownership interest	3.75%
Share of equity	(334,454)
Goodwill for additional investment in Votiro	1,813,129

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

24 INVESTMENT IN AN ASSOCIATE (CONTINUED)

Subsequent to the investment on 31 October 2019, the Group holds 50.3% of the voting rights in Votiro (on a fully diluted basis) and therefore obtained control.

The following summarised financial information of Votiro as at 31 October 2019 and for the period from 8 August 2019 to 31 October 2019 represents the amounts as presented in the most recent management accounts of Votiro, adjusted for translation into AUD and adjusted for any significant differences in accounting policies.

Carrying amount of investment at 31 October 2019 (prior to additional investment and step acquisition)

	\$
Carrying value as at 7 August 2019	6,145,376
Transaction costs	147,768
Share of losses (8 August 2019 - 31 October 2019)	(876,249)
Capitalised convertible notes interest	139,439
Carrying value as at 31 October 2019	5,556,333

Gain or loss on derecognition of Investment in Associate recognised in profit or loss

Fair value of pre-acquisition investment in Votiro	6,008,374
Gain on derecognition of Investment in Associate	452,041

The Group also agreed to invest in a further tranche of convertible notes, amounting to USD \$2 million, on or before 30 June 2020. Payment of the third tranche was made on 10 January 2020. The convertible notes include an entitlement to interest of 8% per annum, from the subscription date to the earlier of the conversion date or 30 April 2020. Accrued interest is capitalised into the face value of the convertible notes.

(a) Accounting policy

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but does not have control or joint control over those policies. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investment in an associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Any goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss will reflect the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Upon loss of significant influence over the associate or gain of control, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence (or gain of control) and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

(b) Key judgements and estimates

The Group applied judgement and estimates in assessing the fair value of its pre-acquisition investment in Votiro. The Group used a discounted cash flow model at acquisition date to calculate the enterprise value which was adjusted to reflect the fair value of the Group's pre-acquisition investment in an associate.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

25 BUSINESS COMBINATIONS

On 31 October 2019, the Group invested a further USD \$1 million (AUD \$1.45 million) in Votiro. This resulted in the Group holding 50.3% ownership interest (on a fully diluted basis) in Votiro and therefore obtaining control (as outlined above in Note 24). The investment was funded from cash. The Group further invested in Votiro as their technology advances the Group's vision to provide leading security solutions without compromising performance or user experience, while expanding the Group's suite of products and solutions. The year end financial statements include the results of Votiro for the eight month period from the date of acquisition of control.

Assets acquired and liabilities assumed

The net assets recognised in the 31 December 2019 half year financial report were based on a provisional assessment of their fair value while the Group completed the fair value assessment. The fair values of the identifiable assets and liabilities of Votiro as at the date of acquisition were:

	Fair value recognised on acquisition		
	Provisional ⁽¹⁾	Adjustments	Fair value
	\$	\$	\$
Assets			
Cash and cash equivalents	2,063,412		2,063,412
Receivables	619,987		619,987
Plant and equipment	113,116		113,116
Intangible assets	-	11,589,789	11,589,789
ROU Asset	471,793		471,793
Other assets	587,634		587,634
	3,855,942		15,445,732
Liabilities			
Trade and other payables	(1,582,814)		(1,582,814)
Contract liabilities	(3,651,046)		(3,651,046)
Lease liabilities	(449,520)		(449,520)
Deferred tax liabilities	-	(2,665,651)	(2,665,651)
	(5,683,380)		(8,349,031)
Total identifiable net assets at fair value	(1,827,437)		7,096,700
Non-controlling interest proportionate share of net identifiable assets	908,240	(4,435,296)	(3,527,056)
Fair value of previously held investment in an associate (Note 24)	(5,589,392)	(418,982)	(6,008,374)
Goodwill arising on acquisition	7,957,809		3,887,950
Purchase consideration for additional investment	(1,449,217)		(1,449,217)

⁽¹⁾ Represents the provisionally determined values reported in the Group accounts for the half-year ended 31 December 2019.

The initial accounting for the acquisition of Votiro had been provisionally determined at the end of the previous reporting period (half-year ended 31 December 2019). As at 30 June 2020, the Group completed the fair value assessment on the net assets acquired. The nature of the changes arising from the fair value assessment included:

- The Group sought an independent valuation for intangible assets other than goodwill. The following intangible assets were identified:
 - Customer relationships of \$1,290,978
 - Software of \$10,298,811
 The fair values of these intangibles has been determined using the following valuation techniques:
 - Income approach applying an estimation of cash flows attributable to customer relationships was utilised to value the customer relationships
 - Replacement cost approach was utilised to value the software
- Deferred tax balances were recognised based on the final fair value of assets acquired and liabilities assumed.

The fair value of trade receivables amounts to \$619,987 and it is expected that the full contractual amounts can be collected.

The goodwill recognised is primarily attributed to the expected benefits from combining the activities of Votiro with those of the Group. All of the goodwill has been allocated to the Votiro CGU. The goodwill is not deductible for income tax purposes.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

25 BUSINESS COMBINATIONS (CONTINUED)

From the date of acquisition to 30 June 2020, Votiro has contributed \$2,815,123 to the revenue and \$2,922,681 to the loss after tax (attributable to members of the parent). If the combination had taken place at the beginning of the year, Group revenue would have been \$23,446,860 and a loss after tax (attributable to members of the parent) would have been \$2,088,492, after taking into consideration the share of Votiro losses already recognised.

The fair value of the non-controlling interest has been measured at their proportionate share of the value of net assets acquired and liabilities assumed of Votiro.

Transaction costs of \$5,000 have been expensed and are included in Administration expenses in the Statement of Comprehensive Income and are part of operating cash flows in the Statement of Cash Flows.

Analysis of cash flows on acquisition

	\$
Purchase consideration paid	(1,449,217)
Net cash acquired	2,063,412
Net cash flow on acquisition (included in cash flows from investing activities)	614,195

(a) Accounting policy

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating and accounting policies and other pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

The measurement period ends as soon as the Group receives the necessary information about facts and circumstances that existed as of the acquisition date or learns that the information is not obtainable. However, the measurement period cannot exceed one year from the relevant reporting period in which the acquisition took place.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

26 CONTINGENT CONSIDERATION

Acquisition of Podzy Pty Ltd (completed on 7 December 2017 for a consideration of \$1) included an earn-out provision. The earn-out period continues until 30 June 2022 and is based on a percentage of revenue from future sales of SureDrop. As at the acquisition date, the fair value of the contingent consideration was estimated to be \$nil.

The estimated fair value is calculated by a discounted cash flow analysis (to account for the time value of money and the risk factors) based on a range of possible revenue forecasts over the remaining earn-out period. The fair value of the contingent consideration has been reassessed as at 30 June 2020 and resulted in the remeasurement of the liability to \$77,317 which is a decrease of \$29,003 from 30 June 2019. The movement has been recognised in the statement of comprehensive income. \$33,610 of the contingent consideration is expected to be settled within the next 12 months from the balance sheet date. This contingent consideration liability will continued to be reassessed at each reporting date over the remaining earn-out period. The contingent consideration liability is categorised as a level 3 item of the fair value hierarchy (as disclosed in Note 22).

(a) Accounting policy

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 9 *Financial instruments*, is measured at fair value with the changes in fair value recognised in profit or loss in accordance with AASB 9. Other contingent consideration that is not within the scope of AASB 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

(b) Key judgements and estimates

The Group applied judgements and estimates in reassessing the fair value of the contingent consideration at 30 June 2020. Refer to Note 22 for the inputs used in the fair value measurement.

27 MATERIAL PARTLY-OWNED SUBSIDIARIES

(a) Material subsidiaries

Financial information of a subsidiary that has material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests: Name	2020 \$	2019 \$
Votiro Cybersec Global Limited	40.5	-
Accumulated balances of material non-controlling interest	909,804	-
Loss allocation to material non-controlling interest	(2,463,278)	-

The Group invested in a further tranche of convertible notes, amounting to USD \$2 million (AUD\$2.92 million) on 10 January 2020 reducing non-controlling interest by 9.2% to 40.5%.

(b) Non-controlling interests (NCI)

Summarised statement of profit or loss from the date of acquisition of control (1 November 2019) to 30 June 2020 before elimination entries:

	\$
Revenue from contracts with customers	2,815,123
Cost of sales	(124,642)
Administrative expenses	(8,271,696)
Finance costs	(542,082)
Loss before tax	(6,123,296)
Income tax	318,355
Loss for the period	(5,804,942)
Attributable to non-controlling interest	(2,463,278)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

27 MATERIAL PARTLY-OWNED SUBSIDIARIES (CONTINUED)

Summarised statement of financial position as at 30 June 2020 before elimination entries:

	\$
Cash and cash equivalents	1,773,350
Trade receivables and other current assets	522,619
Plant and equipment and other non-current asset	478,819
Goodwill and other intangibles	13,892,262
Trade and other current liabilities	(4,403,894)
Contract liabilities - current	(1,920,525)
Contract liabilities - non-current	(1,470,933)
Other non-current liabilities	(2,544,238)
Total equity	6,327,461

Attributable to:

Equity holders of parent	5,417,653
Non-controlling interest	909,804

Summarised cash flow information for the period of control to 30 June 2020:

Operating	(3,111,688)
Investing	(42,179)
Financing	2,778,159
Net decrease in cash and cash equivalents	(375,707)

(c) Transactions with non-controlling interests

On 10 January 2020, the Group acquired an additional 9.2% of the issued shares, on a fully diluted basis, of Votiro Cybersec Global Limited for US\$2,000,000 (AUD\$2,917,834) by way of an increase in the convertible notes. Immediately prior to the purchase, the carrying amount of the existing 49.7% non-controlling interest in Votiro was \$3,170,171. The acquired non-controlling interest of \$582,186 was recognised within other reserves.

There were no transactions with non-controlling interests in the year ended 30 June 2019.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

OTHER INFORMATION

28 RELATED PARTY DISCLOSURES

Senetas Corporation Limited is the ultimate parent of the Group and has the following related parties:

	% Equity interest	
	2020	2019
	\$	\$
Senetas Security Pty Ltd	100%	100%
Senetas Europe Ltd	100%	100%
(i) Senetas US LLC	100%	100%
(ii) Podzy Pty Ltd	100%	100%
(iii) CTAM Inc.	100%	100%
(iv) Votiro Cybersec Global Limited and its wholly owned subsidiaries	59.5%	39%

- (i) Senetas US LLC is a wholly owned subsidiary of Senetas Corporation Limited and is a dormant entity.
- (ii) Podzy Pty Ltd was acquired in December 2017. Podzy Pty Ltd (Podzy) is the developer of SureDrop, a secured file sharing platform. The acquisition of Podzy was completed in December 2017. Senetas acquired Podzy for a cash consideration of \$1 with a contingent consideration in the form of an earn-out arrangement. At the acquisition date, management assessed the fair value of the net assets acquired of Podzy as nil, due to the following factors:
- SureDrop required considerable development work before the product would be available for commercial sale.
 - There were no quantifiable pipeline of sales.

As at 30 June 2020, no earn-out payments are due under the earn-out arrangement, as the required conditions for the payment have not been met. A contingent consideration has been raised in the expectation of the required conditions being met within the next reporting period.

	2020	2019
	\$	\$
Fair value of the contingent consideration:	(77,317)	(106,320)

Podzy Pty Ltd is a dormant entity.

- (iii) The investment is held by Senetas Security Pty Ltd and the entity is dormant.
- (iv) Votiro Cybersec Ltd, Votiro Singapore Pte Ltd and Votiro Inc are wholly owned subsidiaries of Votiro Cybersec Global Limited.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

28 RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties

During the year ended 30 June 2020, the Group made three further investments in Votiro Cybersec Global Limited in accordance with the terms of the convertible note deed. For further details of the investments and change in ownership interest refer to notes 24, 25 and 27. There were no transactions entered into with related parties except for intercompany loans which are non-interest bearing. Intercompany loans are eliminated in full on consolidation. Any intercompany sales are eliminated in full on consolidation. Intercompany expenses which are directly borne by the Parent Company are not eliminated upon consolidation.

Director fees

Mr Galbally's director fees are paid to Southbank Capital Pty Ltd.

Mr Gillespie's director fees are paid to SectorWest Pty Ltd.

Mr Given's director fees are paid to LPG Group LLC

Mr Hansen's director fees are paid to Carikster Advisors LLC

Mr Schofield's director fees are paid to Cadigal Advisors Pty Ltd

Other than the payment of directors fees, there have been no other transactions entered between the Group and the above entities (2019: Nil). There are no outstanding balances at 30 June 2020 (2019: Nil).

29 KEY MANAGEMENT PERSONNEL (KMP) DISCLOSURES

Key management personnel

Details of directors & executives

Position

Directors

F. Galbally	Director / Chairman (Non-Executive)
L. Given	Director (Non-Executive)
K. Gillespie	Director (Non-Executive)
L. Hansen	Director (Non-Executive)
P. Schofield	Director (Non-Executive)

Executive Director

A. Wilson	Chief Executive Officer
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Executives

J. Weston	Chief Architect
J. Fay	Chief Technology Officer

Remuneration by category: executives & directors

	CONSOLIDATED	
	2020	2019
	\$	\$
Short-term employee benefits	1,841,564	1,696,375
Post employment employee benefits	63,009	61,593
Other long-term employee benefits	20,313	23,429
Share-based payment	46,582	67,679
Total	1,971,468	1,849,076

Other transactions and balances with executives and directors

There were no other transactions with executives and directors during the year (2019: Nil).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

30 SHARE BASED PAYMENTS

Employee Share Option Plan

Long Term Incentive (LTI) are provided to employees in the form of performance rights and options. A Performance Right is a grant of actual shares of stock, the payment of which is contingent on performance as measured against predetermined objectives over a period of time. An Option is the right, but not the obligation, to buy a share at a discount or at a stated fixed price, within a certain period of time.

The share-based payment reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. The following table illustrates the number (No.) of share options and performance rights outstanding as at 30 June 2020:

	2020 Number	2020 Weighted average fair value	2019 Number	2019 Weighted average fair value
Outstanding at the beginning of the year	8,244,731	\$0.0476	6,279,731	\$0.0571
Granted during the year (iii) (iv)	2,000,000	\$0.0127	2,000,000	\$0.0177
Exercised during the year*	(819,731)	\$0.0652	(17,500)	\$0.0670
Forfeited during the year (ii)	-	-	(17,500)	-
Outstanding at the end of the year (i)	9,425,000	\$0.0387	8,244,731	\$0.0476
Exercisable at the end of the year	5,425,000	-	2,897,500	-

* The performance rights exercised during the year had a nil exercise price.

(i) The outstanding balance as at 30 June 2020 is represented by:

a) 6,000,000 options for the CEO.

b) 1,000,000 executive options.

c) 1,500,000 staff options.

d) 925,000 performance rights for staff.

e) 362,500 performance rights for staff and executives vested but have not yet been exercised.

These are the remainder of the performance rights from the grant in the 2015 year for which the final tenure condition was met in September 2017.

The weighted average exercise price for the 8,500,000 share options included above is \$0.11. The weighted average exercise price of the performance rights granted and outstanding is nil.

(ii) The performance rights were forfeited during the year as the condition was not met. The requirement was tenure for 24 months. The expense for these rights was not recognised in the financial year. There was no performance hurdle for these rights.

(iii) The CEO, Mr Wilson, was granted 2,000,000 options at the AGM in November 2018. The Options will vest subject to a service condition of 24 months continuous service and the exercise price upon vesting is \$0.12. Each option granted entitles Mr Wilson to one fully paid ordinary share in the company, subject to satisfaction of the vesting condition and payment of the exercise price.

(iv) The CEO, Mr Wilson, was granted 2,000,000 options at the AGM in November 2019. The Options will vest subject to a service condition of 36 months continuous service and the exercise price upon vesting is \$0.093. Each option granted entitles Mr Wilson to one fully paid ordinary share in the company, subject to satisfaction of the vesting condition and payment of the exercise price.

Fair value of options granted to CEO during the 2020 and 2019 financial year

The fair value of each option was reached using a binomial option pricing methodology. The inputs to this calculation were:

	2020	2019
	Tenure	Tenure
a) Stock price at grant date	\$0.0690	\$0.0980
b) Exercise price	\$0.0930	\$0.1200
c) Risk free rate	3.00%	2.09%
d) Term - Vesting (Years)	4.00	2.00
e) Assumed Option Life (Years)	3.00	3.00
f) Volatility	35.00%	35.00%
Option valuation	\$0.0127	\$0.0177

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

30 SHARE BASED PAYMENTS (CONTINUED)

(a) Accounting policy

The Company has established a Share/Option Plan to issue and allot securities (shares and options) to directors, employees and contractors at the discretion of the board of directors. The terms and exercise dates of the options are set at the discretion of the board of directors. The total number of securities that can be granted under the Plan may not exceed 20% of the issued capital of the Company from time to time. The options cannot be transferred and will not be quoted on the ASX.

The cost of these equity-settled transactions with directors and employees is measured by reference to the fair value of the equity instruments at the date at which they were granted. The fair value is determined by an external valuer using a binomial option pricing model, as outlined above.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. The statement of comprehensive income charge or credit for a period reflects the movement in cumulative expense recognised at the beginning and end of that period. There is a corresponding credit or debit to equity.

If the terms of an equity settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share based payment arrangement.

If an equity-settled award is cancelled it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(b) Key judgements and estimates

The company determines the estimated fair value of share based payment transactions based on the fair value of the equity instruments granted. For non-market conditions the Company assigns a probability to meeting the vesting condition. The key assumptions used in determining the fair value of share based payments are described above. The expected volatility was determined based on historical volatility of Senetas shares.

31 CONTINGENT ASSETS AND LIABILITIES

The Group is not aware of the existence of any contingent assets or liabilities at balance date.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

32 AUDITOR'S REMUNERATION

	CONSOLIDATED	
	2020	2019
	\$	\$
Fees to Ernst & Young (Australia)		
Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities	336,830	206,250
Fees for assurance services that are required by legislation to be provided by the auditor	-	-
Fees for other assurance services and agreed-upon-procedures services under other legislation or contractual arrangements where this is discretion as to whether the service is provided by the auditor or another firm	-	-
Fees for other services		
Tax compliance	63,140	42,400
Total fees to Ernst & Young (Australia)	399,970	248,650
Fees to other overseas member firms of Ernst & Young (Australia)		
Fees for auditing the financial report of any controlled entities	123,562	85,430
Total fees to overseas member firms of Ernst & Young (Australia)	123,562	85,430
Total auditor's remuneration	523,532	334,080

33 EVENTS SUBSEQUENT TO REPORTING DATE

On the 3 July 2020, the USD \$8 million convertible notes that Senetas Corporation Limited has previously subscribed for in Votiro Cybersec Global Pty Limited converted into ordinary shares in accordance with the terms of the convertible notes. Senetas also held 3 convertible preference shares which have also converted into ordinary shares in Votiro. As a result of the conversion, Senetas holds 59.5% of shares in Votiro on a fully diluted basis.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

34 PARENT ENTITY INFORMATION

Information relating to Senetas Corporation Limited for the year ended 30 June 2020:

	2020 \$	2019 \$
Current assets	13,723,342	17,473,922
Total assets	37,219,881	33,964,325
Current liabilities	(2,226,711)	(1,752,093)
Total liabilities	(44,950,149)	(38,956,830)
Contributed equity	104,316,022	104,728,595
Retained earnings	(112,921,459)	(108,643,412)
Employee benefits reserve	875,170	866,233
Total shareholders' equity	(7,730,268)	(3,048,583)
Loss of the parent entity after tax	(4,278,047)	(5,096,852)
Total comprehensive income of the parent entity	(4,278,047)	(5,096,852)

The parent entity has not entered into any guarantees in relation to the debts of its subsidiaries, however has signed a letter of support with Votiro Cybersec Global Limited to provide additional funding as and when required.

The parent entity has no contingent liabilities.

The parent entity has no contractual commitments for the acquisition of plant or equipment.

35 NEW ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

(i) **New and amended accounting standards adopted**

The Group has adopted the following new and amended Australian Accounting Standards as of 1 July 2019:

- AASB 16: *Leases*
- AASB Interpretation 23: *Uncertainty over Income Tax Treatments*

The nature and effect of the adoption of AASB 16 is disclosed in Note 17 to the financial statements.

The adoption of other standards / improvements had no material impact on the financial position or performance of the Group.

The Group has not early adopted any other standards, interpretations or amendments that has been issued but is not yet effective.

(ii) **Accounting standards and interpretations issued but not yet effective**

Australian Accounting Standards that have recently been issued or amended but which are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2020 are outlined below:

AASB 2018-6 Amendments to Australian Accounting Standards: Definition of a Business

The Standard amends the definition of a business in AASB 3: *Business Combinations*. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definition of a business and of outputs, and introduce an optional fair value concentration risk.

Group's assessment performed to date

The Group notes that it is not required to revisit business combinations that occurred in the current or prior periods to determine whether these satisfy the new definition of a business. Accordingly, the Group does not believe that its impact will be material. The Group will first apply the revised definition of a business in AASB 3 on 1 July 2020.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2020

35 NEW ACCOUNTING POLICIES (CONTINUED)

(ii) *Accounting standards and interpretations issued but not yet effective (continued)*

Amendments to the Conceptual Framework for Financial Reporting

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. AASB 2019-1 has also been issued, which sets out the amendments to other pronouncements for references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of accounting standards in situations where no standard applies to a particular transaction or event.

Group's assessment performed to date

The Group is currently assessing the impact of this amendment however, no material impact is expected.

AASB 2018-7 Amendments to Australian Accounting Standards - Definition of Material

This Standard amends AASB 101: *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

Group's assessment performed to date

The Group is currently assessing the impact of this amendment however, no material impact is expected.

AASB 2019-5 Amendments to AASc - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia

This Standard amends AASB 1054 by adding a disclosure requirement for an entity intending to comply with IFRS Standards to disclose the information specified in paragraphs 30 and 31 of AASB 108 on the potential effect of an IFRS Standard that has not yet been issued by the AASB so that such entity complying with Australian Accounting Standards can assert compliance with IFRS Standards.

Group's assessment performed to date

The Group does not expect the impact on adoption of this amendment will be material. The Group will apply this amendment beginning 1 July 2020.

Directors' Declaration

In accordance with a resolution of the Directors of Senetas Corporation Limited, I state that:

(1) In the opinion of the directors:

(a) the consolidated financial statements and notes of Senetas Corporation Limited for the financial year ended 30 June 2020 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*; and

(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Notes to the financial statements;

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(2) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2020.

On behalf of the Board



Francis W. Galbally
Chairman
Melbourne
Date: 28 August 2020

Independent Auditor's Report to the Members of Senetas Corporation Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Senetas Corporation Limited (the 'Company') and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2020 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Revenue recognition

Why significant

Revenues derived by the Group comprise a combination of sales of products, product maintenance and provision of services totaling \$22.6 million for the year ended 30 June 2020.

The Group is primarily dependent on a single customer Thales. Revenue derived from Thales totaled \$17.4m for the year ended 30 June 2020.

Revenue from the sale of products and provision of services is recognised at a point in time when the control of the products is transferred to the customers at an amount that reflects the consideration the Group expects to be entitled to in exchange for those products and services. This includes an estimate of variable consideration.

The distribution agreement with Thales entitles the Group to variable consideration when the products are sold to Thales' end users. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal will not occur. The determination of the amount of variable consideration involves estimation and a consideration of historical experience, business forecasts and the current economic conditions.

Revenue for product maintenance is recognised on a straight-line basis over the maintenance period whilst the invoicing to customers and collection of cash is generally received in advance of the services being performed.

Revenue recognition is considered a key audit matter, due to the judgements in respect of the timing and amount of revenue recognised.

Disclosures relating to revenue recognition can be found at Notes 1, 9 and 10 of the financial report.

How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ On a sample basis, we evaluated the design and operating effectiveness of key controls over the initiation and processing of revenue transactions.
- ▶ We inspected the terms of the sales contract with Thales and a sample of other customers to determine whether revenue was recognised in accordance with the requirements of Accounting Standards.
- ▶ For a sample of product sales and services revenue recognised during the year:
 - ▶ We inspected documentation to assess whether revenue was recognised at the agreed price and when the shipping of the goods (for product sales) and services (for services sales) to the customers had occurred.
 - ▶ For the Thales distribution agreement, we tested, on a sample basis, the integrity of data utilised by management to form key estimates and judgements, in the determination of the amount of variable consideration which has been recognised by the Group.
- ▶ We selected a sample of revenue transactions recorded shortly before and after year-end, including credit notes issued after year-end, to assess whether the transactions were recorded in the correct period.
- ▶ For a sample of product maintenance revenue, we assessed whether the revenue was recognised over the relevant period by reference to the underlying maintenance contracts.
- ▶ We assessed the adequacy of the disclosures included in the financial report.

2. Business combination and the recognition and subsequent measurement of goodwill

Why significant

On 7 August 2019 and 31 October 2019, the Company acquired additional ownership interests of 3.8% and 7.5%, respectively in Votiro Cybersec Global Limited ('Votiro'). As a result of these transactions, the Company's ownership interest increased from 39% as at 30 June 2019 to 50.3% as at 31 October 2019. Accordingly, from 1 November 2019:

- ▶ the Company no longer exerted significant influence over Votiro and ceased accounting for its previously held interest using the equity method of accounting.
- ▶ the Group obtained control over Votiro and therefore consolidated Votiro as a subsidiary.

The acquisition of the additional interests in Votiro has been accounted for as a business combination achieved in stages ('step acquisition'), in accordance with AASB 3 *Business Combinations* ('AASB 3') which requires the identifiable assets and liabilities acquired in a business combination to be measured at their fair value.

A gain of \$0.5m arising on the derecognition of the equity accounted investment in Votiro was recognised in the Statement of Comprehensive Income.

Management, assisted by an external valuation specialist, determined the fair value of the Votiro's identifiable assets and liabilities, which led to the recognition of intangible assets of \$15.5 million, of which \$3.9 million was goodwill. The valuation of these intangible assets was based on a number of key judgements including future cash flow estimates, discount rates and terminal growth rates.

Management is required to perform an annual impairment assessment for the Votiro cash generating unit ('CGU') as it contains goodwill.

The identification and valuation of the acquired net assets can have a material impact on the financial report and is an area that involves judgement. Because this is a non-routine transaction and the accounting treatment is complex, we considered this a key audit matter.

Disclosures relating to the business combination can be found at Notes 24 and 25 of the financial report.

How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ We assessed management's determination of control over Votiro based on the key terms of the investment which we agreed to the underlying agreement.
- ▶ We agreed the consideration paid for the investment in Votiro to bank statements.
- ▶ With the involvement of our valuation specialists, we assessed:
 - ▶ the fair value of the previously held interest in Votiro and the calculation of the gain arising on derecognition of the equity accounted investment in Votiro.
 - ▶ the valuation assumptions used by the external specialist in the determination of the fair value of the acquired identifiable assets, including intangible assets, liabilities and the residual amount recognised as goodwill.
 - ▶ the competence, qualifications and objectivity of the external specialist.
 - ▶ whether the fair values were appropriately recorded in the financial statements.
 - ▶ we evaluated the Group's key judgements and estimates in the impairment assessment for the Votiro CGU at 30 June 2020.
- ▶ We assessed the adequacy of the disclosures included in the financial report.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's 2020 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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

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

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

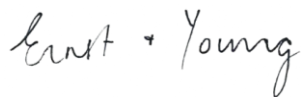
Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Senetas Corporation Limited for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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



Ernst & Young



Alison Parker
Partner
Melbourne
28 August 2020

ASX Additional Information

Share Register Statistics as at 31 July 2020

Substantial shareholders as at the above date:

<i>Name of substantial shareholder</i>	Number of shares held
HSBC Custody Nominees (Australia) Limited - A/C 2 - shares held on behalf of Madison Park LLC	212,533,160
Mr Francis Galbally	140,000,000
Speliza Investments Pty Ltd - Greysmed P/L Super Fund	40,415,078

Twenty largest shareholders as at the above date are as follows:

Rank	Name	Number of ordinary shares held	% of issued capital
1	HSBC Custody Nominees (Australia) Limited - A/C 2	212,533,160	19.64
2	Mr Francis Galbally	140,000,000	12.94
3	Speliza Investments Pty Ltd - Greysmed P/L Super Fund	40,415,078	3.73
4	HSBC Custody Nominees (Australia) Limited	36,973,359	3.42
5	J P Morgan Nominees (Australia) Limited	23,799,986	2.20
6	Ms Elizabeth Hui-Shyan Yao	16,389,954	1.51
7	Ms Donna Young + Mr Peter Fleming <DYPF S/F A/C>	13,504,000	1.25
8	Success Breakthrough Pty Ltd <Jacks Super Fund A/C>	12,150,000	1.12
9	Eucalip Biochemical Group Pty Ltd	11,415,140	1.05
10	Challenger 11 Pty Ltd	7,000,000	0.65
10	Drill Investments Pty Ltd	7,000,000	0.65
12	Permax Pty Ltd	6,500,000	0.60
13	Neweconomy com au Nomines Pty Limited <900 Account>	5,062,141	0.47
14	Addo Super Pty Ltd <Addos Superannuation Fund AC>	4,627,636	0.43
15	Mr Wayne Robert Keevers <The Keevers A/C>	4,344,720	0.40
16	Munn Superco Pty Ltd <The Munn Super Fund A/C>	4,274,000	0.39
17	Mrs Maria Grazia Tascone	4,129,185	0.38
18	Lidova Pty Ltd <T J A Dickson S/F A/C>	4,100,000	0.38
19	Dintan Pty Ltd <Jacinto-Lim UNIT A/C>	3,828,123	0.35
20	Mr Andrew Christopher Wolfe	3,700,000	0.34
Total top holders balance		561,746,482	51.91

Share Register Statistics as at 31 July 2020 (continued)

	Fully paid ordinary shares shareholders
Distribution of equity securities	
Total holders	5,850
Aggregate holding of the top 20	51.91%
Holders of less than a marketable parcel	1,179

Range of holdings

Range of fully paid ordinary shares	Shareholders	%
1 -1,000	351	0.01
1,001 - 5,000	828	0.26
5,001 - 10,000	1,045	0.80
10,001 - 100,000	2,720	9.54
100,001 - and over	906	89.39
Total holders	5,850	100

Required statements

- (a) There is no current on-market buy-back of the Company's securities.
- (b) The Company securities are not quoted on any exchange other than the ASX.
- (c) The name of the Company Secretary is Brendan Case.
- (d) The address and telephone number of our principal registered office in Australia is:
312 Kings Way, South Melbourne, Victoria, 3205
Tel: +61 3 9868 4555
- (e) The address and telephone number of the Company's share registry is:
Computershare Australia
Yarra Falls, 452 Johnston Street, Abbotsford, Victoria, 3067
Tel: +61 3 9415 4000